22 August 2022

Report of the Working Group on the United Nations Office for Project Services (UNOPS) of the Executive Board of UNDP/UNFPA/UNOPS

A. History

On 1 January 1995, the United Nations Office for Project Services (UNOPS) – the former United Nations Development Programme Office for Projects Execution (UNDP-OPE) – commenced operations as a separate and identifiable entity. In the UN system, UNOPS is a subsidiary organ, classified as an "other entity," i.e. not a fund or programme or a specialized agency. Notwithstanding, UNOPS is an entity of the United Nations development system.

Since 1995, Member States have through resolutions and decisions evolved the UNOPS mandate, particularly in respect to the nature of its project services and the types of partners with whom UNOPS is expected to engage.

From a functional perspective, the UNOPS project services comprise: infrastructure, procurement, project management, human resources, financial management, and other management services (A/RES/65/176).

A/RES/65/176 encouraged UNOPS to enhance engagement with various actors in the development, humanitarian and peacekeeping arena. UNOPS was further mandated to avail its expertise for: Governments (donor and recipient), the UN system and other partners, including intergovernmental institutions, international, regional and subregional financing institutions, foundations, non-governmental organizations and the private sector.

B. Introduction

UNOPS helps people to build better lives and countries to achieve sustainable development. Similar to the World Food Programme (WFP) and the International Organization for Migration (IOM), UNOPS, is a demand-driven and self-financing organization without any contributions from Member States. UNOPS relies on the revenue that it earns from the implementation of projects and the provision of transactional and advisory services. It provides services that contribute to peace and security, humanitarian and development operations of the United Nations system. UNOPS revenues are wholly dependent on fees generated by the provision of project services through advisory, implementation and transactional services in its five core areas of expertise, namely, infrastructure, procurement, project management, financial management and human resources. (United Nations Board of Auditors Report 12-31-2021 A/76/5/Add.11).

The UN Board of Auditors report for the year ending December 31, 2021 noted the establishment of a bad debt allowance for the Sustainable investment in infrastructure and innovation (S3i) initiative in the amount of $20.53 million. The report also noted investments were made in violation of UNOPS rules regarding diversification and risk exposure. Subsequent disclosures by UNOPS management revealed additional losses and oversight failures. The Executive Board took action to increase oversight at the 2021 Executive Board (EB) Annual Session.

1. EB Decision 2022/13 provides for the creation of a working group (WG).

2. Paragraphs 10 through 17 of the decision provided for the following:

   "10. Decides to create a working group in accordance with rule 9 of its rules of procedures consisting of 10 members and observers of the Executive Board to assess the root causes and institutional vulnerabilities within UNOPS that led to the failures associated with S3i, with a view to making recommendations to the Executive Board to facilitate additional necessary actions to consider at the second regular session 2022 and the first regular session 2023;

   11. Requests that the Bureau of the Board conduct consultations with the regional groups to present two nominees per regional group to compose the working group, to be appointed by the Board through a silence procedure;

   12. Requests that the working group undertake its work in consultation with, as appropriate and not limited to, UNOPS, the United Nations Board of Auditors, the Advisory Committee on Administrative and Budgetary Questions, and the Joint Inspection Unit;

   13. Requests the working group to focus its work on the following, and to present its work to the Executive Board: (a) options for the appropriate use of UNOPS reserves; (b) options to increase transparency around UNOPS management fees and costing structure, with a view to limiting the accumulation of UNOPS reserves; (c) any other matters deemed appropriate by the Bureau for the working group to discuss;

   14. Requests that UNOPS provide the following to the Executive Board and the working group, at the earliest possible date, and with a view to facilitating the efforts of the working group in an expedited manner, complementary to any other actions undertaken by UNOPS: (a) a third-party review of the oversight mechanisms that existed for S3i investments; (b) a third-party review of UNOPS internal control systems, risk management and overall governance structures, including an assessment of the integrity of the wider UNOPS portfolio and a review of UNOPS cost structures;

   15. Requests that UNOPS submit the terms of reference for these third-party reviews for approval by the working group prior to the commissioning of the reviews;

   16. Requests that the Executive Director, ad interim, provide the Executive Board, as soon as possible, but no later than 15 July 2022, an action plan with a timeframe for all actions, including but not limited to those requested in this decision, to address concerns regarding S3i, with a view to enhancing transparency and accountability;

   17. Recalling decision 2020/13 on the working methods, and recognizing the urgency of the situation, decides to include an update on the progress of the working group, including any preliminary findings, as an item for decision on the agenda of the second regular session 2022 and the first regular session 2023."

3. The Executive Board Secretariat facilitated a nomination process for selecting members of the WG. Each regional group selected two members. The following member states were selected to serve on the WG: Cameroon, Kenya, Antigua and Barbuda, Mexico, Ukraine, Georgia, Bangladesh, Pakistan, Finland, and the United States. The WG selected Antigua and Barbuda to serve as Technical Chair of the WG.

4. The first meeting of the WG was held on July 1, 2022. Subsequent weekly meetings were held through August 18, 2022.

C. UNOPS Reserves.

5. In 2018, following EB decision 2016/12, UNOPS used financial regulation 22.02(b) to begin seed capital investments within the limits set out in the financial regulations and rules (FRR). In 2019, following the same regulation, UNOPS formalized the establishment of the growth and innovation reserve for sustainable investments in infrastructure and innovation (S3i).

6. EB decision 2021/21 approved a formula for calculating the minimum required reserve level. With the reported losses, EB Decision 2022/13 requested UNOPS transfer all reserves not committed to projects to the operational reserve and restricted the use of the reserves to daily operations. The EB also froze all transfers out of the operational reserve (from para 2).

7. Based on the calculation from EB Decision 2021/21, on 18 July, UNOPS reported to the WG that the minimum operational reserve (MOR) level as of December 31, 2021 totaled $139 million. UNOPS also reported to the WG that total reserves as of December 31, 2021 totaled $360 million. Included in the total reserve is $63 million committed to S3i projects. UNOPS reported that as of December 31, 2021, a total of $158 million is not committed to S3i projects nor part of the MOR.

D. Options for Use of UNOPS Reserves

8. **Use of Contributing Entities' Proportional Share of Excess Fees determined by the Contributing Entity**

   a. The Board establishes a maximum total reserve. Any amount exceeding the maximum total reserve shall be credited to the paying entities according to an Excess Reserve Indexing Formula.

   Maximum Total Reserve (MTR): MOR (as of December 31, 2021) plus S3i committed funds plus $10 million and increasing by $5 million each year thereafter. Excess Reserves (ER) creditable to paying entities: Total reserves – MTR.

   Excess Reserve Indexing Formula (ERIF1) for reserves accumulated up through December 31, 2021: Each paying entity's proportional percentage share of all payments received by UNOPS from January 1, 2018, through December 31, 2021 (four calendar years), shall be multiplied by an amount equal to the ER to determine the amount creditable to each paying entity. See the ERIF expressed as a formula: (Individual entity specific payments to UNOPS from January 1, 2018, through December 31, 2021)/ (Total Payments to UNOPS from January 1, 2018 to December 31, 2021) = Proportional Percentage Share of entity payment to UNOPS.

   Excess Reserve Indexing Formula (ERIF2) for Reserves accumulated after December 31, 2021: Each paying entity's proportional percentage share of all payments received by UNOPS from January 1 through December 31 each year, shall be multiplied by an amount equal to the ER to determine the amount creditable to each paying entity. See ERIF2 expressed as a formula: (Individual entity specific payments to UNOPS from January 1

through December 31 each year/ (Total Payments to UNOPS from January 1 through December 31 each year) = Proportional Percentage Share of entity payment to UNOPS.

Credits received by paying entities may be used as voluntary contributions or applied to projects anywhere within the United Nations system.

b. Provide Rebates to Partners and Remit Funds to Member States according to the following formulas:

i. **Partners:** This approach would offset management fees, through a rebate, for partners on future engagements in proportion to the fees already generated by these partners within a defined timeframe (e.g., past 5 years). This rebate could be implemented by prorating excess reserves based on the management fees generated for each partner as a share of total management fees for the period 2017-2021. For the following periods, an annual analysis following the publications of the audited accounts will confirm the remaining balance available for future rebates. In order to reduce transactional costs and administrative challenges, a threshold of $1 million paid in management fees would account for 93% of management fees.

ii. **Member States:** This approach would remit excess reserves to Member States in proportion to the management fees generated by each Member State for the period 2017-2021 initially as a one-off transaction, and to be repeated based on Executive Board future decisions. Excess reserves can be transferred to UNOPS' member states, irrespective of contributions, if any, they made in the past. Such a transfer would be a distribution similar to a dividend. A mechanism would need to be developed to apportion the distribution to the member states

To acknowledge UNOPS financial model and the absence of assessed contributions, the management fee share generated by a Member State in relation to all management fees generated by Member States would provide a ratio by which the excess reserves could be remitted to the respective Member State.

Similar to the logic envisaged in the Partner scenario, a threshold could be introduced to ensure cost-efficient arrangements in relation to Member States. For example, establishing a threshold for those that generated more than $1 million in management fees during this period would capture 96% of total management fees generated by Member States.

9. **Use of Contributing Entities' Proportional Share of Excess Fees determined by the Executive Board**

a. Support UN Development System: This approach would support the UN development system, by contributing to the Special Purpose Trust Fund for the new Resident Coordinator system.

b. Finance the UN Efficiency Agenda: The excess reserve could be used to take a financing role, and UNOPS could make available its comparative advantage in procuring global partners to manage a centralized facilities portfolio in a manner that could maximize efficiencies from financing and managing facilities at scale globally, rather than country by country.

c. **Address Emerging Needs**: The Board may also consider an approach whereby it could exercise its discretion to address emerging needs on an ongoing basis. This could mean that a predetermined share of any excess reserve could be held in escrow, subject to the decision of the Board to proceed with the use of these funds.

d. **Invest in UNOPS Internal Capacity**: A key objective of an internal capacity investment reserve (financial rules and regulations: "growth and innovation reserve") would be to future-proof the organization in terms of ensuring adequate resourcing in areas such as structural enhancements and response to emergencies (e.g. Ukraine), expertise and capacities of UNOPS personnel through learning activities, cyber resilience, digital transformation, and capital expenditure needs (e.g. enterprise resource planning (ERP)). An appropriate level of the reserve could be determined through two different approaches.

One would rely on benchmarking comparable professional services firms. Deloitte is currently working on setting up a benchmark, which could be defined as a percentage of annual expenses. Another approach would be to have a set amount fixed by the Executive Board, based on UNOPS's investment needs.

Based on a study currently being performed by Gartner, preliminary results show that UNOPS would need to invest around $62 million to reach its digitalization ambitions, including a change of its ERP. UNOPS has for the purposes of the present note included an Internal capacity investments reserve set at $72 million, in line with Gartner's estimates of $62 million, and including other internal capacity investment needs of $4 million in response to emergencies such as Ukraine and the needed structural enhancements, and $6 million directed to development of the expertise and capacities of UNOPS personnel through learning activities in support of delivery of UNOPS.

E. Update on the Status of Third-Party Reviews

10. First Review: Status of Review: Terms of reference (TOR) Approved; Request for Proposals (RFP) Issued.

11. Second Review: Status of Review TOR Approved, RFP to be issued.

F. Future Meetings of the Working Group

12. The WG will continue to meet until the First Regular Session (FRS) of 2023. The WG will submit a final report at least 8 weeks prior to the FRS.

G. Annexes

Terms of reference of the third party reviews: TOR for internal control systems, risk management, and overall governance structures of UNOPS; TOR for UNOPS oversight mechanisms for S3i

Report by Deloitte on the Review of UNOPS reserve funding and maximum reserves

List of acronyms:

EB: Executive Board
ERIF1: Excess Reserve Indexing Formula for reserves accumulated up through December 31, 2021
ERIF2: Excess Reserve Indexing Formula for Reserves accumulated after December 31, 2021
ERP: Enterprise resource planning
FRS: First regular session
IOM: International Organization for Migration
MOR: Minimum operational reserve
MTR: Maximum Total Reserve
RFP: Request for proposals
S3i: Sustainable investment in infrastructure and innovation initiative
TOR: Terms of reference
UNDP-OPE: United Nations Development Programme Office for Projects Execution
UNOPS: United Nations Office for Project Services
WFP: World Food Programme
WG: Working group