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POLICIES AND PROCEDURES FOR THE ADMINISTRATION OF TRUST FUNDS IN THE UNITED NATIONS SYSTEM ORGANIZATIONS

Prepared by

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EXECUTIVE SUMMARY

Policies and procedures for the administration of trust funds in the United Nations system organizations JIU/REP/2010/7

Objective

To review the policies, rules and regulations in force in connection with the management and administration of trust funds, as well as the major trends in the overall volume and use of trust funds in United Nations system organizations, so as to identify the specific problems in managing different types of trust funds, as well as best practices in trust fund administration, with a view to promoting system-wide coherence and enhancing the effectiveness and efficiency of trust fund management and administration.

Main findings and conclusions

The report contains 13 recommendations, four of which are addressed to the legislative bodies of the United Nations system organizations, five to their executive heads, three to the United Nations System Chief Executives Board for Coordination (CEB), and one to the heads of internal audit of the organizations.

There has been an overall increase in funding for trust funds within the United Nations system over the past three bienniums. The high number of trust funds using different mechanisms and funding modalities has led to fragmentation of the funding architecture. United Nations system organizations should strengthen the integrated management of the regular and extrabudgetary resources and enhance their efforts to invite donors to increase the portion and volume of resources to thematic trust funds and other types of pooled funds, so as to ensure that the extrabudgetary resources, including those for trust funds, are in line with the strategic and programmatic priorities of the organizations, in order to facilitate more efficient trust fund management (**Recommendations 1 and 2**).

The relevant regulations, rules, policies and other administrative issuances governing trust fund management are contained in various documents, complemented by different standard agreements, reporting templates, etc. They have also been subsequently amended through separate communications and internal memoranda in several cases. The documents are often not, or not easily, accessible to all staff involved in trust fund administration. The existing legal instruments for the administration and management of trust funds should be consolidated and made available and accessible in user-friendly format to all staff concerned (**Recommendation 4**).

While the organizations have concluded long-term framework or partnership agreements with some donors, in the majority of cases, individual negotiations with donors requesting accommodation of additional provisions, requirements and conditionalities are common, which significantly increases the workload of the organizations. Organizations should, as far as possible, try to use long-term framework and partnership agreements, as well as other standard instruments for their trust funds. This applies, in particular, to reporting on trust funds.

Harmonized cost recovery policies and principles for trust funds and activities financed by other extrabudgetary resources, including an unambiguous rule on programme support

costs (PSC) and the categories of costs to be charged directly are needed in order to prevent unfair competition for resources among United Nations system organizations, and to ensure comparability and full transparency on the administrative and support costs for trust funds (**Recommendations 6 and 7**).

Given the growing volume and number of trust funds and the inherent related risks, United Nations system organizations should strengthen the audit coverage of trust funds, including issues directly related to the operation and management of the big trust funds and other extrabudgetary resources (**Recommendation 11**). At the same time, they should ensure that the risks related to trust fund management and administration are assessed, and adequate measures are taken to manage them (**Recommendation 3**).

There has been a significant increase in the volume and number of multi-donor trust funds (MDTFs). While, in general, a good institutional framework for MDTFs has been established, some administrative issues should be addressed. The operation of the existing framework and the lessons learned with respect to MDTFs should be reviewed and their governance and audit coverage, in particular, should be improved (**Recommendations 12 and 13**).

Recommendations for consideration by the legislative organs

Recommendation 1

The legislative bodies of the United Nations system organizations should strengthen the integrated management of the regular budget and extrabudgetary resources in order to ensure that the extrabudgetary resources, including the trust funds, are in line with the strategic and programmatic priorities of the organizations.

Recommendation 2

The legislative bodies of the United Nations system organizations should invite all donors to respond favourably to the efforts made by the organizations to increase the portion and volume of thematic trust funds and other types of pooled funds, in order to facilitate more efficient trust fund management.

Recommendation 7

The legislative bodies of the United Nations system organizations should review the harmonized cost recovery policies and principles for trust funds and activities financed by other extrabudgetary resources, once they have been agreed within the CEB, with a view to updating the cost recovery policies of their organizations accordingly.

Recommendation 12

The Executive Board of the United Nations Development Programme (UNDP) should put on its agenda the experiences and lessons learned from the operations of the UNDP-MDTF Office with a view to presenting it to the Economic and Social Council (ECOSOC) for consideration within the framework of the triennial and quadrennial comprehensive policy reviews (TCPR/QCPR).

CONTENTS

Annexes

ABBREVIATIONS

AA	Administrative agent
AAA	Accra Agenda for Action
ADB	Asian Development Bank
APO	Associate Programme Officer
CEB	United Nations System Chief Executives Board for Coordination
CERF	United Nations Central Emergency Response Fund
CTBTO	Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization
ECOSOC	Economic and Social Council
ERM	Enterprise risk management
ERP	Enterprise resource planning
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
EU	European Union
FAFA	Financial and Administrative Framework Agreement between the European Community and the United Nations
FAO	Food and Agriculture Organization of the United Nations
HLCM	High Level Committee on Management
IAEA	International Atomic Energy Agency
ICAO	International Civil Aviation Organization
ILO	International Labour Organization
IMO	International Maritime Organization
IPSAS	International Public Sector Accounting Standards
ITU	International Telecommunications Union
JIU	Joint Inspection Unit
MDTF	Multi-Donor Trust Fund
MOU	Memorandum of Understanding
OHCHR	Office of the High Commissioner for Human Rights
OIOS	United Nations Office of Internal Oversight Services
PBF	United Nations Peacebuilding Fund
PSC	Programme support costs
QCPR	Quadrennial Comprehensive Policy Review
RB	Regular budget resources
TCPR	Triennial Comprehensive Policy Review
UNCT	United Nations Country Team
UNCTAD	United Nations Conference on Trade and Development
UNDG	United Nations Development Group
UN-DOCO	United Nations Development Operations Coordination Office
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children’s Fund
UNIDO	United Nations Industrial Development Organization
UNSAS	United Nations System Accounting Standards
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNTFHS	United Nations Trust Fund for Human Security
UNWTO	United Nations World Tourism Organization
UPU	Universal Postal Union
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
XB	Extrabudgetary resources

I. INTRODUCTION

A. Objective and focus

1. As part of its programme of work for 2010, the Joint Inspection Unit (JIU), in response to a suggestion from the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), conducted a review of the policies and procedures for the administration of trust funds in United Nations system organizations.

2. Its objective was to review the trust funds' policies and the major trends in the overall volume and use of trust funds in United Nations system organizations, the general and specific rules and regulations in force in connection with trust fund management, and identify specific problems in managing different types of trust funds, as well as best practices in fund administration, with a view to promoting system-wide coherence. The review focused only on administrative and managerial aspects of the trust funds and did not cover any programmatic issues. It addressed the organizations' relationships with donor countries and other donors, including earmarking, fulfilment of reporting requirements and other conditional ties; the division of responsibilities in trust fund administration, including delegation of authority; cost recovery policies; accounting and financial management issues; and oversight problems with respect to trust fund administration and management, including those related to monitoring, evaluation and auditing of trust funds.

3. In accordance with the internal standards and guidelines of the JIU and its internal working procedures, the methodology followed in preparing this report included a preliminary review, questionnaires, interviews and an in-depth analysis. Interviews were held at Geneva, New York, Vienna, Rome, Paris and Bangkok with officials of most JIU participating organizations, in addition to the Secretariat of the United Nations System Chief Executives Board for Coordination (CEB), the United Nations Development Operations Coordination Office (UN-DOCO) and the United Nations Development Programme (UNDP) Multi-Donor Trust Fund (MDTF) Office. Given the wide range of issues reviewed, it was not possible to carry out an in-depth review of all of them in each United Nations system organization. Therefore, if reference is made to some organizations in a certain context, it is done so as to provide examples, and it does not necessarily mean that the situation in other UN system organizations is similar/different.

4. The review covered JIU participating organizations. The International Atomic Energy Agency (IAEA), the United Nations High Commissioner For Refugees (UNHCR) and the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) indicated that they did not have significant activity funded from trust funds. The International Maritime Organization (IMO) and World Intellectual Property Organization (WIPO) provided statistical data on trust funds but did not respond in writing to the questionnaire. No information was received from the Universal Postal Union (UPU). Taking into account that information was received in the form of written responses from the overwhelming majority of the organizations, and interviews carried out by the Inspectors in different duty stations covered the bulk of trust fund-financed activity of the participating organizations, the identified trends and practices of trust fund management can be considered as a characteristic footprint across the system.

5. As is customary, comments on the draft report were sought from the participating organizations, and taken into account in the final report.

6. In accordance with article 11.2 of the JIU statute, this report was finalized after consultation among the Inspectors so as to test its conclusions and recommendations against the collective wisdom of the Unit.

7. To facilitate the handling of the report and the implementation of its recommendations and the monitoring thereof, annex V contains a table indicating whether the report is submitted to the organizations concerned for action or for information. The table identifies those recommendations relevant for each organization, specifying whether they require a decision by the legislative body of the organization or can be acted upon by its executive head.

8. The Inspectors wish to express their appreciation to all those who assisted them in the preparation of this report, and particularly to those who participated in the interviews and so willingly shared their knowledge and expertise.

B. Background

9. There is no agreed definition of the term "trust fund" within the United Nations system. In the United Nations Secretariat, trust funds are defined as "accounts established with specific terms of reference or under specific agreements to record receipts and expenditures of voluntary contributions for the purpose of financing wholly or in part the cost of activities consistent with the organization's aims and policies."[1] Other United Nations system organizations use different terms and definitions. For instance, United Nations Educational, Scientific and Cultural Organization (UNESCO) refer to such funds as "funds-in-trust," defined as "contributions accepted by the Organization to finance extrabudgetary activities previously agreed with the donor. They are established by specific agreement with the donor. Funds-in-trust are the most appropriate arrangement for structuring contributions from a single donor to whom UNESCO is held accountable for financial reporting on the resources committed for the implementation of a given project."[2] World Health Organization (WHO) uses the term "core voluntary contributions" in official communications. These are funds specified or unspecified to finance the established objectives of the Strategic Programme, but in many aspects they have a lot of similarities with the thematic or project-based trust funds. Some organizations do not define trust funds, or the definition is very general, although their financial regulations and rules, as well as other administrative guidelines and manuals refer to trust funds and regulate and govern their use.

10. The fact that there is no generally accepted terminology and definition for trust funds in the United Nations system organizations caused difficulties during the review, in particular, with regard to its scope and the accuracy of data received. During the course of the review, the following terms were used: **regular budget resources** (RB), understood as assessed Member State contributions to the budget of the organization; **extrabudgetary resources** (XB), understood as additional voluntary contributions, other than the assessed contributions, to the organization; and **trust funds,** meaning part of the extrabudgetary resources provided to organizations on the basis of specific agreements with the donors for specific purposes. Receipt and expenditure thereof are accounted for and reported to the donors separately, and ownership of the funds belongs to the donor until the closure of the funds. The Inspectors noted that in some organizations, certain extrabudgetary contributions were not registered as trust funds although they have the attributes of trust funds. Similarly, in some cases, there were difficulties on how to differentiate trust funds from other types of voluntary contributions, for example, special accounts. Consequently, the Inspectors used and relied on data and information received from the organizations to identify the major trends and dynamics of the volumes and types of trust funds.

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[1] ST/SGB/188, Annex, paragraph 2.
[2] UNESCO Administrative Manual, 16 November 2009, paragraph 2.5.

11. The use of trust funds for various activities in different United Nations system organizations is widespread practice. During the past decade, the volume of voluntary contributions, including that for trust funds, increased significantly and constituted a major source of financing for activities of the United Nations system organizations. The increase in voluntary contributions was higher than the increase in regular budget resources in the great majority of United Nations system organizations. In the majority of organizations, the overall volume of trust funds also increased during this period. The bulk of these trust funds were project-based, self-benefiting or thematic funds. Since 2004, a significant increase in terms of number and volume of funding has also been observed with respect to Multi-Donor Trust Funds (MDTFs), which became a popular funding modality, for instance, in the field of humanitarian assistance, funding for transition, peace-building, development and other country-level activities of the United Nations system.

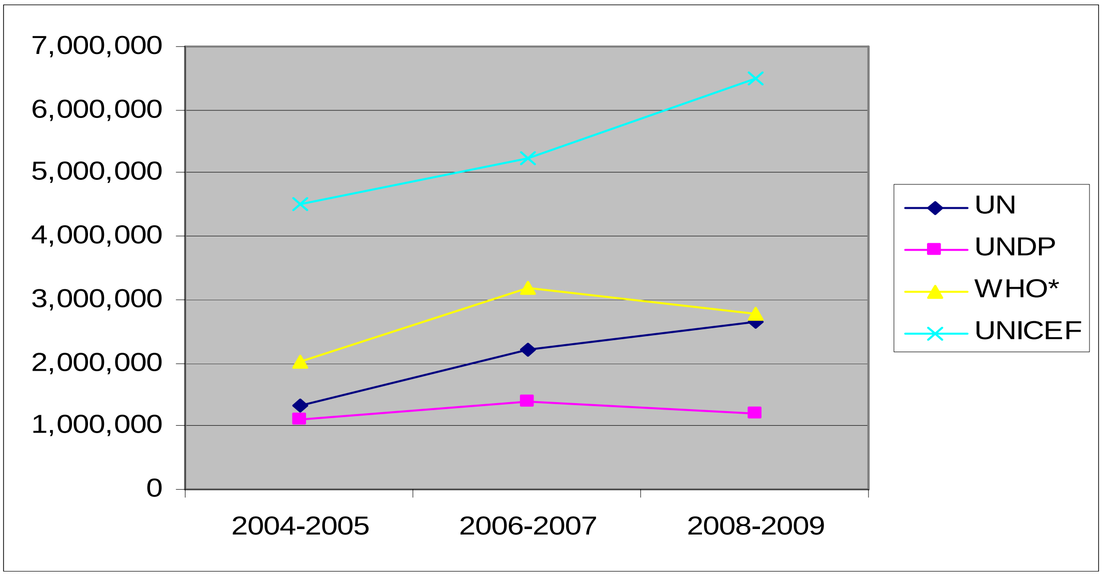
12. Some organizations (e.g., UNDP, UNESCO) responded to these developments with increased attention, and updated their policies, rules and regulations for administering voluntary contributions, including trust funds, while others (e.g., United Nations Secretariat) paid less attention to these developments. The administration and management of trust funds in the latter organizations are still governed by regulations and rules adopted over 20 years ago. There is also significant variation in the level of detail of the regulations, rules and policies governing the administration and management of trust funds. Some organizations have developed detailed guidelines and manuals for their trust funds to complement the often general provisions of their financial regulations and rules, while others have not. Consequently, in the latter organizations, administration and management of trust funds is often carried out on an ad hoc basis with higher transaction costs, rather than in a structured, consistent and more efficient manner.

13. There has never been a system-wide review of trust fund management and administration in the United Nations system organizations. In 1972, JIU issued a Report on Trust Funds of the United Nations (JIU/REP/72/1), which covered certain aspects of trust fund administration in the United Nations and its funds and programmes. Other JIU reports have dealt with selected aspects of the subject, such as the JIU reports on Voluntary contributions in the United Nations system organizations: impact on programme delivery and resource mobilization strategies (JIU/REP/2007/1), and Support costs related to extrabudgetary activities in the organizations of the United Nations system (JIU/REP/2002/3). Further, the external and internal auditors of the United Nations system organizations and their evaluation offices have issued various reports touching on the administration and management of trust funds. Those reports, as well as the discussions and ongoing debate at the CEB/HLCM/UNDG level on pertinent issues, such as cost recovery policies, cost categories and issues related to MDTFs were taken into account in the appropriate context.

II. VOLUME, TRENDS AND DYNAMICS

14. There has been an overall increase in funding for trust funds within the United Nations system over the past three bienniums, from about US$ 12.1 billion in the 2004-2005 biennium to about US$ 15.1 billion in 2006-2007, and about US$ 16.8 billion in the 2008-2009 biennium.[3] Increase in the funding volume of trust funds is a general phenomenon across the system and concerns both the United Nations funds and programmes and the specialized agencies. The highest increase was noted at the Food and Agriculture Organization of the United Nations (FAO), United Nations, United Nations Population Fund (UNFPA) and United Nations Children's Fund (UNICEF).

Figure 1: Dynamics of trust funds within the past three bienniums in organizations with large volumes of trust funds



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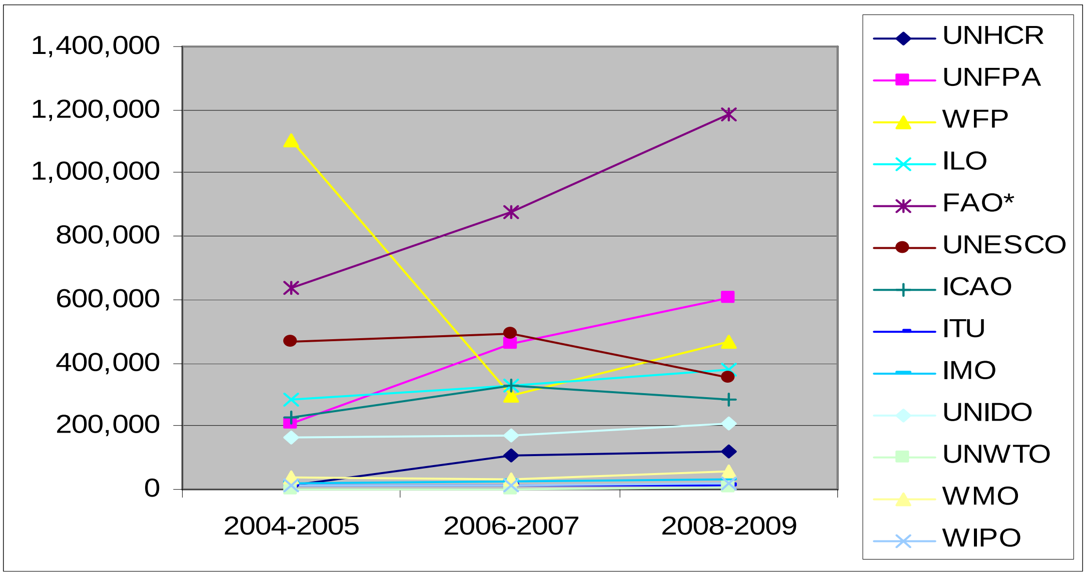
[3] See Figure 1 and Annex II herein.

Figure 2: Dynamics of trust funds within the past three bienniums in organizations with small volumes of trust funds



Source: Information provided by the organizations

15. Within the overall increase in funding volume of trust funds administered by the United Nations system organizations, there has been a significant increase in funding through the MDTFs, with accumulated commitments by donors totalling about US$ 4.5 billion between 2004 and 2009.[4] As at 31 December 2009, US$ 3.02 billion had been transferred by the MDTF Office. The distribution of transfers among the participating organizations is shown in Annex IV.

16. Concerning the source of the trust funds,[5] for the 2008-2009 biennium, the major share (61 per cent) was contributed by Member States, followed by private donors (19 per cent). Contributions from other United Nations organizations and international organizations outside the United Nations system amounted to 9 per cent and 11 per cent, respectively for the same period. Within the last three bienniums, there has been a decrease in contributions from Member States by about 7 per cent. During the same period, an increase in contributions to trust funds from international organizations (about 8 per cent) and from other United Nations system organizations (about 5 per cent) was also noted. The latter may be related to the fact that a part of Member States' contributions is donated through MDTFs which appear in the statistics of the participating organizations as resources from other United Nations organizations.

17. The major source of funding for trust funds remains member countries which contribute mostly in the form of bilateral trust funds. However, in some organizations, such as FAO, the International Labour Office (ILO), UNICEF, and United Nations Industrial Development Organization (UNIDO), the financial resources from/through other international organizations and financial institutions are also significant and have increased over the past years.[6] The

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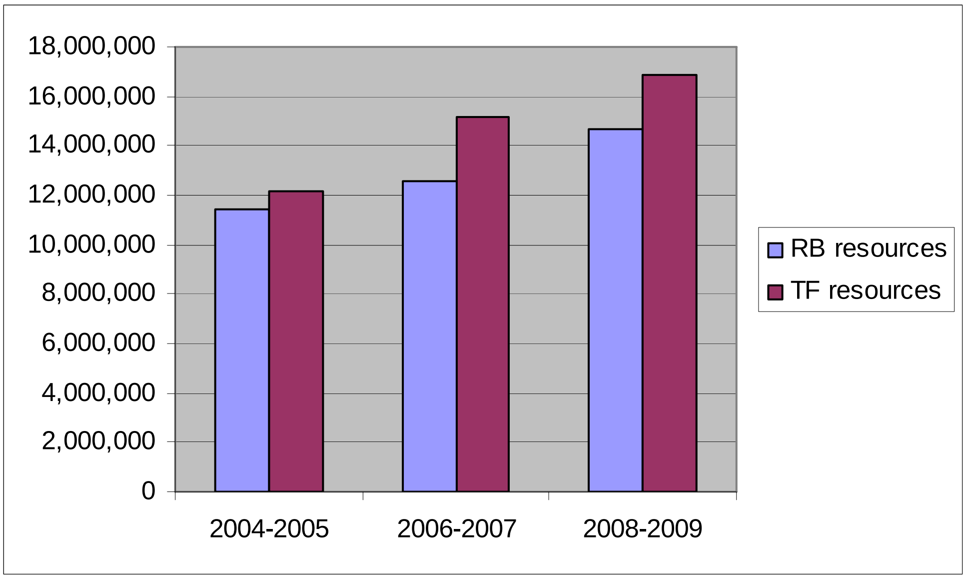
[4] Donor commitments to United Nations MDTFs administered by the MDTF Office as of 31 December 2009 (http://mdtf.undp.org); see also graph in paragraph 105 below.
[5] Percentage calculated on the basis of data contained in Annex II, excluding WHO, UNDP and UNHCR, as those organizations did not provide a breakdown by donor category. The private donors category also included other donors.
[6] See table in Annex II.

organizations have more experience working with governments, as they are in constant contact through representatives in the respective legislative bodies, which facilitates fund-raising, resource mobilization, as well as conclusion, through the established networks, of framework and partnership agreements with some major donor countries, thereby enabling multi-year programming of those resources.

18. Contributions to trust funds from private donors are limited but overall slightly increasing. The exception in this regard is UNICEF having had a long tradition of cooperating with the private sector, including through the UNICEF national committees. It received about one third of its trust funds resources from private donors in the biennium 2004-2005, and decreased to about one fifth in the biennium 2008-2009, although it remains high compared with other organizations. In most of the other United Nations system organizations contributions to trust funds by the private sector is ad hoc and in most cases also very much donor driven rather than by the organizations' needs and priorities. An additional problem is that usually these private foundations have few or no experience in working with United Nations organizations, and vice versa, and therefore resource mobilization is more difficult than with public donors. Reaching formal agreements also typically takes time and is labour intensive, with legal implications and unchartered waters on both sides. However, some organizations, such as UNESCO, World Food Programme (WFP) and WHO, started to elaborate a strategy for improved fundraising and cooperation with private donors, with a view to also gain more and more private sector contributions for trust funds. The Inspectors were informed that private donors, including private foundations in the field of childcare, health and diseases, could be an important additional source of resources for trust funds, both at the global and the regional and country levels. Although the potential increase of funds from the private sector in many organizations has its limits due to the specificity of mandate the cooperation with them would allow to widening the donors' base and it may also have positive impact on the organizations' image building. The Inspectors concur with this observation, with the understanding that such contributions should be driven by the organizations, in line with their needs and priorities.

19. The increasing volume of trust funds is in line with the general trend of increasing extrabudgetary/voluntary contributions across the system, with, at the same time, stagnating and/or only slightly increasing regular budget resources. This has led to a growing share of resources allocated to trust funds in relation to regular budget resources in the great majority of the United Nations system organizations. Apart from impacting programming, planning and budgeting in the organizations, this situation is a major source of fragmentation for the funding architecture of the organizations. Figure 3 shows the overall regular budget and trust fund resources in United Nations system organizations in the past three bienniums.

Figure 3: Dynamics of regular budget and trust fund resources in the past three bienniums



Source: CEB data (A/65/187) for RB; responses to JIU questionnaire for TF.

Integrated budget

20. In contrast to former practice where contributions to trust funds, as other voluntary contributions, were handled separately from the regular programme and budget as an additional, and mainly ad hoc, source of income, the organizations have started to develop integrated programmes and budgets covering both regular and extrabudgetary resources, including those for trust funds, which are often complemented by a strategic framework and/or results-based approach outlining the organization's short- and medium-term strategic priorities. Related good practices in FAO, UNDP, UNESCO, UNFPA, UNICEF and WHO were brought to the attention of the Inspectors.

21. Although donor priorities continue to play an important and frequently determining role, the Inspectors were informed that the integrated priority-based programmatic planning approach through integrated programmes and budgets and strategic frameworks created better conditions for ensuring that resources allocated to trust funds are more programme driven and in line with the organizations' needs and priorities. The Inspectors also learned that some organizations have rejected certain funding offers for trust funds, if the objectives and conditions attached to them made them incompatible with the organizations' strategic priorities or mandates.

22. Organizations group the trust funds in different ways but the most frequent is to distinguish project-based funds, self-benefiting funds (offered by the beneficiary country), thematic funds (broad or thematic earmarking) and MDTFs. Due to the different classifications and the accounting difficulties associated with blurring lines between the various types of trust funds, the data in the written responses were not fully comparable and did not enable assessing and comparing the proportions between the different kinds of trust funds. The volume of self-benefiting trust funds is very much organization- or country-specific, and in certain regions (e.g., Latin America, Arab Region) and field of activities (e.g., education, food) it can be significant. The volume of thematic trust funds is generally low, but in a few organizations, it can be close to 20-30 per cent. The MDTF mechanism is well below 10 per cent, but in some organizations, it is a fast-growing modality.

Fragmentation of resources

23. Despite the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action (AAA),[7] data indicates that, in general, earmarking of extrabudgetary resources and the allocation of resources through trust funds continue to be strong. The number of trust funds and their volume of funding vary significantly in the different organizations due to the different nature of their activities and financing practices. It was noted that, overall, the great majority of trust funds – with the exception of some big thematic trust funds and the MDTFs – are heavily earmarked and very much project-based, with strong individual reporting requirements to donors. This results in rather small average volumes, which causes fragmentation of activity and also leads to higher transaction costs. Most of the organizations have several hundreds of trust funds. For example, in the 2008-2009 biennium, the United Nations had about 450 trust funds with an overall funding volume of US$2.6 billion; ILO had about 939 trust funds with an overall volume of US$378 million; WFP had about 290 trust funds with an overall funding volume of US$ 465 million; and UNIDO had 779 trust funds with an overall volume of US$205 million.[8] While there are considerable differences in trust-fund funding volumes among the organizations and across the system in terms of actual figures and average volume, the Inspectors noted that, in general, the average trust-fund funding volume, with some exceptions, was fairly low, but increasing slightly.

24. Several organizations, such as the United Nations, United Nations Conference on Trade and Development (UNCTAD), UNDP, UNFPA and UNICEF, have started to develop trust fund clusters or to establish thematic trust funds which allow donors to provide resources with broader earmarking for a specific thematic area aligned to the organization's priority. In this respect, the Inspectors are of the opinion that the thematic trust fund approach at UNFPA or UNICEF could be considered good practice. It ensures better alignment with the organization's strategic plan and results framework, enables multi-year funding, leads to more efficient accounting and financial management, and facilitates reporting with only one consolidated annual report issued to all donors, instead of individual reporting, consequently resulting in overall reduced transaction costs.

25. Several organizations (e.g., the United Nations, UNCTAD and UNFPA) have also made efforts and managed to reduce the number of trust funds. However, the Inspectors are of the opinion that still more needs to be done, in particular as such a fragmented trust-fund structure makes it more difficult for the organizations to ensure that the established priorities, as endorsed by their governing bodies, prevail in their activities. This can lead to inefficiencies and imbalances in terms of focus. The Inspectors are of the opinion that pooling the resources provided for the individual trust funds into bigger trust funds with more general purposes, clustering of trust funds and/or a wider use of thematic trust funds would help reduce fragmentation and better ensure that all the trust funds are closer in line with the respective priorities and needs of the organizations, thereby making them more organization-driven rather than donor-driven. Clustering of trust funds and more use of thematic trust funds would also benefit donors as fund management efficiency will be increased due to reduced transaction costs and less individual project-by-project reporting obligations. In the view of the Inspectors, **the executive heads of the United Nations system organizations should formulate proposals for thematic and other types of pooled funds with broad or thematic earmarking when preparing their programme and budget proposals, so as to facilitating more efficient and cost-effective management of trust funds.**

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[7] The Paris Declaration is an international agreement, endorsed on 2 March 2005, in which governments made commitments to continue to increase efforts towards enhanced aid effectiveness.
[8] Data from the responses to the JIU questionnaire.

26. The efforts of the United Nations system organizations are in line with the Paris Declaration on Aid Effectiveness, although donor behaviour shows a much differentiated picture. Some of the traditional donors are ready and willing to follow this path, while others still prefer project-based trust funds or stronger earmarking. The Inspectors are of the opinion that the positive experience of pooled resources, the increased transparency of their operation, and the improved result-based reporting on fund management will result in a gradual increase in their proportion in the overall volume of trust funds.

27. The implementation of the following recommendations is expected to enhance the effectiveness and efficiency of trust fund management and administration, based on best practice.

Recommendation 1

The legislative bodies of the United Nations system organizations should strengthen the integrated management of the regular budget and extrabudgetary resources in order to ensure that the extrabudgetary resources, including the trust funds, are in line with the strategic and programmatic priorities of the organizations.

Recommendation 2

The legislative bodies of the United Nations system organizations should invite all donors to respond favourably to the efforts made by the organizations to increase the portion and volume of thematic trust funds and other types of pooled funds, in order to facilitate more efficient trust fund management.

III. MAJOR RISKS IN TRUST FUND MANAGEMENT

28. The use of trust funds may pose significant risks for the organizations. Furthermore, due to the varied nature of the trust funds, in terms of size, structure, activities, etc., as well as the different policies, rules and regulations in force in the various organizations, the risk exposure related to the trust funds in United Nations system organizations, and even within the same organization, is very different.

29. While the risks related to trust fund management are very similar to those related to the programming and implementation of activities financed by regular budget resources, there are certain additional risks that are specifically linked to the particular features and nature of this funding modality. Risks related to trust funds are identified through the risk assessments conducted by the United Nations organizations. Some organizations have also carried out specific risk assessments of their trust funds. In this respect, the risk assessments of United Nations trust funds carried out by United Nations Office of Internal Oversight Services (OIOS) are good examples.[9]

30. The most frequently identified risks for the organizations include:[10]

- Potential deviation from established priorities and needs, as endorsed by the organizations' governing bodies;
- Unpredictability of resources for the longer term, and non-fulfilment of donor pledges;
- Competition among United Nations system organizations for potential donors;
- Insufficient cost-recovery policies and rates, and possible cross-subsidization of trust fund activities by the regular budget resources;
- Fragmentation of activities and funding due to the high number of project-based trust funds, resulting in inefficiencies and high transaction costs;
- Inadequate monitoring, evaluation and reporting capacities, in particular, in the field or burdensome multiple reporting responsibilities;
- Unclear division of responsibilities among the different organizational units involved in trust fund management, including headquarters, regional and field offices, which could also lead to potential accountability gaps and dual reporting lines;
- Poor coordination and information-sharing among the different organizational units involved in trust fund management and administration;
- Inefficient use, misuse of funds and fraud, as well as risks related to cooperation with implementing partners, who may not adhere to United Nations accounting, financial management and oversight standards, and who may not have adequate capacities in those areas;
- Losses caused by exchange rate fluctuations when the trust fund currency is different from the currency of the organization;
- Programming and implementation of activities in conflict-affected situations, such as post-conflict situations and countries-in-transition;
- Unrealistic project proposal.

31. The Inspectors are of the opinion that the United Nations system organizations should extend the scope of their organizational risk assessments by increasingly including those risks

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[9] OIOS, Assignment No. AG2009/510/02 – Risk assessment of management of general trust funds.

[10] Some of the risks are specifically addressed in individual recommendations, e.g. Recommendations 1 and 2 above.

specifically related to the administration and management of trust funds, in order to better identify and mitigate them. This is of particular importance under the circumstances of the increasing volume of extrabudgetary resources, including those allocated to trust funds.

32. The implementation of the following recommendation is expected to enhance the identification and mitigation of risks related to trust fund management and administration.

Recommendation 3

The executive heads of the United Nations system organizations should ensure that risks related to trust funds are assessed, and measures are taken to manage them.

IV. INSTITUTIONAL FOUNDATIONS

A. Legislative framework

33. The basic provisions on the establishment, management and administration of trust funds are contained in the statutes and/or the financial regulations and rules of the organizations. They are usually supplemented by more detailed rules and procedures in different legal instruments, including administrative instructions, guidelines, project management or procurement manuals, circular letters, etc. The basic documents are, with some exceptions, generally old, although frequently updated through various amendments, either in the relevant document itself or often through internal memos or individual administrative communications. They are complemented with a series of standard agreements, memorandums of understanding, standard letters to donors, reporting formats, templates, etc.

34. It is often difficult to follow and find all the applicable provisions in their current form, even for the personnel dealing with trust fund management at different levels, since the provisions are contained in various legal documents, rules, administrative issuances, standard agreements, etc, which have often been amended by internal and administrative memos or communications. For example, in the case of the United Nations, the relevant Secretary-General's bulletins (ST/SGBs) and administrative instructions (ST/AIs) were issued in the 1980s. They contain detailed provisions, and may have been subsequently updated and revised (e.g. in the cases of cost recovery issues and delegation of authority) through internal memorandums communicated to the main parties concerned, but they are not easily available and accessible to all staff concerned with trust funds. The situation is similar in other United Nations system organizations.

35. The Inspectors were informed that the United Nations Secretariat has recently launched a limited-scope in-house review of existing trust fund policy and practices. It should be noted that a similar type of work had already been initiated in 2003, but was suspended without any major change in the practices and regulations in force. The new process, which is expected to be concluded at the beginning of 2011, is aimed at reinforcing current policies through a robust new system of model template agreements. At the time of writing this report, no further details were available. Some other organizations, such as the International Telecommunications Union (ITU), UNFPA, UNICEF and WFP, also indicated that they were in the process of updating and consolidating their rules and procedures for trust fund management. The Inspectors urge the organizations to conclude this work as a matter of priority.

36. Given the growing volume and number of trust funds and the increasing workload for the personnel working in this area, not only at headquarters, but also more and more at regional and country offices, the Inspectors are of the opinion that all the legal instruments and related rules and regulations concerning trust funds should be reviewed and consolidated into a more user-friendly and integrated format. This process should take into account latest developments as well as past amendments and revisions in the basic documents. The consolidated and updated applicable rules should be available and easily accessible by the staff of the organizations, at headquarters and in the field. Staff should be properly trained with regard to trust fund regulations, rules and policies.

37. In this respect, the Inspectors consider the UNESCO Administrative Manual, published November 2009, a comprehensive and transparent compilation of the rules and regulations in

force.[11] The Administrative Manual, which is accessible online and has direct web links to different details, is an excellent working tool for all users at all duty stations, and can be considered a best practice among similar tools.

38. The implementation of the following recommendation is expected to enhance the effectiveness and efficiency of trust fund management and administration based on best practice.

Recommendation 4

The executive heads of the United Nations system organizations should review, consolidate and update existing legal instruments relating to the administration and management of trust funds in their organizations, and ensure that they are available to and accessible by all staff concerned in a user-friendly format.

B. Organization-donor relations

39. United Nations system organizations are paying increasing attention to their fund-raising and resource-mobilization activities and separate organizational units have been established to deal with this activity at headquarters. As fund-raising at the regional level increases, in the form of contributions by regional development institutions or regional development banks, and self-benefiting trust funds, the regional and country offices are also playing an important role in this regard. At the same time, certain donor countries are delegating fund-raising and trust fund negotiations to their representations in the region or country concerned.

40. The organizations are in regular contact with major donors, through their legislative bodies and/or donor meetings and other events, and serious efforts are made to establish and maintain long-term relationships and cooperation with donors. Special attention is paid to promoting multi-year programming with traditional donors through longer term partnership and framework agreements, but also to widening the circle of donor countries and extending the donor base by attracting new emerging donor countries and donors from the private sector. The Inspectors noted positive developments in both areas. Several organizations (for example, the United Nations and UNICEF) have attracted significant trust fund contributions from private donors. Other organizations (such as UNDP, WHO, FAO and UNFPA) are successfully increasing the share of contributions received through partnership agreements within the past three bienniums, thereby enabling multi-year programming.

Non-standard donor requirements

41. When negotiating trust fund agreements, the organizations try to use standard agreements and reporting formats developed on the basis of past practice. The organizations have concluded long-term framework or partnership agreements with some donors, and the establishment of new trust funds is done through a simple exchange of letters. However, in the majority of cases, individual negotiations must be conducted with donors requesting additional provisions, requirements and conditionalities. Most of the time, donors request specific earmarking, payment schedules, special programme support costs (PSC) rates, non-standard reporting requirements, additional clauses on fraud, corruption, terrorism, insurance, security or ownership rights, as well as specific audit and evaluation requirements. Less frequent are requests concerning specific procurement or recruitment modalities for

[11] See Chapter 5 of the Manual, and the relevant Annexes.

programmes or projects financed from trust funds. Sometimes an organization may encounter different attitudes from the same donor country due to differences in internal regulations or practices in the different ministries or institutions in the donor countries.

42. In many cases, the donors accept the standard agreements after the negotiation process. However, when this is not the case, handling and accommodating the special requests often lead to lengthy negotiations and other processes, inter alia, because acceptance of certain provisions and non-standard requests requires internal consultation with and often the approval of the appropriate departments, such as legal affairs or the Controller. The large number of trust funds in the organizations results in a considerable workload for the staff involved, not only in concluding the agreement, but also throughout the trust fund management cycle. Furthermore, frequent donor requests to include non-standard clauses are hampering system-wide harmonization of efforts.

43. The Inspectors were informed that sometimes donors present specific requests outside the trust fund agreement process, which cause even more difficulties for the organizations than the requests presented within the formal negotiations. The Inspectors discourage the organizations from accepting such practices, as they may entail legal risks and liabilities and may not be fully compliant with the rules and regulations governing the organizations and, furthermore, they are not in line with the standards of transparency expected of the organizations.

44. While the Inspectors were provided with varying figures from different organizations, in general, following the negotiations, over 20 per cent of trust fund agreements concluded differ from the standard agreements and contain additional requirements, mainly on reporting modalities. **In order to increase the effectiveness of trust fund administration, the Inspectors discourage donors from including non-standard requirements in trust fund agreements.**

Regional development institutions

45. Negotiations on the establishment of trust funds financed by regional development institutions pose special difficulties. In general, regional development banks and other financial institutions have considerable funds, grants and loans which could be a source of funding for the activities of the United Nations system organizations through the trust fund modality. In particular, United Nations Regional Commissions as well as some of the larger regional offices of the specialized agencies would be interested in cooperating with them. However, some of the conditions currently offered by the regional development institutions, e.g. in Asia and Latin America, are not compatible with the provisions of the United Nations standard agreements, for example, certain limitations with regard to the procurement and recruitment process (region-restricted competitive bidding process limited to member countries of the regional financial institutions whereas the United Nations system has an open bidding process without geographical restrictions), as well as some financial and reporting requirements.

46. The Inspectors noted that the United Nations system organizations take different approaches in addressing those problems: some refer to and strictly apply their existing regulations and do not compromise by accepting additional conditions and requirements requested by donor institutions; while other organizations are more “flexible.” Although they may not formally include any additional requirements or conditions in the relevant trust fund agreements, they in fact satisfy them (for example, procurement or recruitment modalities, such as region-restricted competitive bidding processes) in the implementation of the activities financed by the regional financial institutions and development banks. There is also an example for the practice when a non standard project financing agreement, that was an

appendix to the UNDP - Inter American Development Bank (ADB) framework agreement, was signed between those two entities.

47. The Inspectors are of the opinion that it is highly desirable for the United Nations system organizations to adopt a unified and common position on the conditions under which resources could be accepted from regional financial institutions and development banks. Such common position should be sufficiently customized to the regional conditions to enable the regional commissions or offices to accept/receive additional resources for activities in line with their mandates and priorities and compatible with their rules and regulations. It is also a legitimate expectation that the United Nations system organizations should not undermine each others' possibilities in the competition for those resources.

48. The implementation of the following recommendation is expected to enhance coherence with respect to cooperation between the United Nations system organizations and regional financial institutions and development banks.

Recommendation 5

The Secretary-General, in his capacity as Chairman of the CEB, should develop a common position regarding the conditions and modalities for accepting and receiving resources for trust funds from regional financial institutions and development banks. Once such a common position has been developed, the rules, regulations and policies of the organizations should be updated and submitted to the respective legislative bodies for approval.

C. Governance structure of trust funds

49. In general, the governance structure of trust funds is governed by the applicable legislative framework of the organizations. It can be also regulated in the legislative bodies' decision or in documents approved by the executive heads on the establishment of the trust funds and more often in trust fund agreements concluded with donors. These documents set out the governance structure of the trust funds, including the establishment, composition, role and mandate of steering committees and/or trust fund secretariats. Trust fund steering committees are usually composed of donor and organization representatives, as well as other stakeholders, for instance, representatives of the countries concerned, in the case of country-level trust funds. The steering committee role varies, but in most cases, it has a decision-making role, as well as an advisory and oversight role on the activities of the fund. Trust funds agreements may also contain provisions on what level and on what questions and issues a consultation mechanism should operate between the donors and the organization.

50. Given the different types of trust funds, their size, focus activities, whether they operate at the global, regional or country level, there are many variations in the governance structures of the trust funds within a same organization, as well as among the different United Nations system organizations. In general, administration and management of project-based trust funds are integrated into the organization's usual project/programme approval and implementation processes and procedures involving different departments (technical, accounting, finance, legal, oversight, etc.). However, thematic funds, trust funds with bigger volumes, MDTFs, such as Central Emergency Response Fund (CERF), United Nations Peacebuilding Fund (PBF) and the United Nations Trust Fund for Human Security (UNTFHS), and country-level trust funds usually have a specifically established governance structure, including a steering or advisory committee or board of trustees and a secretariat with human resources specifically dedicated to supporting the proper operation of the activity financed by the fund.

51. The Inspectors were informed that overall there are no major systemic problems related to the governance of trust funds. However, in some cases, the decision-making process, including within the trust fund committees, is not always clear and effective, which also has an impact on accountability and transparency. This corresponds to observations made during some of the evaluations and audits of specific trust funds. With regard to MDTFs, it was further indicated that too many United Nations system organizations were involved as participating organizations in country-level trust funds, which tends to hampers decision-making and the efficient and effective administration and management of the funds. Finally, the importance that the countries concerned be adequately represented in the steering committees of country-level trust funds was stressed.

52. The Inspectors agree with those observations. However, they abstain from making specific recommendations, since in general, there are no major systemic problems related to trust fund governance. The issues raised are operational in nature and they have already been identified, reviewed and taken up by the organizations concerned, as such no system-wide measures are needed. With respect to governance of MDTFs, please see paragraphs 106-114 below.

V. ADMINISTRATIVE AND FINANCIAL ISSUES

A. Cost recovery

53. Cost recovery policies and principles related to activities financed from extrabudgetary resources, including trust funds, have been a longstanding and much debated issue in the United Nations system organizations. The JIU report on support costs,[12] issued in 2002, contained an extensive review of the support costs related to activities financed by extrabudgetary resources and encouraged the United Nations system organizations to review the formulation and application of their support costs policies. Given the steadily growing volume of extrabudgetary resources in their overall budgets, most United Nations system organizations have started to apply a full cost recovery policy, as endorsed by their legislative bodies, in order to enable recovery of all the administrative and support costs related to activities financed by extrabudgetary resources. In some organizations, periodical reports on the implementation of the policy must be submitted to the legislative bodies.

54. Programme support cost (PSC) recovery differs from one organization to the other in certain aspects, in particular, United Nations system organizations apply different PSC rates. The United Nations Secretariat and the specialized agencies apply a standard PSC rate of 13 per cent, while the United Nations funds and programmes, for example, UNDP, UNICEF and UNFPA, usually apply a lower common cost recovery rate of 7 per cent[13] to cover fixed and variable indirect costs on activities funded by extrabudgetary resources. Deviation and exception from the standard rate for certain types of activities exist in all the organizations or may be approved by the executive head and/or the Controller of the relevant organization in certain cases, for example, for emergency programmes, programmes with a high level of procurement, among others.

55. The PSC rates applied for trust-fund-financed activities vary from organization to organization. The standard PSC rates applicable in general by an organization also apply to trust funds and activities financed by them.[14] Most organizations also have specific (lower) rates for certain types or categories of trust funds and/or activities, for example, emergency-related trust funds, self-benefiting trust funds, trust funds with a high portion of procurement, etc.[15] Waivers and exceptions may be granted by the executive head or Controller of the organization upon request and under certain circumstances, for example, if there is need to split the total PSC among different organizations when using implementing agencies. Due to the number of exceptions granted, the overall PSC rates applied to trust funds and trust-fund-financed activities are lower, in practice, than the applied standard PSC rate.

56. The Inspectors were informed that the cost recovery issues related to trust funds and activities funded by them, such as applicable PSC rates, modalities and procedures for setting PSC rates that deviate from an organization's standard rate, cost categories and direct cost charging, are under discussion within the context of the ongoing general inter-agency debate on cost recovery for extrabudgetary activities.[16] The internal distribution of PSC between headquarters and field offices, as well as distribution among central administrative and

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[12] JIU report, "Support costs related to extrabudgetary activities in organizations of the United Nations system" (JIU/REP/2002/3).

[13] The Executive Committee (ExCom) agencies have made efforts to harmonize their PSC rate at 7 per cent (see CEB/2006/HLCM/20).

[14] See also Annex III herein, which contains the PSC rates applied to trust funds in selected United Nations system organizations.

[15] See UNESCO, FAO and ICAO, for example.

[16] See, for example, discussion and work of the HLCM Working Group on Support Costs for Extra-budgetary Activities and the UNDG-HLCM Working Group on Cost Recovery Policy, including its Task Force on Cost Classification (which conducted a survey in 2007 on cost recovery policies in the UN system).

technical units of the organizations are also under discussion. Although the discussions are considered very useful in clarifying various elements of cost recovery policy, increasing cost sensitivity and promoting a cost accounting culture, they have only led to some limited outcomes.

57. The cost recovery issues related to trust funds, and the other extrabudgetary funded programmes, are of great importance and need agreement for several reasons. In several organizations, the current PSC rates are not enough to cover all actual costs (it is estimated that the volume of fixed and variable indirect costs, in most of the cases, is approximately double the highest PSC rate applied); as a result, in some cases, there is cross-subsidizing from the regular budget. In an attempt to address this issue, organizations have started to charge support costs directly to the programmes and project concerned. However, this practice has been criticized by some organizations as not being fully transparent due, in part, to the different cost categories and accounting structures of the various organizations. It was also felt that charging support costs directly to the programmes and projects would significantly increase their costs, as well as the accounting and financial management workload, and hence overall administrative and transaction costs. Charging support cost directly would benefit organizations with an overall high percentage of voluntary contributions, given their often more flexible legislative frameworks.

58. It was also noted that the current situation would further increase competition for funds among United Nations system organizations, since they could attempt to underbid each other with lower PSC rates. Finally, it was also indicated that the steadily growing ratio of extrabudgetary resources compared to regular budget resources, together with the fact that the current PSC rate often does not cover all actual costs, could lead to a situation where at some point the organizations would no longer be able to provide the outcomes and results expected by donors, which in turn would negatively impact on their credibility and image.

59. Furthermore, given the current practice by the European Union (EU), the World Bank, as well as MDTFs, which all apply a PSC rate of 7 per cent and which have increasingly provided funding for trust funds in the past years, there is pressure and a trend towards the lower 7 per cent PSC rate over recent years, which is starting to become a system-wide common practice. As a spill-over effect of this tendency, donors more and more often question the application of the 13 per cent PSC rate, and insist on the 7 per cent rate also for their bilateral trust funds. However, at the same time, some donors would also be ready to enlarge the scope of costs charged directly to the programme/projects. The Inspectors were informed that in some cases the same donors have different attitudes in different organizations.

60. The Inspectors are of the opinion that, from a marketing point of view, the 7 per cent PSC rate is more attractive to donors, although the different levels of direct charges may make it difficult to compare the real overall costs for trust fund administration and management. However, such a practice would create conditions for unhealthy competition for funds and could push organizations with less complex cost accounting systems in a direction where the cross-subsidization between regular and extra-budgetary resources aggravates.

61. The Inspectors noted that there are, in general, two different schools of thought on these issues, motivated by the difference in business models between ExCom funds and programmes and the specialized agencies:

a) One opinion considers that wide application of direct charging is less transparent (even with a lower fixed PSC per-cent rate) as it leaves room for charging of “hidden” indirect costs under different budget lines. It also requires the introduction of expensive cost accounting systems, which would increase overall transaction costs.

In addition, organizations where the knowledge and expertise base are in-house and financed from the regular budget component (as is the case in most of the organizations with heavy normative and technical types of activities, such as the specialized agencies) would have difficulties charging part of the personnel costs as direct costs to specific programmes/projects. This is the rationale behind the strong defence of the fixed 13 per cent PSC rate in the United Nations Secretariat and the specialized agencies.

b) The other school favours a wider application of direct charging with a lower standard PSC per-cent rate, because they already have the accounting systems in place as well as experience in direct charging. Furthermore, due to their mainly operational activities and limited regular budget resources, they are not relying to the same extent on in-house expertise, but could also outsource some of their activities to external consultants, which is easy to charge directly to the respective programmes. Consequently, they could work easily with the lower 7 per cent PSC rate.

62. The Inspectors are of the opinion that the special considerations accorded, the attraction of lower PSC rates, and the lack of comparability of actual total direct and indirect costs may push the United Nations and the specialized agencies into a funding competition with other United Nations system organizations. Furthermore, if they continue to apply lower PSC rates, **the organizations could come out at the losing end, in particular if they take on a burden that cannot be financed in the long term from the regular resources**, given the ever increasing volume of trust funds.

63. With the general trend towards the 7 per cent PSC rate for trust funds, a significant amount of new trust funds are being offered to the United Nations and the specialized agencies, with the 7 per cent rate as the main condition. Therefore, it is **in the vital interest of the organizations to have clear common rules on the costs to be financed, the PSC rate to be applied, and the types of costs to be charged directly to the programmes/projects.** This would enhance transparency and clarity in cost accounting with respect to PSC.

64. So far, attempts to arrive at a common position on those issues have not been conclusive, although, useful work has been done and progress achieved since 2003, in particular at the CEB level by the UNDG-HLCM Working Group on cost recovery policy, and by the Task Force of Specialized Agencies. At present, several organizations, including the United Nations Secretariat, are in the process of reviewing their cost recovery policies and rates.

65. The Inspectors are of the view that these technical, financial and accounting issues can be agreed upon, provided that there is a political desire at the level of the executive heads, with the support of the Member States. The Inspectors feel that further postponement of such important decisions on the harmonization of cost recovery policies and principles will lead to aggravation of unfair competition for funding among the United Nations system organizations, and will deepen the lack of transparency as well as comparability of actual support and administrative costs related to trust fund administration and management. Such a situation would not be in the interests of the organizations nor the Member States at large. Transparent cost recovery rules would also be in donors' interest and would facilitate their decision-making about financing programmes and projects in the United Nations system organizations.

66. The implementation of the following recommendations is expected to enhance system-wide coherence with respect to PSC policies and principles for trust funds, as well as activities financed by other extrabudgetary resources.

Recommendation 6

The Secretary-General, in his capacity as Chairman of the CEB, should revitalized the inter-agency work with a view to come to an agreement among the United Nations system organizations on the harmonization of cost recovery policies and principles for trust funds, as well as activities financed by other extrabudgetary resources. Such cost recovery policy should include an unambiguous rule on the programme support cost (PSC) rate and the categories of costs to be charged directly to the programmes.

Recommendation 7

The legislative bodies of the United Nations system organizations should review the harmonized cost recovery policies and principles for trust funds and activities financed by other extrabudgetary resources, once they have been agreed within the CEB, with a view to updating the cost recovery policies of their organizations accordingly.

B. Reporting on trust funds

67. United Nations system organizations try as much as possible to use their standard trust fund agreements which contain standardized reporting modalities for trust funds and the activities financed by them. Such reporting normally includes submission of annual financial and substantial/narrative reports that provide an update on the implementation status of the programmes and projects financed by the trust fund, and a final financial and substantial/programmatic report on the closing of the trust fund or the end of the programme/project financed by it. The United Nations system organizations generally fulfil the standard reporting obligations, although they sometimes have difficulties complying with the time frames set by donors.

68. Difficulties with respect to reporting arise when there is a high number of trust funds and/or programmes/projects, each one requiring individual reporting, or when donors request additional reporting requirements or modalities.

69. The Inspectors were informed that reporting on trust funds and trust-fund-financed activities is a significant administrative burden for the organizations, even with the broadly applied standardized reporting and reporting formats, due to the high number of project-related trust funds in many organizations. In the smaller organizations, several hundreds of reports are prepared for donors annually, while in the larger organizations, reports run into the thousands annually (ILO: about 2,600, FAO and WHO: close to 2,700 and 5,000 respectively). In this regard, the Inspectors are of the view that the wider use of thematic trust funds, which generally use aggregate reporting, rather than individual donor reporting, would considerably ease the administrative burden placed on the organizations. Obviously, that would require higher donor confidence in the organization, which could also be achieved through more transparent management of resources, with general reporting on trust-fund-financed activities to the legislative bodies of the organizations. The Inspectors believe that the positive experiences in thematic trust fund management, at the United Nations, UNFPA and UNICEF, for example, prove that it is a viable option, although some organizations have

indicated that their expectations of development in that direction are rather modest, given the different donor attitudes in that respect.

70. The non-standard reporting requirements requested by donors usually include requests related to the timing, frequency and periodicity of financial report(s), including requests for interim financial reports, a customized budgetary breakdown of expenditures or budget lines, or reporting in a currency different from that used by the organization for financial operations. Such requests are not only made by donor countries, but by all types of donors, including private donors and United Nations system organizations funding activities in other United Nations organizations. In the latter case, several organizations have indicated that reporting to UNDP is especially labour intensive, due to the different budget lines applied. Another difficulty faced by the organizations is that more and more donors require not only expenditure-related, but also more frequent activity- or results-based reporting. Since the current accounting and financial systems in most of the organizations cannot provide the required data and information automatically, manual interventions are required which increases workload and costs. Organizations that have already implemented and are using enterprise resource planning (ERP) systems can more easily cope with such additional reporting obligations and requests.

71. The fulfilment of reporting obligations to donors involves continuous work in the accounting and financial units, as well as in the substantive units that deal with project implementation. This is particularly the case as the volume of trust funds and/or the number of projects financed by those sources have been increasing significantly, or when donors make additional reporting requests. Therefore, **the Inspectors encourage donors to reduce their additional reporting requirements and to rely on a wider scale on consolidated reporting on trust fund activities.** This would also facilitate more harmonized reporting across the United Nations system. The Inspectors were also informed that during the conclusion phase of the agreements, sufficient attention was not always paid to the workload that would result from additional reporting requirements. Further, in some organizations the internal procedures regulating the conclusions on trust funds agreement with the donor does not contain consultation or clearing mechanisms with the units responsible for the implementation of reporting, and therefore the fundraisers do not pay sufficient attention to the burden caused by accepting non-standard reporting requirements.

72. **The Inspectors are of the view that, in order to ensure adequate reporting on and monitoring of trust funds and the activities financed by them, already at the stage of negotiating trust fund agreements with donors, attention should be paid that sufficient resources and staffing are provided for those tasks. The concluded trust fund agreements should also contain provisions in this regard.** This is especially important in order to guarantee adequate transparency with respect to trust fund activities and donor resources. In addition, organizations should ensure that in the future, their ERP systems have the capability to provide the necessary information and data for financial reporting on trust funds and trust-fund-financed activities.

73. The implementation of the following recommendation is expected to enhance the effectiveness, efficiency and transparency of trust fund management and administration.

Recommendation 8

The executive heads of the United Nations system organizations should ensure that their current and future ERP systems can provide the required financial data for managing, monitoring and reporting on trust funds and trust-fund-financed activities.

C. Operational reserve

74. At the United Nations, provisions on trust fund management[17] stipulate the application of a 15 per cent operational reserve in order to ensure sound financial management of trust funds. While no such reserve is institutionalized in other United Nations system organizations, prudent financial management is ensured through careful project planning, monitoring and resource disbursement, including strict provisions that trust-fund-financed activities can only commence when the funds have been received or through the application of a 5 to 7 per cent annual price increase clause for programmes/projects with a longer implementation phase, for example, those in ILO and UNESCO.

75. The Inspectors were informed that such a high operational reserve is not attractive to donors. From the perspective of the organization, it also reduces flexibility in terms of programme/project management, as fewer resources are available for programming or only at a late stage through reprogramming. Although the United Nations, as well as some other organizations which do not have a fixed operational reserve, noted that such a reserve is required to cover any shortfalls, for instance, in the case of unplanned and unforeseen events and results, in this case it would contribute to minimizing the financial risks. Some officials interviewed suggested that prudent financial management could also be achieved with a smaller operational reserve, especially with regard to trust funds with a bigger volume of funding and/or a short duration. It was proposed that instead of having a fairly high reserve applicable to all trust funds without distinction, it would be preferable to **have more flexible provisions allowing for varying operational reserves for the different trust funds, based on a risk assessment that takes into account various factors, such as fund volume, duration, type of activity, among others**.

76. The Inspectors were informed that the United Nations Controller's Office is currently working on a review of existing trust fund policies. The operational reserve, PSC rate and the possibility of reducing the number of trust funds, among others, are also under review. At the time of this JIU review, the in-house review process at the United Nations Secretariat was still ongoing and no further details were available. The Inspectors are of the opinion that a review and update of the legal instruments on trust funds management, as proposed in Recommendation 2, should be carried out as a matter of priority, and the issue of the operational reserve should be addressed within this framework.

D. Interest income on trust funds

77. Temporarily non-disbursed financial resources of trust funds are pooled together at the organizational level and invested in conformity with the general investment policy of the organization as governed by the financial regulations and rules. The interest earned on those investments is generally apportioned semi-annually to the individual trust funds based on the average month-end cash balances for each fund. The total amount of interest earned, and the share for the individual trust funds, depend on the interest rate in effect and can be quite significant, in particular in the case of bigger trust funds.

78. Use of such interest income is regulated by the financial regulations of the organizations and the respective donor/trust fund agreements. The situation may vary from organization to organization. Generally, interest income is disbursed into the trust funds, however, some donors, due in part to their domestic legislation, request that the interest be transferred back to them. Some organizations use all the interest income (for example, UNICEF) or a part of the

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[17] See Administrative Instructions ST/AI/284 on general trust funds, ST/AI/285 on technical co-operation trust funds, and ST/AI/286 on programme support accounts.

interest income earned (for example, UNESCO) as contribution to the organization's general budget support account, while others disburse it in full to the trust funds, unless otherwise stipulated in the donor agreement.

79. The Inspectors are of the opinion that **it would be desirable to have a common business practice within the United Nations system on the use of the interest income from trust funds, so as to strengthen their position vis-à-vis donors when negotiating the use of the interest income.** In addition, in the case of multi-donor trust funds (MDTF), a common position would contribute to more coherent system-wide reporting on such income.

E. Delegation of authority

80. The administration and management of trust funds require close coordination and cooperation among the different units at headquarters and in the regional and country offices. While in the past, most of the work was centralised at headquarters, there has been a general trend among United Nations system organizations in recent years to decentralize some trust-fund related activities, fully or partially, to the regional and country levels. This concerns not only implementation, monitoring and evaluation activities related to trust funds, but also the early phases of the trust fund management cycle, such as fund raising and the related donor negotiations.

81. This corresponds with the trend among certain donors to delegate the negotiations on trust fund agreements to their embassies or representations at the regional or country level, as well as with the increased availability of funding at the regional and country levels, for example, by regional financial institutions and development banks, MDTFs and donor countries providing funding for programmes/projects in their countries and regions (self-benefiting trust funds). Overall, a significant increase in the number and volume of country-level trust funds has been observed in the past years.

82. United Nations system organizations with strong country office networks, such as UNDP, FAO, WHO and ILO, can cope with and manage the increased trust-fund-related workload at the country level with less problems. In general, these organizations have delegated authority up to a certain threshold of trust fund management, although the Inspectors were informed that sometimes the staff in the field need to be better trained in trust fund administration. For the other organizations, participation in and the implementation of trust-fund-financed activities pose serious problems in terms of ensuring adequate capacities and well-trained staff at the country level.

83. Furthermore, some organizations, such as the United Nations, still have very centralized decision-making processes and procedures for trust funds with little delegation of authority to the regional or country offices. Their practice is typically based on the classical model that the major work should be done at headquarters. However, given the evolving situation and donor environment, those structures often slow down the negotiations as well as the conclusion of the trust fund agreements and their implementation (for example, project formulation). The most frequently mentioned problems were the slow response of the organizations' legal services, and the time frame for obtaining reaction from the Controller's Office in order to process donor requests related to PSC. It is not unusual for donors to offer funds very close to the end of their financial year. This gives the organizations very short notice, and if the organizations do not react quickly, they may risk losing the funds offered.

84. Delegation of authority regarding trust funds management at the United Nations Secretariat is provided for in the relevant administrative instructions, but in fact, such delegation is very rare, and mainly covers technical co-operation trust funds. Instead of delegating authority on a wide scale, the Controller's Office prefers to use waivers or case-by-

case decisions. Such practice is time-consuming and not only does it create delays and practical difficulties, but also sometimes reputational damage, if donor requests and offers cannot be accommodated efficiently and in a timely manner.

85. The Inspectors are of the opinion that the United Nations system organizations should adapt their work methods to the evolving situation and donor environment, and acknowledge and provide for the increased workload and the implementation of trust-fund-financed activities at the regional and, in particular, the country levels. They should review existing policies regarding delegation of authority for trust fund management with a view to delegating adequate authority to the regional and country offices, so as to cope with the new and changing circumstances. The organizations should ensure that their regional and country offices have adequate capacities and well-trained staff to ensure trust fund management and administration at those levels.

86. The implementation of the following recommendations is expected to enhance accountability, effectiveness and efficiency of trust fund management and administration.

Recommendation 9

The executive heads of the United Nations system organizations should review and update the provisions for delegation of authority with regard to trust fund management with a view to adjusting to the changing and increasing role of the regional and country offices.

Recommendation 10

The executive heads of the United Nations system organizations should ensure that training programmes for field staff include adequate training on trust fund administration and management.

F. Introduction of IPSAS

87. The United Nations system organizations are at various stages of the transition to the International Public Sector Accounting Standards (IPSAS).[18] Therefore their experiences with IPSAS, including the changes and implications on trust funds administration and management, vary. The CEB tasked the HLCM Task Force on Accounting Standards with supporting United Nations system organizations in their harmonized interpretations and application of accounting policies and practices to achieve compliance with the requirements of IPSAS, including issues related to fund accounting with their possible effects on trust fund management.

88. The Inspectors were informed that requirements from different IPSAS would affect the trust fund accounting. This may require some changes in the present practice of trust fund administration but in general IPSAS will provide a more accurate and transparent information for their management:

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[18] See also JIU report, “Preparedness of United Nations Organizations for the International Public Sector Accounting Standards (IPSAS)” (JIU/REP/2010/6).

• IPSAS standards are silent on fund accounting. Therefore, the organizations, contrary to the requirements of UNSAS, are allowed to show information about sources and nature of funds in different ways.

• IPSAS 23 (Revenue of Non-exchange Transaction) relates revenue recognition to asset recognition. The accrual accounting stipulates that revenue be recorded in the financial periods in which it is earned and expenses in the periods when the goods and services are delivered. Therefore the revenue from a trust fund may be recorded prior to the receipt of cash and recognized as revenue upon the conclusion of the binding contract with the donor.

• IPSAS 4 (The Effects of Changes in Foreign Exchange Rates) has requirements related to the function (base) currency of the respective organization and the application of exchange rates.

89. The revenue recognition from non exchange transactions including revenue under trust funds was one of the most difficult aspects of the work of the Task Force. The system-wide team provided guidance for the United Nations system organizations to support their harmonized interpretation and application of IPSAS. The guidance was discussed and accepted as useful for the United Nations system organizations. This guidance will have to be interpreted within the specific arrangements of the organizations concerned including the definition of trust funds in each entity. IPSAS does not address requirements of donor reporting, which is an internal matter of the organizations. However, IPSAS 23 implementation will result in financial statements based on accrual basis while most probably some reporting to donors will continue on the traditional “modified cash” basis, and hence the organizations’ information systems have to be able to retrieve reports under both approaches for the same transactions.

G. Closing of trust funds

90. The closing of the trust fund is the final phase of trust fund management. It is governed by the organizations’ financial regulations, other legislative instruments applicable to trust funds, as well as the relevant trust fund agreement concluded with the donor. Normally, once all the transactions related to the trust-fund-financed activities have been completed, a final financial and substantive report is submitted to the donor and any unspent balances are used as directed by the donor in the trust fund agreement or through additional subsequent donor requests.

91. The Inspectors noted in most of the organizations that the number of inactive funds was relatively high, especially in the case of project-related trust funds, and closure of the funds is completed after a long period, without any transactions on the related accounts. Trust funds are often still open over two years after the last transactions have taken place. To a certain extent, this could be considered prudent financial management, but more often than not, it is indicative of a lack of proper monitoring. The high number of inactive and unclosed trust funds poses an unnecessary burden, in terms of additional accounting and reporting, for the organizations. This observation was also confirmed by various internal and external audits and reviews of trust funds managed by the organizations.

92. The Inspectors are of the view that **in line with the respective internal and external audits and reviews, the organizations should close inactive trust funds, in order to avoid additional work and costs for accounting, administration and reporting.** In that respect, there is a need to further improve the monitoring of trust funds and the activities financed by them and, in general, adopt a more proactive approach in this regard. A timely response from

the donors concerning the organizations' requests with respect to the closure of inactive trust funds is also needed to remedy the situation.

H. Auditing of trust funds

93. The trust fund agreements concluded with donors stipulate that the financial resources offered by the donors will be managed and audited exclusively according to the financial regulations and rules of the given organization. The financial regulations and rules in effect in all United Nations system organizations stipulate that trust fund activities and programme/project implementation are subject to audits conducted by the internal audit service and the external auditors of the organization (single audit principle).[19]

94. Despite clear provisions in the organizations' financial regulations and rules, many organizations indicated to the Inspectors that the single audit principle was challenged frequently by donors during the negotiation process. Some donors repeatedly ask to perform their own audits or request that additional, separate audits to be carried out by the organizations' external auditors.

95. The organizations have systematically refused these requests and the single audit principle is generally respected. This firm position has been an obstacle to the conclusion of a trust fund agreement in only a few cases; usually, the donors finally accept and respect the single audit principle. In some instances, compromises are made and donors limit themselves to only requesting some additional information, or the organization would agree to a special audit of the trust fund and its activities by the external auditors on a cost reimbursement basis. Often donors accept the organization's assurances for close, continuous and detailed consultations with trust fund management on the activities, complemented by additional information and data through stricter reporting modalities. Some organizations also make the trust funds' audit reports available to donors, which enhanced donor responsiveness to accept the single audit principle.

96. A special situation emerges in all organizations regarding the activities and projects financed through trust funds by the EU, where the standard internal and external audit coverage of the organizations may be complemented with the EU verification mission under the FAFA agreement. The Inspectors were informed that the initial problems which existed prior to the conclusion of the United Nations-EU FAFA agreement have been resolved, although some operational difficulties are still present. Since the conclusion of this agreement, there has been a process in place, through the high level consultations between the United Nations and the EU from the FAFA working group, to address those problems including issues related to the EU verification missions.

97. As required under international internal audit standards, the organizations' internal audit function should ensure, through effective risk-based audit planning, that the various risks are properly considered when developing the internal audit coverage. The internal audit function does not make a distinction as to whether an activity is financed from trust funds or other resources, but rather reviews a programme/project in all its aspects. There were no indications to the Inspectors that the trust funds and the activities financed by them were less audited than any other activity financed from other types of financial resources. The Inspectors noted that, while different aspects of trust-fund-financed activities, programmes and projects were subject to internal audits, audits focusing specifically on trust funds and their activities are very rare in the specialized agencies. In a few cases, special audits have been carried out on

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[19] See JIU report, "The Audit Function in the United Nations System" (JIU/REP/2010/5), chapter III, for more details.

the activities of some big thematic trust funds (for example, at the United Nations Secretariat and OHCHR) or have focused specifically on other activities financed by extrabudgetary resources (UNESCO) that may have been identified as high-risk areas.

98. Those audits addressed some very pertinent and important issues, such as resource mobilization among different categories of donors, fragmentation of trust funds, the need to improve the provisions in donor agreements, cost recovery issues, among others, and served to improved trust fund operations and management in those organizations, including their effectiveness and efficiency. Taking into account the overall high and increasing volume of trust funds across the United Nations system, and the various risks related to their administration and management, the Inspectors are of the opinion that trust funds and the activities financed by them should be attributed a profile commensurate to their risk levels in the internal audit plans of the United Nations system organizations, and adequate resources should be allocated thereto accordingly.

99. The implementation of the following recommendations is expected to enhance the effectiveness and efficiency of trust fund management and administration, and to increase their audit coverage.

Recommendation 11

When preparing their internal audit plan, the heads of internal audit in the United Nations system organizations should ensure that appropriate attention is given to the risks directly related to the operation and management of trust funds, including, but not limited to, large trust funds.

I. Evaluation of trust funds

100. Most of the United Nations system organizations ensure that trust-fund-financed programmes and projects are evaluated at the end of their implementation. Such evaluations are mostly programmatic evaluations that focus on the achieved outcomes and results of the programmes and projects, but they also often include financial data and information. The donors are the major driving force for this practice, since they are accountable to their national constituencies for providing credible assurances that the resources allocated to the United Nations system organizations are used effectively and in line with the agreed expected outcomes. The evaluation requirement is a standard element of trust fund agreements in the great majority of organizations. It is mandatory for trust fund agreements concluded with the EU or international financial institutions.

101. The costs associated with the evaluations are handled as a direct cost of the trust-fund-financed programmes and projects, and are usually included in the respective programme/project budget. In some organizations (for example, UNESCO and ILO), the relevant provisions on trust funds stipulate that evaluations are mandatory for programmes/projects exceeding a certain volume (for example, US $100,000 at UNESCO), while in others, they are conducted as agreed upon with the donors or in line with the standard evaluation requirements in force in the given organization. The Inspectors were impressed with the list of evaluations of trust-fund-financed programmes and projects in most of the organizations. They noted that the general increase of the evaluation culture in the United Nations system as a common practice has a positive impact on the evaluation coverage of trust-fund-financed activities.

102. The evaluations are carried out by external consultants or the evaluation unit of the respective organization. In most cases, donor/trust fund agreements also contain an evaluation clause which provides for the participation of donor representatives in the evaluation process, under certain conditions.

103. The JIU review did not make any judgments on the quality of the evaluation reports and the recommendations contained therein. However, the Inspectors would like **to urge the management of the organizations to address and incorporate the lessons learned throughout the evaluations into the administration and management of trust funds within the organizations.**

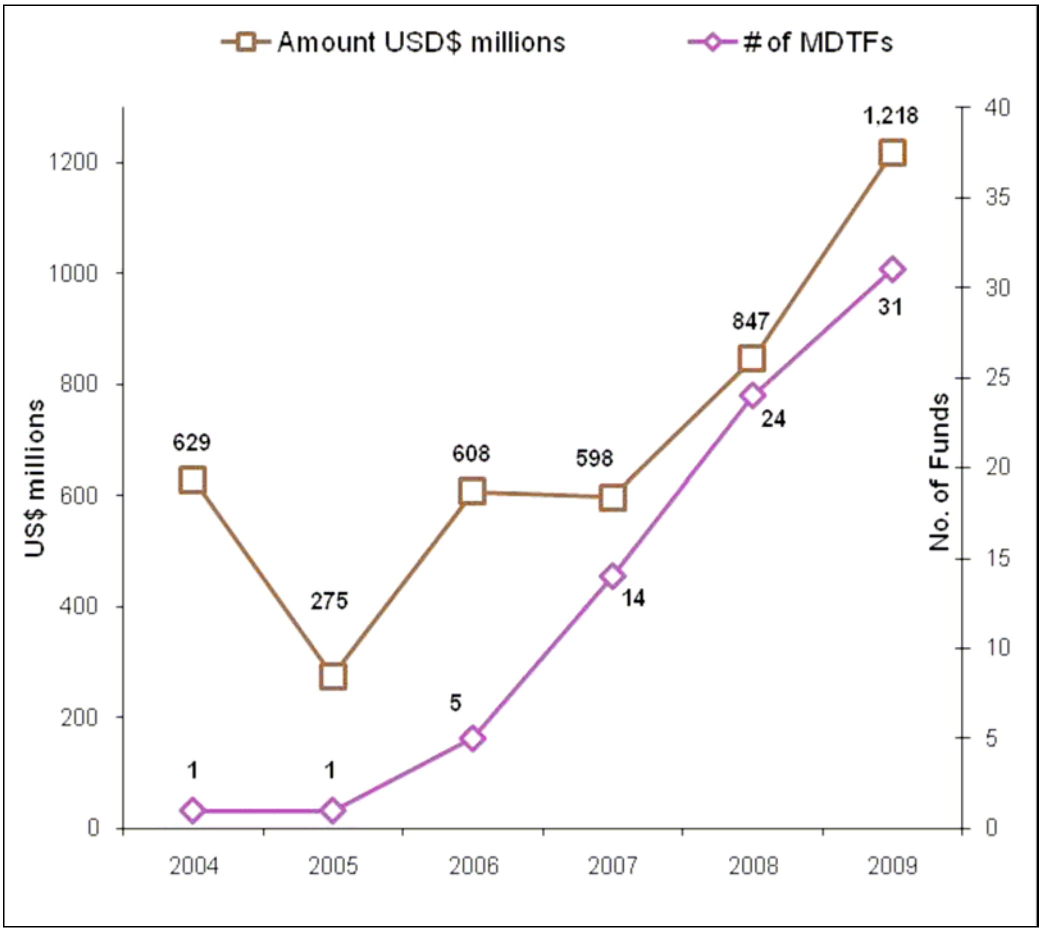
VI. MULTI-DONOR TRUST FUNDS

104. Multi-Donor Trust Funds (MDTFs), including the One Funds, are a special modality for channelling donor contributions through a pooled mechanism for thematic or country-specific programmes of strategic importance. The objective of MDTFs is to provide more flexible, predictable and coordinated funding to support development activities, the implementation of the Millennium Development Goals (MDGs), as well as harmonized activities of United Nations organizations in humanitarian and post-conflict or transition situations. This modality is also expected to facilitate programmatic coordination, and reduce the administrative and transaction costs of trust fund management. MDTFs and the One UN Funds at the country level enable the beneficiary countries to actively participate in the funds through their membership in the respective steering committees. While most donors support this modality of pooling resources because of the lower fund administration costs, some do not find them sufficiently attractive due to the lack of possibility for strong earmarking or receiving individual reports on the utilization of the donated resources.

105. The number and the volume of MDTF funding have been increasing significantly over the past years. At the end of 2009, the total cumulative commitment by over 50 donors stood at around US$4.5 billion. The initial set-up size of the funds vary from 0.5 million USD to several hundreds of million USD. It is expected that the concept of delivering as one, as well as the widening practice of country programming will continue to enlarge donor interest in MDTFs, and further fund growth is anticipated in the coming years. Most United Nations system organizations participate in one or several MDTFs. There has been a growing scope of areas and activities financed by MDTFs over the last years. Some of the funds are global in character and finance activities in several countries, but the majority of MDTFs provide resources for activities in one specific country.[20]

[20] See Annex IV for a table indicating donor contributions (commitments) to UNDP-administered MDTFs by organization and MDTF, as of 31 December 2009; see also www.undp.org/mdtf.

Graph: Annual donor contributions through UNDP MDTF Office as of 31 December 2009



Source: Background Note for the UNDG-Donor Meeting on Multi-Donor Trust Funds held on 21 January 2010.

Institutional framework and governance

106. Over the past years, the United Nations Development Group (UNDG) has developed a series of standard legal instruments and documents which constitutes a common legislative framework for the operation and administration of MDTFs among the United Nations system organizations. The legal documents include, among others, the Guidance Note for the establishment of MDTFs, the Memorandum of Understanding (MOU) to be signed between the Participating United Nations Organizations and the Administrative Agent (AA), and standard administrative agreements to be signed by the AA and individual donors.[21]

107. In parallel, the institutional framework, including the MDTF Office and the oversight mechanism (Fiduciary Management Oversight Group, ASG Group of participating organizations), has also been established to manage and coordinate the operations of the MDTFs. The MDTF Office, which functions as AA within the UNDG framework, but operates as a self-financed service centre, administers 31 out of 32 MDTFs. Although part of UNDP, it is strictly separated from other UNDP business operations through a "firewall." The "firewall" principle ensures the separation of functions between UNDP, as a United Nations implementing agency, and the UNDP/MDTF Office, which performs the role of AA for the

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[21] For further information, see http://www.undg.org and http://mdtf.undp.org/.

MDTFs in the entire system. The MDTF Office costs are covered by the 1 per cent AA management fee (which is deducted at source from each contribution). The Office is, among others, involved in negotiating agreements, receiving the financial resources from donors, disbursing the resources to the participating organizations, preparing the annual and final reports on the MDTFs for the donors, based on the reports received from the participating organizations, and organizing donor meetings on MDTF activities, as necessary.

108. The MDTF Office also operates Gateway, a web-based reporting platform that provides access to the financial and narrative reports prepared by the participating organizations, and often generated directly from their accounting systems, thereby providing donors and the public with information on the performance of the different MDTFs. Gateway contains a large source of information in a user-friendly manner, and hence provides a high level of transparency to donors and beneficiaries on the implementation of MDTF-financed projects. The project managers of the participating organization have generally expressed their appreciation of Gateway.

109. Overall, the participating organizations gave positive feedback on the operations of the MTDFs. Some organizations expressed concern that UNDP and ExCom funds and programmes have received a bigger share of funding from MDTFs than other United Nations agencies. Some issues concerning the work and regulatory framework of MDTFs were brought to the attention of the Inspectors for further consideration.

110. MDTFs were originally intended as a tool to bridge funding gaps based on needs assessments and the availability of funding. However, MDTF-financed programmes have often been more driven by the availability of donor-provided funds, than based on national needs and priorities. Additionally, some United Nations system organizations expressed concern that the availability of MDTF resources could also be used to “encroach” on the core activities of some United Nations organizations.

111. There is an ongoing discussion among the participating organizations as to whether the 1 per cent management fee for the AA’s services is adequate or excessive. Taking into account the long duration of the MDTFs, the continuous periodic reporting obligations, various additional services, such as Gateway, as well as the need to also manage small MDTFs, the established rate may be justified. Furthermore, even those organizations critical of the established AA management fee, were not eager to take on the AA responsibilities. The Inspectors were informed that the MDTF Office plans to prepare a review of the current use of the 1 per cent AA management fee, which may result in a rate change or change in the way that the AA fee is charged. The possibility of applying a minimum threshold fee for the MDTFs or a set-up fee, as is done, for example, at the World Bank, should be examined, although considerations other than the purely financial arguments, such as the political benefit of small funds for certain countries or areas, should be taken into account .

112. From an operational point of view, repeated criticism was expressed about the late release of the funds for project implementation and the very short timeframe within which the resources could be utilized. The Inspectors were informed that usually the delays are not connected with the AA’s actions, but rather the slow decision-making at the level of the MDTF steering committee or the United Nations country team (UNCT). The long delays create reputation risks for the organization implementing the projects and also aggravate the non-effective use of resources. It was mentioned that the possibility of advance payments may create difficulties in some organizations, and criticism was expressed concerning the insurance coverage for activities undertaken under MDTFs.

113. The Inspectors were also informed that at the country level, sometimes the number of organizations participating in an MDTF-financed project and/or as members of the steering

committee is too high, which slows down the approval process and prolongs project planning, formulation and implementation. Not only does this have a negative impact on effective and efficient coordination and cooperation among the participating organizations, but it also increases costs. In addition, some of the organizations do not have sufficient capacities in the country to participate in a meaningful way in the programmes/projects, which are usually led by the head of the UNCT. Also, sometimes the approved budgets for the MDTF-financed programmes are not commensurate with the activities that the organization is expected to perform.

114. The Inspectors are of the opinion that there is a need for a discussion forum on MDTF experiences and lessons learned, including an exchange of views among the major stakeholders on the effective and efficient use of MDTFs. While dialogue has been initiated with the donor countries, and is expected to be institutionalized between donors and the UNDG in the near future, there are no visible efforts to involve the other beneficiaries into the dialogue. A possible solution could be through the governing bodies of UNDP and the United Nations, in which both donor and beneficiary countries participate. The Inspectors therefore propose that the work of the MDTF Office be put on the agenda of the UNDP Executive Board and, in a more general context, the work and experiences of MDTFs should be put on the agenda of ECOSOC in the framework of the Triennial and Quadrennial Comprehensive Policy Reviews (TCPR/QCPR). In that way, MDTFs and their work would also achieve greater visibility.

Auditing MDTFs

115. The weaknesses and gaps in the audit coverage of MDTFs need to be addressed. Under the current framework, each participating organization is responsible for auditing the resources received through the MDTFs, in accordance with its financial regulations and rules. However a simple compilation of the audits of individual parts cannot be considered an adequate audit of an entire MDTF. As it stands, each organization only looks at its “own part” and the final outcome is rather a puzzle consisting of individual “pieces,” instead of a full picture. With a view to improving the situation, a special agreement was concluded by the internal audit services of the United Nations system organizations and endorsed by UNDG in order to better coordinate the audit work and functions among the participating organizations, while respecting the authority, jurisdiction, resources and risk-based audit planning of the internal audit offices. The framework for auditing MDTFs is aimed at facilitating the comparability of audits for MDTF-financed programmes, including through conducting coordinated risk assessments, setting out common timeframes for audits and commensurable reporting formats.

116. While the conclusion of the framework for auditing MDTFs constitutes an important step forward, its practical implementation as well as cooperation and coordination among the internal audit services indicated that there is room for improvement, as the examples of the audits of the Iraqi Trust Fund and the Sudanese Humanitarian Fund showed.[22] Different options could be considered to strengthen the audit mechanism of MDTFs, including: voluntary delegation of the audit coverage of a given programme/project to another United Nations participating organization; conducting joint audits with an ad hoc established interdisciplinary team from the participating United Nations system organizations, when the number of participants is limited; or outsourcing the audits by all the participating organizations to one single external consultant. While none of these options are perfect, and

[22] See JIU report, “The Audit Function in the United Nations System” (JIU/REP/2010/5), chapter V, for more details.

each has its advantages and disadvantages, any of them, in the opinion of the Inspectors, is better than not having an integrated audit of the MDTF.

117. The implementation of the following recommendations is expected to enhance the effectiveness and efficiency of MDTFs, as well as their audit coverage.

Recommendation 12

The Executive Board of UNDP should put on its agenda the experiences and lessons learned from the operations of UNDP/MDTF Office with a view to presenting it to ECOSOC for consideration within the framework of the TCPR/QCPR.

Recommendation 13

The Secretary-General, in his capacity as Chairman of the CEB, should request UNDG to review the current framework for auditing MDTFs in close collaboration with the heads of internal audit of the organizations participating in MDTFs, with a view to incorporating risk-based planning concepts, enhancing MDTF audit coverage, and achieving more integrated audits.

Annex I
Resource distribution between regular budget (RB) and trust fund (TF) resources
(in thousands of US$)

Organization	2004-2005		2006-2007		2008-2009	
	RB	**TF**	**RB**	**TF**	**RB**	**TF**
UN	3,226,192	1,332,147	3,757,710	2,203,460	4,313,064	2,645,194
UNHCR	66,284	11,588	68,501	108,997	79,885	121,578
UNICEF	1,583,900	4,493,623	1,838,000	5,234,151	2,557,000	6,481,424
UNDP*	1,767,295	1,110,164	1,905,000	1,377,689	2,111,936	1,192,280
UNFPA	693,546	211,100	846,453	458,200	955,909	606,900
WFP		1,104,066		295,183		465,242
ILO	529,590	283,665	594,310	330,726	641,730	378,274
FAO	749,100	639,424	765,700	874,684	929,840	1,188,730
UNESCO	610,000	468,785	610,000	489,623	631,000	352,686
ICAO	125,125	225,854	132,331	330,947	139,162	281,550
WHO	880,110	2,023,515	915,314	3,183,160	958,840	2,787,585
UPU	54,924		59,008		31,316	
ITU	252,978	11,698	259,110	11,675	258,082	10,359
WMO	97,822	36,464	96,664	32,986	113,000	57,617
IMO	77,145	19,763	87,028	24,617	107,699	30,601
WIPO	523,992	10,513	405,344	12,696	603,481	16,505
UNIDO	182,248	162,329	186,084	169,154	193,037	205,067
UNWTO	27,980	1,776	33,572	1,893	36,083	3,918
Total	11,448,231	12,146,474	12,560,129	15,139,841	14,661,064	16,825,510
Grand Total	**23,594,705**		**27,699,970**		**31,486,574**	

Source: CEB data (A/65/187) for RB resources; responses to JIU questionnaire for TF resources.
* UNDP indicated that RB data contain core income only.

Annex II
Distribution of trust funds by donors*

	2004-2005					2006-2007					2008-2009				
	Member States	UN orgs.	Intl orgs.	Private & others	TOTAL	Member States	UN orgs.	Intl orgs.	Private & others	TOTAL	Member States	UN orgs.	Intl orgs.	Private & others	TOTAL
UN	877,106	61,073	72,157	321,811	1,332,147	1,290,117	78,856	493,559	340,928	2,203,460	1,458,461	70,130	888,533	228,070	2,645,194
UNHCR	N/A	N/A	N/A	N/A	11,588	N/A	N/A	N/A	N/A	108,997	N/A	N/A	N/A	N/A	121,578
UNICEF	2,360,006	135,321	152,244	1,846,052	4,493,623	3,077,728	471,238	261,757	1,423,428	5,234,151	3,502,259	716,905	317,159	1,945,101	6,481,424
UNDP	N/A	N/A	N/A	N/A	1,110,164	N/A	N/A	N/A	N/A	1,377,689	N/A	N/A	N/A	N/A	1,192,280
UNFPA*****	211,100	0	0	0	211,100	458,200	0	0	0	458,200	606,900	0	0	0	606,900
WFP***	1,068,627	10,945	8,443	16,051	1,104,066	228,324	8,739	25,992	32,128	295,183	312,558	26,061	31,101	95,522	465,242
ILO	257,163	16,364	6,878	3,260	283,665	276,200	33,340	15,383	5,803	330,726	290,859	48,702	26,043	12,670	378,274
FAO*	547,204	65,653	15,557	11,010	639,424	681,605	114,546	47,232	31,301	874,684	874,808	163,988	71,057	78,877	1,188,730
UNESCO	374,138	56,617	19,271	18,759	468,785	399,724	51,217	23,445	15,237	489,623	223,654	77,409	27,574	24,049	352,686
ICAO	223,031	0	1,619	1,204	225,854	327,838	0	1,755	1,354	330,947	280,163	201	190	996	281,550
WHO**	N/A	N/A	N/A	N/A	2,023,515	N/A	N/A	N/A	N/A	3,183,160	N/A	N/A	N/A	N/A	2,787,585
UPU															
ITU	3,086	1,637	1,027	5,948	11,698	5,504	0	0	6,171	11,675	3,819	200	1,690	4,650	10,359
WMO	32,360	1,504	1,007	1,593	36,464	30,993	1,119	118	756	32,986	47,319	5,766	4,384	148	57,617
IMO	5,181	10,117	3,090	1,375	19,763	7,885	9,466	4,020	3,246	24,617	21,327	3,928	3,070	2,276	30,601
WIPO	9,836	419	258	0	10,513	12,398	274	0	24	12,696					16,505
UNIDO	125,170	21,482	13,458	2,219	162,329	113,460	26,486	27,585	1,623	169,154	131,765	45,645	25,580	2,077	205,067
UNWTO	1,776	0	0	0	1,776	1,893	0	0	0	1,893	324	3,594	0	0	3,918
TOTAL	**6,095,784**	**381,132**	**295,009**	**2,229,282**	**12,146,474**	**6,911,869**	**795,281**	**900,846**	**1,861,999**	**15,139,841**	**7,754,216**	**1,162,529**	**1,396,381**	**2,394,436**	**16,825,510**

* Figures provided in response to the JIU questionnaire
** Together with Telefood and APOs
*** WHO indicated that these figures were "voluntary contributions"
**** There were three (3) exceptional bilateral contributions for Iraq up to US$945 million
***** UNFPA indicated that the data over the given years is not necessarily comparable, as information on donor distribution is only available for recent years

Annex III

Programme support cost (PSC) rates applied to trust funds in selected UN system organizations

Organization	Standard PSC rate	Deviations from the standard PSC rate	Remarks
UN	13%	Exceptions, in whole or in part, can be made only pursuant to a compelling request to the Controller. For example, for projects financed by the UN Peacebuilding Fund, indirect costs can be charged in the range between 5 to 9% (plus certain indirect costs charged by the Administrative Agent).	The UN PSC policies and rates also apply to the five Regional Commissions and other entities of the UN Secretariat
UNICEF	7%	A lower rate of 5% applies for non-thematic funds raised by the private sector in programme countries. Further, a reduction of 1% in the cost recovery rate can be approved in two categories: for joint programmes, in cases where the Executive Director considers the reduction to be in the best interest of enhancing the collective efforts of United Nations agencies; and for contributions to UNICEF over US$40 million, in cases where the Executive Director is satisfied that economies of scale are met.	
UNDP	7%	In very exceptional circumstances, waivers from the standard PSC rate may be granted by senior management.	
UNFPA	7%	A reduced rate of 5% is applied for procurement activities and if a donor funds programmes/projects in its own country.	
WFP	7% and 4%	A full PSC or ISC rate of 7% will be applied to trust fund activities which include all the characteristics of a normal WFP project (i.e. planning, purchasing, delivery monitoring etc.) and relies on services of the regional offices and HQ units in the same manner as a standard project. A 4% PSC or ISC rate will be applied for trust fund activities that are planned, resourced, executed and managed in-country and locally-generated funds cover the resulting overhead costs, unless exempted by the Executive Director. The Executive Director can grant a reduction or waiver of PSC or ISC for in-kind contributions where a reduction or waiver is in the best interest of the beneficiaries of WFP, provided that the PSC is insignificant, and where there is no additional administrative or reporting burden on the Programme.	
ILO	13%	A lower PSC rate can be negotiated on an exceptional basis. All waivers of support costs are approved by the ILO Treasurer and Financial Comptroller through the Chief of Budget and Finance.	
FAO	13%	Waivers from the standard PSC rate may be granted in certain circumstances. The authority to approve PSC rates that deviate from the standards is delegated to the Director, Office for Strategy, Planning and Resource Management.	
UNESCO	13%	The standard PSC rate can be waived or modified in exceptional circumstances and if derogation is granted by the Director -General prior to signing the agreement. UNESCO accepts rates of 7% for joint programming and MDTF's and for EU-funded projects.	
ICAO	10%	For ICAO Civil Aviation Purchasing Service (CAPS), a sliding scale is applied as follows: 6% for value of procurement up to US$100,000; 4% for value between US$100,000 and US$500,000; and a negotiable rate for value exceeding US$500,000.	
WHO	13%	Waivers from the standard PSC rate may be granted for certain types of trust funds in exceptional circumstances.	
UPU	N/A		
ITU	10% and 5 to 7%	The current ITU policy is to charge a standard rate of 10% to small scale projects and 5 to 7% to large scale projects. Usually, 6 to 7.5% is charged for Funds in Trust, and 3 to 5.25% to some large funds-in-trust projects.	
WMO	N/A		
IMO	13%	The standard PSC rate is 13%. Deviation: depending on the agreement, lower rates (ranging from 6 to 8%) are applied for other UN/international organizations, World Bank and EU. In the case of multi-donor trust funds established by IMO, no support cost is charged because the funds are pooled with a no-donor tag and there is no individual reporting to donors other than general standard reports to IMO organs.	
WIPO	12% and 13%	A 12% PSC rate is applied to Funds in Trust relating to Junior Professional Officers (JPOs) and 13% PSC rate to all other Funds in Trust. However, a PSC rate of 0% is applied to Funds in Trust where the source of funding is a developing country. Also, exceptionally a PSC rate of 7% has been applied.	
UNIDO	7 to 13%	Deviations to the standard PSC rate are possible. "In exceptional situations, where an individual project or activity justifies a different rate, it shall be approved by the Director-General upon the advice of the Director, Financial Services." (UNIDO, Financial Rule 106.3/106.4.2)	The pertinent policy note of the Director-General related to PSC in accordance with Rule 106.3/106.4.2 of the Financial Regulations and Rules of UNIDO is currently under consideration and being updated.
UNWTO		UNWTO has not established a standardized cost recovery policy and rate. According to UNWTO financial rules & regulations, support costs can be recovered for managing the different types of trust funds, although the rate is not specified but negotiated on an ad-hoc basis prior to signing the agreement. The Secretary-General, or officers with delegated authority, negotiate and decide on the application of the PSC rate.	

Annex IV

UNDP Multi-Donor Trust Fund Office

FUNDS TRANSFERRED TO PARTICIPATING ORGANIZATIONS

AS OF 31 DECEMBER 2009 (USD)

www.undp.org/mdtf

								One UN Pilot Funds									Delivering as One Funds														
Participating UN Organizations	CAR Common Humanitarian Fund/ERF /c	Darfur Community Peace and Stability Fund /b	DRC Pooled Fund /b	DRC Stabilization & Recov Fund	Sudan Common Humanitarian Fund /b	Sudan Recovery Fund - Southern Sudan /b	Lebanon Recovery Fund	Albania One Coherence Fund /b	Cape Verde Transition Fund /a	Mozambique One UN Fund /b	Pakistan One Fund /a	Rwanda One UN Fund /b	Tanzania One UN Fund /b	Uruguay One UN Coherence Fund /b	Viet Nam One Plan I Fund /b	Viet Nam One Plan II Fund /b	Bhutan UN Country Fund	Kiribati One Fund	Malawi One UN Fund /b	Papua New Guinea UN Country Fund	Sierra Leone MDTF	Eliminate Violence Against Women	Peacebuilding Fund	UN Action Fund	UNDG Iraq Trust Fund	MDG Achievement Fund	UN Central Fund for Influenza Action	UN-REDD Programme Fund	UN Peace Fund for Nepal	UN Trust Fund for Human Security (JPs)	Participating Organizations TOTAL
UNDP	12,060,317	2,708,479	8,257,670		5,214,530	13,038,163	27,881,611	4,609,504	624,624	1,689,710	3,662,747	3,665,042	24,647,805	2,434,946	10,595,254	X	353,788	49,500	3,209,937	882,000	X	799,124	89,793,730	X	349,464,209	72,469,798	1,075,939	6,239,487	5,306,085	7,235,253	657,969,250
UNICEF	2,710,222	1,032,519	87,516,821		118,989,373	X	X	2,403,039	369,027	4,583,039	4,157,009	1,112,685	3,318,449	311,370	12,968,714	7,078,200	166,269	174,854	3,137,247	265,000	X	253,590	4,289,390	134,329	174412,546	34,429,228	106,059			1,741,170	465,660,148
UNDP-MANGO **		1,904,820	194,483,004		164,468,033																										360,855,857
FAO		X	47,777,533		54,892,332	X	8,370,670	69,300	246,985	3,169,571	1,040,000	1,203,519	4,639,451	728,671		2,179,411	X		198,000	X	X		804,215		106,749,462	28,197,630	X	5,012,863		969,722	266,249,334
UNOPS		X	1,887,205		1,181,540		X							437,737							X		5,624,340		217,156,782	917,514			4,080,582		231,285,700
WHO	706,945		20,454,835		23,258,357	X		350,000	171,795	1,539,028	2,854,986	960,434	2,185,889			4,419,265	X	52,470		20,000		95,872		X	118,531,392	11,286,686	364,941		X	102,008	187,354,903
WFP	1,769,068	X	35,748,933		84,124,084	X			123,431	3,948,707	692,438	1,071,061	1,487,905				32,279				X		X		16,367,663	9,321,561	4,891,364		887,763	152,208	160,618,464
UNESCO	169,800	X					1,587,226	149,750	80,348	1,659,179	2,223,906	596,116	4,948,726	1,084,184		1,507,766		36,016		X		106,989	1,950,000		61,538,773	22,594,154			20,049	300,011	100,552,992
UN-HABITAT							X		211,860	1,065,843	1,496,000	597,983	X	X		774,020				X			750,000		85,578,107	3,350,918			X	1,700,001	95,524,732
UNFPA	79,998	X	6,304,723		9,187,503		994,858	2,048,841	231,374	2,051,675	3,754,765	2,236,653	5,353,075	1,263,172	5,210,007	X	49,729	59,400	820,173	X	X	946,415	7,568,964	X	20,945,745	15,046,259				249,310	85,881,611
UNHCR	250,000	X	14,148,870		41,290,445	X	X	X		422,045	479,438	798,178	11,250	X						X	X		4,280,706	58,514	13,422,691	1,528,959	6,930,000			489,403	84,110,499
UNIDO		X				X	4,500,000	215,000	208,553	2,063,415	1,671,000	1,324,489	3,256,960	1,097,788		2,536,691			25,631				X		45,504,763	8,714,100					71,118,389
OCHA	400,000		26,578,511		18,239,946												X			X				X			3,249,650				48,468,107
ILO					500,000		2,683,108		176,344	3,132,573	883,000	262,996	5,111,780	875,405		2,749,032		49,500	20,000	X			1,851,785		6,656,650	14,332,983	896,887			54,490	40,236,533
IOM		X	1,412,532		16,238,020	X			142,283	1,013,707	253,835		34,500	682,736							X		6,216,535		X	7,308,919	3,654,773				36,957,840
UNIFEM			300,000		576,000	X	X	950,220	94,050	803,193	532,020	844,689	71,760	344,101		X		73,260		193,000	X	564,087	3,718,443	939,420	8,759,840	11,249,098			X	42,195	30,422,043
UNEP		X			368,669		X	99,700			160,000	49,697	85,000	258,512			X								16,605,005	4,620,710		4,577,611			26,873,069
ORCHC					13,475,677												X														13,475,677
UNMAS			400,000		11,382,703																										11,782,703
ESCWA																									10,331,911						10,331,911
UNDPA																									7,801,998						7,801,998
UNODC									1,157,706	100,000	X			X		1,952,115							900,000	X	X	2,524,706					6,634,527
UNDSS					3,885,584																										3,885,584
UNWTO														X												2,941,977	652,000				3,593,977
UNAIDS			100,000		467,179				X	176,000	163,150	140,438	X		1,279,720	X	X		348,663	X	X			X		358,320					3,426,587
OHCHR												X								X	X		2,399,830	X	X	96,300			X		2,496,130
ICAO														X													1,151,720				1,151,720
UNCDF										390,432		100,900					20,000						X		X	530,067					1,041,399
UNCTAD									211,365	60,000		337,000														291,500					899,865
UNRWA																										769,026	99,510				868,536
UNV															388,458	X	X			X											623,458
IFAD										298,000		X					X									227,910					525,910
ITC									45,045	70,000				X												265,756					380,801
ESCAP														X												214,000					214,000
ECLAC																										75,649					75,649
UNIC													68,100	X																	68,100
ECA												X														X					0
ITU																									X	X					0
UNDESA																															0
UNITAR																									X						0
WMO																															0
OIE																															0
Grand TOTAL	18,146,350	5,645,818	445,370,638	0	567,739,976	13,038,163	46,017,473	10,895,354	4,094,790	28,236,117	24,024,294	15,301,877	55,220,649	9,518,622	30,442,153	25,670,258	670,230	495,000	7,759,649	1,360,000	0	2,766,076	130,147,939	1,132,263	1,259,827,536	253,663,728	23,072,843	15,829,961	10,294,479	13,035,769	3,019,418,003

[x] Organizations that have signed an MOU with the MDTF Office, but no funds were transferred as at 31 December 2009

[a]/ Aministration of Funds decentralized to UNDP Country Office. Funds recently established.

[b]/ Aministration of Funds decentralized to UNDP Country Office. Figures are based on 2006 and/or 2007 Certified reports, and/or submitted data for the years 2008 and 2009.

[c]/ In July 2008 the existing Central African Republic (CAR) Emergency Response Fund (ERF) was developed into a Common Humanitarian Fund (CHF). The Aministration of this Fund is decentralized to UNDP Country Office.

** UNDP receives funds as a Management Agent and transfers funds to NGOs approved by Humanitarian Coordinators.

NB: Interim figures based on available data as at 13 January 2009.

MDTF Office / 18 Jan 2009

Annex V

Overview of action to be taken by participating organizations on JIU recommendations
JIU/REP/2010/7

	Intended impact		United Nations, its funds and programmes												Specialized agencies and IAEA												
		CEB*	United Nations**	UNCTAD	UNODC	UNEP	UN-HABITAT	UNHCR	UNRWA	UNDP	UNFPA	UNICEF	WFP	UNOPS	ILO	FAO	UNESCO	ICAO	WHO	UPU	ITU	WMO	IMO	WIPO	UNIDO	UNWTO	IAEA
Report: For action		☒	☒	☒	☒	☒	☒	☒	☐	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☐
Report: For information		☐	☐	☐	☐	☐	☐	☐	☒	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☒
Recommendation 1	e		L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Recommendation 2	e		L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Recommendation 3	o		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Recommendation 4	g		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Recommendation 5	o	E																									
Recommendation 6	o	E																									
Recommendation 7	o		L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Recommendation 8	g		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E

Legend:
L: Recommendation for decision by legislative organ
E: Recommendation for action by executive head (* by the Chairman of the CEB)
■ **:** Recommendation does not require action by this organization

Intended impact: **a:** enhanced accountability **b:** dissemination of best practices **c:** enhanced coordination and cooperation **d:** enhanced controls and compliance **e:** enhanced effectiveness **f:** significant financial savings **g:** enhanced efficiency **o:** other

** Covers all entities listed in ST/SGB/2002/11, other than UNCTAD, UNODC, UNEP, UN-HABITAT, UNHCR, UNRWA.

	Intended impact		United Nations, its funds and programmes												Specialized agencies and IAEA												
		CEB*	United Nations**	UNCTAD	UNODC	UNEP	UN-HABITAT	UNHCR	UNRWA	UNDP	UNFPA	UNICEF	WFP	UNOPS	ILO	FAO	UNESCO	ICAO	WHO	UPU	ITU	WMO	IMO	WIPO	UNIDO	UNWTO	IAEA
Report: For action		☒	☒	☒	☒	☒	☒	☒	☐	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☐
Report: For information		☐	☐	☐	☐	☐	☐	☐	☒	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☒
Recommendation 9	a		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Recommendation 10	g		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Recommendation 11[a]	o		E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Recommendation 12	e		L							L																	
Recommendation 13	o	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E

Legend: **L:** Recommendation for decision by legislative organ
E: Recommendation for action by executive head (* by the Chairman of the CEB)
: Recommendation does not require action by this organization

Intended impact: **a:** enhanced accountability **b:** dissemination of best practices **c:** enhanced coordination and cooperation **d:** enhanced controls and compliance **e:** enhanced effectiveness **f:** significant financial savings **g:** enhanced efficiency **o:** other

** Covers all entities listed in ST/SGB/2002/11, other than UNCTAD, UNODC, UNEP, UN-HABITAT, UNHCR, UNRWA.
[a] Recommendation 11 is addressed to the heads of internal audit in the United Nations system organizations.