

# **Third-party review of effectiveness of the UNOPS oversight mechanisms for Sustainable Investments in Infrastructure and Innovation (S3i)**

**UN Office for Project Services**

KPMG Oy Ab

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## Glossary

<b>AAC</b>	Audit Advisory Committee
<b>AGI</b>	Advisory Group on Investment for S3i
<b>ASG</b>	Assistant Secretary-General
<b>CE, S3i</b>	Chief Executive, S3i
<b>CFO</b>	Chief Financial Officer
<b>COG</b>	Corporate Operations Group
<b>DED</b>	Deputy Executive Director
<b>DD</b>	Due Diligence
<b>DoA</b>	Delegation of Authority
<b>EAC (+)</b>	Engagement Acceptance Committee (+)
<b>EB</b>	Executive Board
<b>ED</b>	Executive Director
<b>EOD</b>	Executive Office Directive
<b>EO</b>	Executive Office
<b>EOI</b>	Executive Office Instruction
<b>ERP</b>	Enterprise Resource Planning
<b>FRR</b>	Financial Rules and Regulations
<b>HQ</b>	Headquarters of UNOPS
<b>IAIG</b>	Internal Audit and Investigation Group
<b>ICA</b>	Individual Contractor Agreement
<b>JIU</b>	Joint Inspection Unit
<b>KPMG</b>	KPMG Oy Ab
<b>KPI</b>	Key Performance Indicator
<b>MFA</b>	Ministry for Foreign Affairs of Finland
<b>MoA</b>	Memorandum of Agreement
<b>MoU</b>	Memorandum of Understanding
<b>NewBU</b>	New Business Unit (for Impact Investing)
<b>S3i</b>	Sustainable Infrastructure Investments and Innovation Initiative
<b>SHS</b>	Sustainable Housing Solutions Holdings PTE Limited
<b>SLT</b>	Senior Leadership Team
<b>ToR</b>	Terms of Reference
<b>OD</b>	Operational Directive
<b>OI</b>	Operational Instruction
<b>OIOS</b>	Office of Internal Oversight Services
<b>oU</b>	oneUNOPS
<b>oUP</b>	oneUNOPS Projects
<b>QBR</b>	Quarterly Business Review
<b>UNBoA</b>	United Nations Board of Auditors
<b>UNOPS</b>	United Nations Office for Project Services
<b>USG</b>	Under Secretary-General
<b>WATO</b>	We Are the Oceans
<b>WWRE</b>	World Wide Renewable Energy S.L.



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# 1 Executive Summary

## Scope

In August 2022, the United Nations Office for Project Services (UNOPS) commissioned two independent external advisory reviews at the request of the Executive Board. The third-party reviews stem from concerns raised by reported irregularities, potential financial losses, and alleged misconduct linked to the Sustainable Infrastructure Investments and Innovation Initiative (S3i) investments. The first review focuses on identifying the root causes and institutional vulnerabilities within UNOPS that led to the failures associated with S3i. The second forward-looking review focuses on UNOPS' mandate, governance, risk management and internal control systems, performance management and accountability, and includes an assessment of the portfolio and cost structures. The two reviews have separate but inter-related Terms of References (ToRs).

KPMG Finland (KPMG) was selected as the independent external party to conduct the reviews and has consequently prepared two review reports. This report is the backward-looking review on S3i and should be read in conjunction with the second, forward-looking, review report. This report is prepared for the purposes noted above and defined in the ToR and is not suitable for any other purposes.

A draft Preliminary Key Findings document and later a draft report were submitted for factual checking to UNOPS management and the Working Group of the Executive Board simultaneously, and the comments received have been incorporated into this report. This report was submitted to UNOPS and the Working Group of the Executive Board in November 2022. UNOPS management, staff and stakeholders participated in the review with an open and supportive attitude.

## Methodology and Approach

KPMG's methodology for the assignment focused on obtaining a comprehensive view of the process and events related to S3i and investments made under the initiative. This was conducted through the review of a significant amount of documentation, including meeting minutes and supporting documentation, manuals and guidelines, internal and external reports, accounting and payment documentation, emails, legal contracts, due diligence materials, publicly available information, and etc. that was made available by UNOPS for our review. The desk review was supported by close to 100 interviews conducted with current and previous UNOPS personnel and the Working Group and representatives of the Executive Board. The assignment was carried out during a relatively short time frame in September – November 2022.

The management of UNOPS has gathered a "timeline" summarising key decisions, communications, investigations and relevant information and documents in relation to S3i that was made available for our review.

The assignment was not a forensic investigation and KPMG's review procedures are limited to the scope outlined above as defined in the ToR and we do not accept any responsibility relating to adequacy of areas included in the ToR or the adequacy of the report for the purposes of the recipients of the report. We have performed the procedures based on the material available and are not able to assess the completeness and accuracy of the documentation. We have not tested the documents to exclude the possibility of manipulations or to confirm the authenticity of those or any third party



documents. KPMG had an interview with representatives of the Office of Internal Oversight Services (OIOS) during the assignment. However, an investigation report of S3i by the OIOS, which has been publicly mentioned, has not been shared with KPMG.

The procedures that we have performed do not constitute an audit or a review made in accordance with any generally accepted standards on auditing or any generally accepted standards on review engagements and, consequently, no assurance will be expressed. Had we performed an audit, other matters might have come to light that would have been reported.

The interpretation of legal consequences of our findings is solely a responsibility of UNOPS and the Executive Board. Our review was not performed in order to investigate the acts of individuals but rather to review UNOPS procedures and controls, and the roles and responsibilities in relation to the S3i process. The report may not be disclosed, copied, quoted or referred to in whole or in part for the purposes of disciplinary proceedings without our prior written consent. It should be noted that our final written report shall take precedence over any draft, and that no reliance should be placed by UNOPS or the Executive Board on any draft other than at their own risk.

## Background

UNOPS is a United Nations agency dedicated to implementing infrastructure and procurement projects for the United Nations System, international financial institutions, governments and other partners around the world. UNOPS total revenue in 2021 was USD 1.2 billion with a total volume of operations of USD 3.4 billion (delivery). UNOPS is headquartered in Copenhagen, Denmark. Established in 1973 as part of UNDP, it became an independent subsidiary organ of the General Assembly, fully separating from UNDP, in 1995. UNOPS concentrates its support in the areas of infrastructure, procurement, project management, human resources and financial management services.

Over the last 10 years, UNOPS and its portfolio of operations have grown rapidly. UNOPS has attempted to manage this growth by expanding its staff base, establishing a policy framework and internal control environment supported by financial and project management systems, and adjusting the organisational structure, job descriptions and roles. UNOPS has also made revisions to its risk management, oversight and accountability frameworks in response to a UN High Level Committee on Management decision to endorse and effectively implement the three lines of defense model.

A new Executive Director (ED) was appointed to UNOPS in 2014. At that time, UNOPS was generally considered to be a highly relevant agency contributing to development efforts in difficult operational settings and providing support to UN Agencies and governments. However, due to its role providing operational support services, it was also a "hidden" agency that did not have as high a public profile as some of the other UN Agencies. The new ED, together with the Deputy Executive Director (DED), wanted to reposition the fairly unknown UN agency and increase its standing within the development cooperation space. This led the agency towards impact investing and other new initiatives, with the goal of achieving more with less by leveraging the resources of the private sector. As part of its profile-raising efforts, UNOPS also partnered with We Are the Oceans (WATO) in February 2017 through a grant as a vehicle for public relations and awareness raising.



## Mandate and Strategy

The new impact investing activities required revisions to the UNOPS mandate. The agency's management made gradual changes that were presented in updates to the Executive Board of UNOPS over the period of 2015 to 2021. The development of impact investing was encouraged by the Executive Board on different occasions, based on presentations by UNOPS management. In mid-2016, the Executive Board approved "the creation of a seed capital fund aimed at utilising a portion of UNOPS operational reserves to make targeted contributions to early-stage investment projects in UNOPS mandated areas". The UNOPS Strategic Plan for 2018-2021 still concentrated on the core mandate for infrastructure, procurement, project management, human resources, and financial management services. However, UNOPS top management moved forward with financing activities as a key objective although this can be viewed as an "extension" of the mandate.

To enable impact investing, UNOPS accelerated efforts to grow its business and accumulate operational reserves. UNOPS was successful in growing its reserves (i.e. net assets), which expanded from USD 159 million in 2017 to USD 360 million in 2021 (126% increase in four years). However, part of the growth of the reserves was done at the expense of investing in the organisation in terms of systems and staff. The accumulated reserves enabled the agency to take initial steps towards achieving its objective of becoming an impact investor.

## Management

At the time of the new ED appointment (2014), the DED had an exceptionally strong role in UNOPS due to his recognised contribution and track record in the agency's financial turnaround prior to 2014. In parallel with the evolving mandate, changes in the management structures were implemented. The changes included a smaller top management team and less participation in decision-making from the Regional Groups. The reporting structures of top management were also reorganised. As a result, most of the key management functions, with the exception of internal audit, ethics, and communications, reported directly to the DED, who in turn reported to the ED. The new management structure, combined with significant delegated authorities to the DED, as the only Assistant Secretary-General (ASG) in the agency, and the ED, as the only Under Secretary-General (USG), led to high concentration of decision-making power at UNOPS.

Based on interviews, UNOPS management culture started to develop into a strong top-down approach with a high focus on growing the business and reserves. Increased revenues were prioritised even if it meant venturing further from the original mandate of UNOPS and taking on more risk. UNOPS top management, especially the ED and the DED, focused on developing and initiating impact investing. These changes in management focus were combined with what appears to be a systematic approach to reduce transparent sharing of information and undermine the key management team members ability to challenge decisions such as by referring to "lack of understanding the business and private sector way of working". Interviews indicate there was a noticeable fear of career consequences in case decisions or management agenda were challenged. This developed elements of a culture of fear in the organisation, which came to influence the decision-making processes.



## Investment Process and Decisions

The first concept and operational models for impact investing were developed together with external support as early as 2015. The early efforts in formulating the concept looked at the sectors of innovative finance, public-private partnerships and social investments. The model for UNOPS' impact investing continued to be developed in 2016 and more detailed operational guidelines and frameworks were prepared in 2017, with the support of an external consultant. Some aspects of the initial concepts and models were taken into use, but many critical oversight and segregation of duty elements were not implemented. This led to a situation where investment decisions of S3i were done without an investment policy framework in place and processes established.

Based on interviews, the DED was actively reaching out to stakeholders in the investment space, including investors, foundations and project developers, during this time. However, the broader management (including the Corporate Operations Group) and staff had a minor role in this engagement and limited information was shared within UNOPS. The geographical expertise and technical capabilities of UNOPS were also not being effectively utilised in the impact investment formulation and screening. At this point, there were limited concrete results from the planning efforts and consultations with investment stakeholders. UNOPS management in-charge of driving forward S3i had not been able to identify clear added value or complementarity that the agency could bring to the investment market.

The plans for impact investing highlighted that UNOPS needed to strengthen its organisational capacity before venturing into this sector. However, limited investments in people or processes were made prior to making the first significant investment decisions. The envisioned objectives were ambitious compared to UNOPS track record and capability to deliver on investments. Due to this limited capacity and experience in similar investment arrangements, it appears that the management did not fully take into account the risks involved. The lack of experience led to limited due diligence and vetting procedures performed in relation to the S3i investments. As an example, based on meeting material available for our review, the Engagement Acceptance Committee + (EAC+) did not receive appropriate documents related to the financial model nor review the financial model for the housing projects that comprised USD 35 million of the investments made.

By the time an S3i office was opened in Helsinki, in January 2021, all S3i investment decisions had already been made. The Helsinki-based team, mainly comprising new hires to UNOPS, had a limited role in the management of the initial investments.

Based on our review, there was a limited transparency from the top management in relation to selection of partners and limited financial and technical due diligence to support the evaluation process was found available for our review. UNOPS has a full set of administrative and financial rules for its regular operations, but the selection of S3i partners did not follow all of these procedures. One of the main reasons for the selection of Sustainable Housing Solutions (SHS) Holdings as a key partner for S3i, as presented by the DED to the Senior Leadership Team (SLT), was a unique and affordable new technology. Limited documentation on technical due diligence was available for our review and it appears that a complete technical due diligence on the technology or feasibility studies by designated expert teams over the concepts were not conducted, despite UNOPS' strong expertise in infrastructure.



UNOPS took financial and reputational risks with the commitments of sustainable housing, although the concept was merely at piloting stage. Together with the governments of several partner countries, UNOPS committed to constructing 760,000 houses in five countries (with financing contracts signed), which would have required total investments in the scale of USD 20 - 50 billion. (The investment value is based on an average cost of USD 25,000 – 50,000 presented in the submission documentation, which has not been verified or thoroughly vetted by UNOPS.) With an average household size of five people, the projects would have created houses for 3.8 million people. Publicly UNOPS had committed to sustainable housing in seven countries with a total of 1.3 million houses.

### **Decision-Making**

To support S3i decision-making, the ED convened meetings with members of the Corporate Operations Group (COG) and named them EAC+. The aim of the EAC+ was to function as a review panel on S3i investments. However, no official terms of reference or mandate for the EAC+ were established. The members of EAC+, as noted above, consisted of selected members of COG (later on SLT), and the DED and ED. All members of EAC+ reported to the DED, except for the ED. No technical experts or investment professionals were included in this committee. The ED had the decision-making authority on the investments. There was limited segregation of duties in the decision-making process of the S3i investments. The DED, who had led the development of the investment projects, also presented the projects to the EAC+, was a member of the EAC+ and in the final stage signed the financing contracts after the ED approval. A perception of urgency was created around the preparation and presentation of investment cases and the investment decision process. Combined with the described culture of fear and lack of an investment framework, this contributed to a weakened environment for decision-making.

The first investment within S3i, valued at USD 8.8 million, was made in August 2018 to a wind project in Mexico through an SHS related company (World Wide Renewable Energy, WWRE). Before the financing decision, an advance payment of USD 0.9 million was paid to the company for due diligence and preparatory procedures. In the January and March 2019 EAC+ meetings, S3i investments of USD 30 million in the form of loan facilities were endorsed. This included USD 15 million in total for social housing projects in Kenya, Ghana, India, and Antigua and Barbuda, and USD 15 million for renewable energy portfolio. Another loan facility to SHS was agreed in October 2019 when EAC+ endorsed USD 20 million to a housing project in Pakistan. As UNOPS has recognised all loan facilities were approved by the ED based on her authority. All of the loan facilities in 2018 and 2019 were made to companies with direct or indirect ownership interest associated with a British businessman. At this point, investments and grant funding had been provided to various sectors (oceans awareness campaign, renewable energy and affordable housing) but ultimately associated with a single British family. The idea of diversifying the risk by investing in different countries through a platform, as presented by the ED and DED in the EAC+ meetings, ultimately led to pooling of risks to a single group of associated entities. In total USD 59.7 million was disbursed from UNOPS to SHS and its related and/or affiliated entities through the S3i investments, and USD 3.3 million through the WATO/Oceans Generation grant. It should be noted that SHS and its





related/affiliated entities have repaid USD 6.2 million to UNOPS at the time of this reporting.

### **Red Flags and Risk Alerts**

Prior to investments being made, gaps, risks and red flags had been identified and alerted. The red flags were brought to the attention of the EAC+, including the ED and DED (especially prior to the investments in 2019), and to a certain extent to the oversight functions. Risks were also highlighted by the EAC+ members, but ultimately decisions to proceed with the investments presented by the DED were endorsed by the EAC+ and approved by the ED based on her mandate. Based on the review, it appears that UNOPS management and oversight functions did not effectively respond on these risk signals. We describe the key red flags below.

A whistleblower complaint was made in early 2019 on the S3i arrangements. The complaint highlighted many of the risks in relation to the investment decision making, including investing in one partner without any competitive vetting process, and limited due diligence.

One red flag that was observed early on is that members of the same family were associated with both SHS and WATO. WATO had received a USD 5.0 million grant from UNOPS in February 2017, of which USD 3.0 million was disbursed in a single payment after the Memorandum of Agreement (MoA) was signed. A new MoA was prepared with Oceans Generation in November 2018 continuing the grant implementation activities of WATO, and the remaining grant of USD 2.0 million was transferred to the new MoA. Only USD 0.3 million of that grant was utilised and in 2019 Oceans Generation terminated the MoA and returned unused funds. UNOPS observed challenges in the early stages of the WATO grant implementation, including what UNOPS has referred to as an unexpected need to create a new entity, Oceans Generation, to continue the implementation of the grant activities in 2018.

The Internal Audit and Investigation Group (IAIG) of UNOPS identified related party transactions in relation to the use of the WATO grant during a review in early 2019 which was alerted to the ED and circulated to the DED and some of the EAC+ members. The IAIG investigation that was conducted in 2021 concluded the same.

UNOPS did not require WATO to provide complete audited financial statements including income statement, balance sheet and notes. It can be noted that UNOPS, as part of the financial monitoring activities, accepted an audited statement of receipt and disbursements of WATO as of December 31, 2017, not containing any notes.

Based on the EAC+ meeting minutes, the members were aware of the family relationship associated with WATO and SHS prior to the SHS investment decisions in March 2019, but decided to progress with the financing arrangement.

The reputational due diligence procedures that were conducted for the SHS housing projects in Antigua and St. Lucia highlighted risk areas for further investigation (with reference to media reports from 2014 and 2016) and that the selection method of sole-sourcing with SHS required particular attention from UNOPS.

As noted above, the EAC+ members raised risks in the S3i investments, including concerns related to significant exposure to one partner, limited due diligence on commercial potential, operational capacity of the partner, no collateral on the loans,



reputational risks, UNOPS lack of capacity in implementing projects in four countries simultaneously, and possible challenges with the allocated land (provided by the local governments).

Based on material available and our procedures, it seems that these red flags were disregarded without comprehensive mitigation measures and final decisions were made on 22 March 2019 to invest USD 30 million in the form of loans into five projects (with a commitment of up to USD 50 million). The full amount of USD 30 million was disbursed to the companies shortly after the SHS financing contracts had been signed.

### **Oversight**

The inefficiency of oversight mechanisms at different levels contributed to making the investments possible despite the red flags and risks highlighted earlier. The Audit Advisory Committee (AAC) was not performing an oversight role and instead had a mandate and role in practice to advise, rather than monitor, the ED. The EAC+ members perceived their role as advisory and did not feel accountable for the endorsements the committee made. This was a result of the limited segregation of duties, the DED and ED driving the process, and limited mitigation measures taken as part of the investment preparation despite the risks highlighted by the EAC+ members. Interviews indicate that the personal motivation among EAC+ members to effectively influence decisions was reduced as a result of the lack of mandate in the decision-making process, management structures and culture.

OIOS received a whistleblowing complaint in relation to S3i in early 2019 (the complaint noted above), prior to approval of the most significant SHS investments. OIOS transferred the responsibility to investigate the complaint to the IAIG. The complaint also referred to the UNOPS DED. However, IAIG was not mandated to investigate matters concerning the ED or the DED, who was in an ASG position. Thus, the complaint was not investigated at that time by IAIG or OIOS.

As risk signals in relation to the S3i investments started to accumulate, IAIG opened investigations into WATO and SHS. However, the investigations were only completed in August and October 2021, two and a half years after the initial complaints. There is indication that IAIG was not in a position to perform its duties independently, as noted by the Joint Inspection Unit (JIU) and self-assessed by IAIG in 2022.

Interviews indicate that the whistleblowing mechanism was not functioning effectively due to a lack of trust in confidentiality during the processing of complaints and fears of retaliation among staff.

The reporting on S3i activities was not fully transparent in addressing and disclosing risks that were already known to management in 2019 and understood more clearly in 2020. The Executive Board, based on the information presented by UNOPS management, approved the growth and innovation fund from the reserves, which was used to create the S3i initiative and encourage the development of impact investing. The Executive Board was not able to provide effective oversight as a result of the structural challenges, lack of comprehensive information related to risks in the reporting and limited time resources allocated for oversight.

With regards to operational oversight, we identified weaknesses in the financial management procedures in relation to UNOPS' monitoring of S3i activities and financing contracts. This was combined with the fact that the contracts did not include some



available tools for protection of financial interest for UNOPS; they had no collateral terms, included a high level of advance payment considering the early stage of activities, and UNOPS limited control over funding flow after the initial disbursements.

UNOPS has administrative and financial rules and procedures, but the S3i initiative was to a far extent operating outside this framework, and the agency's risk management, legal, technical and financial due diligence principles were not followed to the extent expected and required by UNOPS policies in investments of the scale UNOPS made. There were deficiencies in the independence structures of the oversight bodies which affected their ability to effectively monitor the S3i related activities.

## Conclusion

Our review was conducted in a situation where many of the negative consequences arising from the S3i related activities have been discussed in the public and with some time elapsed since key decisions were made. Despite this hindrance, the overall view we gained from the material available and the interviews conducted shows that a combination of technical, operational, oversight and governance deficiencies, choices in risk taking and elements of a culture of fear created an environment that was vulnerable to management override of controls. The review interviews indicate a broad perception that the top management took improper advantage of their position and authority in S3i preparation and decision-making reflecting elements that can be associated with abuse of power. UNOPS has a full set of administrative and financial rules for its regular operations, but the selection of S3i partners did not follow all of these procedures.

The background for the independent reviews stems from the concern expressed by the UNOPS Executive Board in June 2022 of reported irregularities, potential financial losses, and alleged misconduct linked to S3i. Our review was not a forensic assignment and our objective was not to provide an opinion on whether irregularities or alleged misconduct have taken place. The procedures of our review are as described in the approach and methodology.

Based on our review procedures, we note that UNOPS has identified a number of red flags as part of the S3i investment timeline. The red flags in relation to the S3i activities were identified and reported at different times and at different organisational levels by UNOPS and its oversight bodies. UNOPS top management's disregard for these early risk signals, in combination with weaknesses in the control environment and management culture, were identified in our review as root causes and institutional vulnerabilities within UNOPS that contributed to failures associated with S3i. At the time of our reporting, the financing contracts between UNOPS and SHS are under legal review. Summarized root causes and institutional vulnerabilities in relation to the S3i reported failures are illustrated in Figure 1 below.

The observations of this report indicate that UNOPS needs to implement significant changes and improvements in order to return to a well-functioning organisation with a strengthened control environment and more open and participatory culture. Immediate actions are already in progress but, considering the negative consequences arising from the S3i related activities and the time needed to change an organisational culture, UNOPS and its management have initiated a transformation process. We outline our recommendations for UNOPS in the forward-looking report.

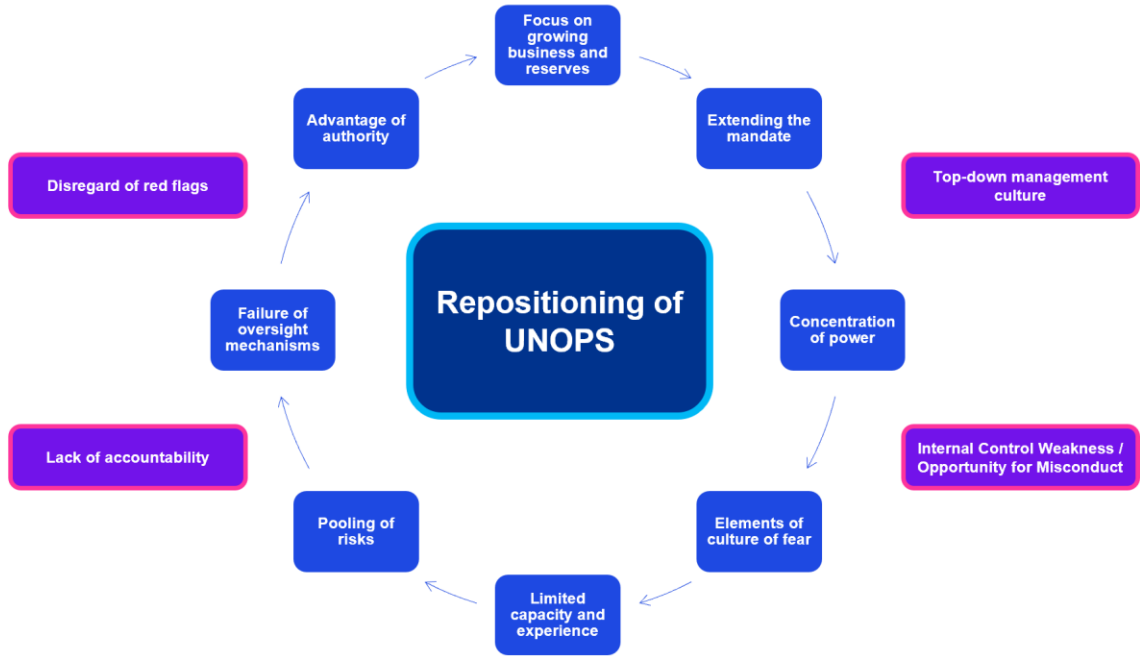


Figure 1: Root Causes and Institutional Vulnerabilities Associated with S3i Reported Failures



## 2 Mandate, Repositioning and Growth

The background for S3i lies in the wider UN development funding and financing agenda and General Assembly resolution 54/196 of December 1999. The Resolution established and mandated a Conference on Development Financing. The intention was to promote international cooperation in several areas, “mobilising domestic resources, increasing private international investment, strengthening official development assistance, increasing market access and ensuring fair trade, solving the debt burden, and improving the coherence of global and regional financial structures and promoting fair representation of developing countries in global decision-making”. The first Conference, a high-level summit on Financing for Development (FfD), was organised in 2002 in Monterrey by the United Nations together with the World Bank, the International Monetary Fund and the World Trade Organization. The work continued with a second high-level conference in Doha in 2008 but the real break-through for the development financing agenda took place in the third FfD conference in Addis Ababa in 2015, which coincided with UN’s new Sustainable Development Agenda. In the Addis Ababa Action Agenda, governments and agencies committed to raise financing for development to the top of the international development agenda. The UN Economic and Social Council was tasked to establish a Forum on Financing for Development to follow-up on the agenda and the means to implement it. Partnerships for coordinated investments in development were also incorporated into the Sustainable Development Goals ( under SDG 17.

The first-time innovative finance, public private partnerships and social investments were mentioned by UNOPS in public, was in the former ED’s speech to the Executive Board (EB) in January 2014. When the new ED took over the management responsibility of UNOPS in 2014, there was a desire to raise the profile of UNOPS and increase its relevance within the development cooperation space. This led to UNOPS’ ambitions towards impact investing. The new ED highlighted to the EB in September 2014 the objective of demonstrating UNOPS’ worth in various public-private partnership contexts and becoming an honest broker between governments, impact investors and end beneficiaries. She indicated that UNOPS was exploring ways to advance such partnerships as a way to help finance social impact projects in areas such as infrastructure, job creation and climate change.

The initial objective was to utilise impact investing to achieve more progress with less funding by leveraging the resources of the private sector. To align the mandate of UNOPS with the new objectives, revisions were needed. The management gradually presented updates to the mandate to the EB starting from 2015. On 9 June 2015, the EB encouraged UNOPS to further explore the potential of facilitating partnerships with like-minded actors, including actors from the private sector, placing firm emphasis on social impact investments in UNOPS-mandated areas such as infrastructure development and project management, and with full respect of national ownership.

To advance this, UNOPS initiated external consulting work relating to impact investing during 2015. This was referred to as UNOPS’ proof of concept period for impact investing, and it included two stages. In the first phase, UNOPS commissioned a market survey to see whether investors were interested in UNOPS-led investment propositions, to identify market gaps and opportunities and a short-listing of potential projects, and to



develop an investment philosophy. As a result, a clear interest was identified to invest in UNOPS-led investment opportunities and value-adding investment philosophy. The proposed approach suggested that a fund manager would take responsibility for managing the investments, pipeline development and other portfolio management tasks.

The second phase from 2016 onwards included development of a proposition for mainstream and impact investors, development of a crowd funding initiative and 'setting the scene', such as developing, communicating and promoting the UNOPS' approach to impact investing. As a result, a proposed investment strategy and its governance and structure were developed. The second phase identified a need for an investment team to be created within UNOPS.

In March 2016, the COG, the UNOPS leadership group at that time, unanimously agreed that UNOPS should pursue social impact investing and move into the operationalisation phase. This was realised in May 2016 when the COG recommended that UNOPS proceed with their engagement with an external consultant to outline a strategy, a governance structure and operationalisation plan of UNOPS' Investment Business Unit.

The draft documents were prepared and presented during the COG meeting at the end of May 2016 and then revisited at the end of August 2016. The sectors identified for investment were affordable housing, renewable energy, and water and sanitation. Most of the target countries were middle-income countries with a possibility to explore projects in least-developed countries. The strategy also included a deal-flow process with a three-step funnel.

KPMG finds that the groundwork for the Investment Business Unit (later S3i) was done professionally, and the proposal follows a fairly standard impact investment fund profile. It is evident that the strategy is suggesting a project development financing role, which is often identified as the missing part in getting projects initiated. In addition, the external consultant prepared multiple other documents and proposals, including an impact management framework, personnel roles and responsibilities, an investment framework, a business model, due diligence procedures, operational models, risk management frameworks, due diligence standard operating procedures and a roadmap for the business unit. However, these policies and procedures were not taken into use until after the major S3i investments had been made.

In August 2016 the COG agreed to continue with the potential operating model. The COG approved a new external consultancy for the development of a New Business Unit (newBU) for impact investing. During this phase, the approved draft documents were refined and further developed, and the consultation also included a number of draft internal contracts, or memorandums of understanding (MoUs), between the newBU and UNOPS administrative and operational units. However, the deliverables from this phase were not discussed and openly processed in the COG or in other forums. This indicates that an independent appraisal process for the impact investing modality was not performed. Benchmarking to best practices, the deliverables should have been assessed through an independent appraisal process, either internally within UNOPS or externally, in order to form a second opinion of the initiative and whether it was suitable for UNOPS. Further, the models and practices presented were not implemented or developed further until the opening of the S3i Office in Helsinki in early 2021. The majority of S3i investments (USD 59.7 million) had already been made before the office was set-up.



To enable impact investing, UNOPS accelerated efforts to grow its business and accumulate operational reserves. UNOPS was very successful in growing its reserves which expanded from USD 159 million in 2017 to USD 360 million in 2021 (a 126% increase over four years). The growth achieved was partly at the expense of investing into the organisation and processes, as illustrated by the fact that administrative costs increased only slightly (from 2014 to 2021) although the operations almost tripled. More detail on the growth and accumulation of reserves is provided in the forward-looking report which should be read in conjunction with this report.

In its decision 2016/12, the EB supported the creation of a seed capital fund aimed at utilising a portion of UNOPS' operational reserves to make targeted contributions to early-stage investment projects in UNOPS mandated areas. This served as UNOPS' mandate to start working with impact investing. However, the EB was not presented with the goals and targets of the impact investing initiative and there were no metrics defined against which the S3i results could be measured. As a result, the impact investing initiative did not have clearly defined accountability to the Executive Board.

Strategic planning of the impact investing, and later the S3i, was done under the direction of the Executive Office. Impact investing as a UNOPS activity was included in the Strategic Plan for the first time in 2018-2021, after the mid-term review of the 2014-2017 Strategic Plan identified it as one of the key-elements for the future of UNOPS. It is also included in the Strategic Plan for 2022-2025. However, entering into impact investing was a vast change to UNOPS' mandate, as UNOPS shifted from being solely a self-financing contributor to impact investor and project developer. This stretch in the mandate is not reflected in detail in the UNOPS Strategic Plan of 2018-2021, even though the impact investing activity is mentioned in the strategy.

The initiative was strongly led by the DED and the ED. The development of S3i was kept within the Executive Office, and there was limited consultation with the broader organisation or utilisation of the vast experience and capacity of the UNOPS staff.



### 3 Management

#### 3.1 Management Structures and Culture

At the time of the ED appointment (2014), the DED had an exceptionally strong role in UNOPS due to his recognised contribution and track record in the agency’s financial turnaround prior to 2014. In parallel with the evolving mandate, changes in the management structures were implemented that further strengthened his authority.

Starting in 2014, the reporting structures of top management were reorganised. As a result, most of the key management functions, except for internal audit, ethics, communications and a few others, reported directly to the DED, who in turn reported to the ED. The new management structure, combined with significant delegated authorities to the DED, as the only ASG in the agency, and the ED, as the only USG, led to a high concentration of decision-making power at UNOPS.

The changes also included a smaller top management team and less participation in decision-making from the Regional Groups, since 2019. The COG, which had senior representation from both Headquarters (HQ) and the regions, was replaced by a considerably smaller Senior Leadership Team (SLT) in August 2019. The number of members of the SLT was reduced to six, including the ED, the DED, and four senior Directors: Director of Implementation Practices and Standards, Chief Financial Officer and Director of Administration, Director of Regional Portfolios and the General Counsel. Regular meetings of the COG seem to have ceased in early 2019, until the SLT replaced the COG in late August 2019.

Based on its ToR, the specific functions for the SLT included defining and articulating UNOPS’ strategic direction, endorsing annual targets, regular review of corporate business performance, endorsing corporate organisational structures, management of corporate issues and risks, monitoring key corporate initiatives, oversight of UNOPS’ legislative framework, and governance of ICT. Additionally, the SLT was to support an informed approach to the decision-making process of the Executive Office (EO). Over the years, the SLT discussed the governance, performance, risks and assessments of the S3i.

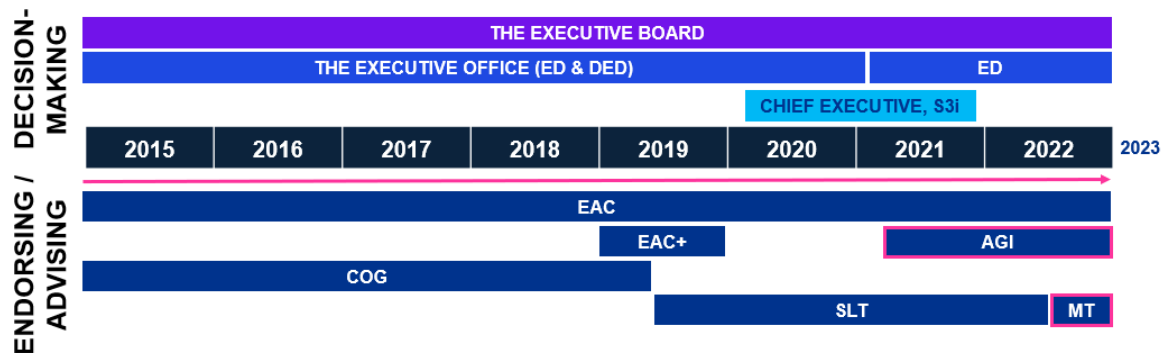


Figure 2: Timeline of Decision-Making Bodies and Committees for S3i





Based on interviews, UNOPS' management culture started to develop into a strong top-down approach with a high focus on growing the business and reserves. Increased revenues were prioritised even if it meant venturing further from the original mandate of UNOPS and taking on more risk. UNOPS top management, especially the ED and the DED, focused on developing and initiating impact investing. These changes in management focus were combined with what appears to be a systematic approach to reduce transparent sharing of information and undermine the key management team members ability to challenge decisions, such as by referring to "lack of understanding the business and private sector way of working". Interviews indicate there was a noticeable fear of career consequences in case decisions or the management agenda were challenged. This developed elements of a culture of fear into the organisation, which came to influence the decision-making processes.

## **3.2 S3i Management and Set-up**

### **3.2.1 S3i Management and Governance Structure**

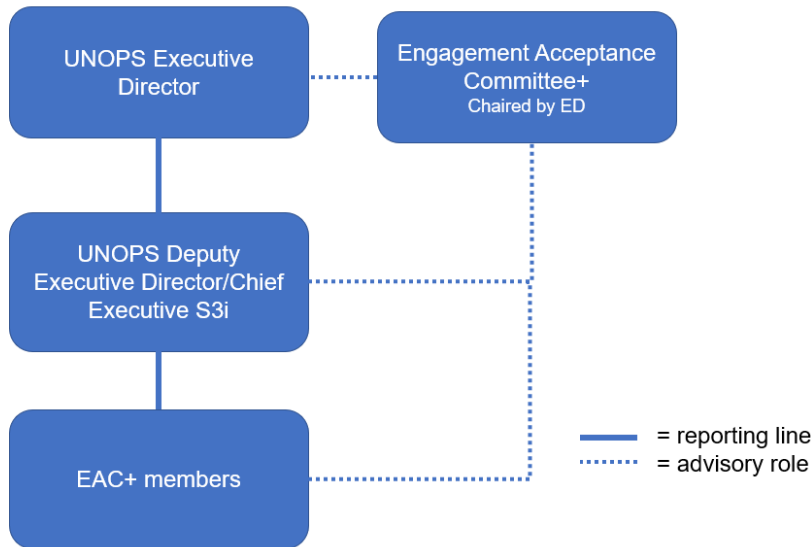
The development of S3i was kept within a small circle. Based on our review only the ED and DED, together with few external consultants and a limited number of UNOPS personnel, were involved in designing and managing S3i. UNOPS' regional and country offices were not involved in any major role in the S3i initiation or development. Based on interviews, only limited information in relation to the planning and investments were transparently shared within the organisation. The few internal communications around S3i contained limited substance in relation to S3i activities, details and decisions. However, there were efforts to internally promote the S3i initiative through a model of S3i champions who would spread the key messages of S3i. However, the champions model did not play a significant role in S3i in the end.

Prior to the creation of the S3i Office in Helsinki at the beginning of 2021, the S3i investments were to a far extent managed by the DED. There were only two additional resources focused on S3i: a Social Impact Investment Specialist, who started in June 2015, and a Lead of the innovation-focused work stream, who started in May 2016 (with limited involvement in the impact investing activities). In addition, external consultants were engaged in the development of the impact investing initiative. The next hires for the S3i were made in late 2020 for the S3i Office in Helsinki.

KPMG notes that the governance structure presented below in Figure 3 resulted in an organisational model with structural challenges in relation to segregation of duties. The DED was a member of the EAC+ and simultaneously a direct supervisor of the EAC+ members. The EAC+ members were in a situation that required them to assess investment proposals prepared and presented by their direct supervisor. Based on the interviews and material review, even if risks and concerns were raised and discussed in the EAC+ meetings (as well as prior to and after the meetings), it had limited impact on the processing of the investment proposals, which were strongly supported by the DED and ED. The EAC+ mainly consisted of senior management members who later formed the SLT. Furthermore, the DED was a member of the SLT and similarly a direct supervisor of the SLT members, except for the ED. Within the larger UNOPS internal governance structure, most of the reporting lines led to the DED, with the DED then reporting to the ED. Only IAIG, Ethics, Communications and a few other (non-operational) units reported directly to the ED.



Based on KPMG’s understanding, the actual governance structure during the time when most of the S3i investments were made was as follows:



**Figure 3: Actual governance structure for S3i during 2018 – April 2021**

As part of external consulting work in late 2016, a proposed operational model for the newBU was delivered. The newBU was planned to manage the impact investment activities. In the proposal, the newBU would be an integrated unit under UNOPS’ Executive Office, working with UNOPS’ functional groups and offices through established agreements. The suggested governance structure, including the Board, Advisory Council and Investment Committee, is presented in Figure 4 below. The presented model would have provided more effective segregation of duties and oversight structures. However, the proposed plans for the newBU were never realised, and the creation of a dedicated business unit for S3i was pending until 2019 and the actual team starting in early 2021.

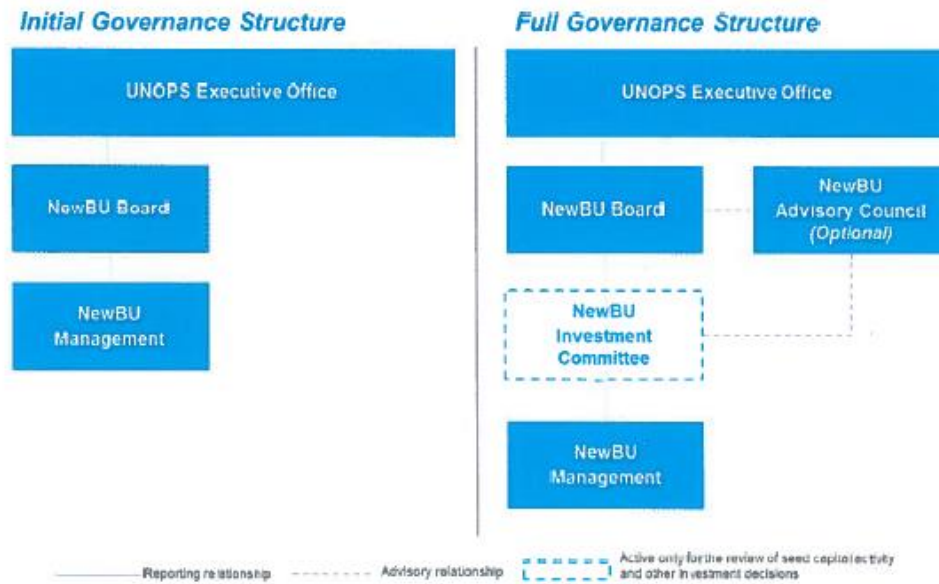


Figure 4: Plans for the NewBU Governance Structure

### 3.2.2 S3i Office, Team and Organisational Structure (from 2021 onwards)

In early 2019, the Finnish government confirmed its commitment to support S3i and the opening of an office for the initiative in Finland. On 5 July 2019, UNOPS signed a Host Country Agreement with Finland, which is the basis for setting up an office for S3i in Helsinki.

The S3i team officially started in Helsinki in January 2021, with some of its members beginning work already in November 2020. However, all of the S3i investments had been already authorised and disbursed (except the India Solar Project) prior to 2021.

On 12 October 2020 the DED was appointed Chief Executive for S3i. It should be noted that no replacement of the DED position for UNOPS took place, which reason was not found available documented for our review.

The team was led by the S3i Chief Executive (CE), previously the UNOPS DED, who reported to the ED. There were five units under the CE: Investment Operations (led by Director, Infrastructure Investment Partnerships), Global Innovation (led by Head, Global Innovation), Risk, Legal & Compliance, Communications & Government liaison and Management. The team comprised of 11 members working under Individual Contractor Agreements (ICAs). The majority of team members (9 out of 11) were new hires of UNOPS and thus did not have institutional knowledge of UNOPS' ways of operating. Additionally, there was unbalanced authority between the CE at the ASG level and the S3i team, whose highest level was ICA-4. The S3i CE did not delegate authority to the S3i team members. Based on our understanding, there was a lack of orientation and onboarding organised for the S3i team members to familiarise them with UNOPS' frameworks and practices. At the time of this report, four senior positions including Head of Legal, Global Innovation Head, Communications & Government Liaison Manager, and Finance & Operations Manager are vacant. The establishment and set-up highlight that

S3i was not planning to use existing UNOPS’ expertise in project management to conduct its activities as, for example, separate legal and compliance and communication positions were being set-up.

Based on KPMG’s understanding, a document called the S3i Management and Process Framework (approved by the ED in February 2020) was the first official document describing the organisational structure of the S3i Office. In the Framework, the structure is defined as follows: *The S3i office is a dedicated, integrated entity within UNOPS’ existing organisational model, but operating separately and independently (de-facto subsidiary) from the other UNOPS offices and services.* The S3i office was expected to operate autonomously within the UNOPS structure for a major part of its work, but with appropriate interaction with the SLT and broader UNOPS as necessary. Based on our interviews, there were only a few interactions between the S3i office team members and UNOPS’ HQ or regions and to a large extent the S3i office operated independently.

The governance structure for S3i is defined in S3i Guidelines for Operations (October 2020). Based on the Guidelines, the ED sets the general impact investing strategy and investment policies, which are the parameters within which S3i can develop investments. The ED has the ultimate supervisory role and oversees the implementation of investment and risk management policies, the execution of the budget and monitoring of overall policy and operations compliance. The ED can delegate decision-making on individual investment proposals within a set framework to the S3i CE. The CE is responsible for the implementation of the strategy, policies, individual investment proposals and the management of the S3i portfolio. There was an external Advisory Group on Investments for S3i (AGI) formed in 2021, whose mandate was to report to and advise the S3i CE on S3i investment proposals. The actual governance structure of S3i (starting in 2021) is illustrated in Figure 5 below.

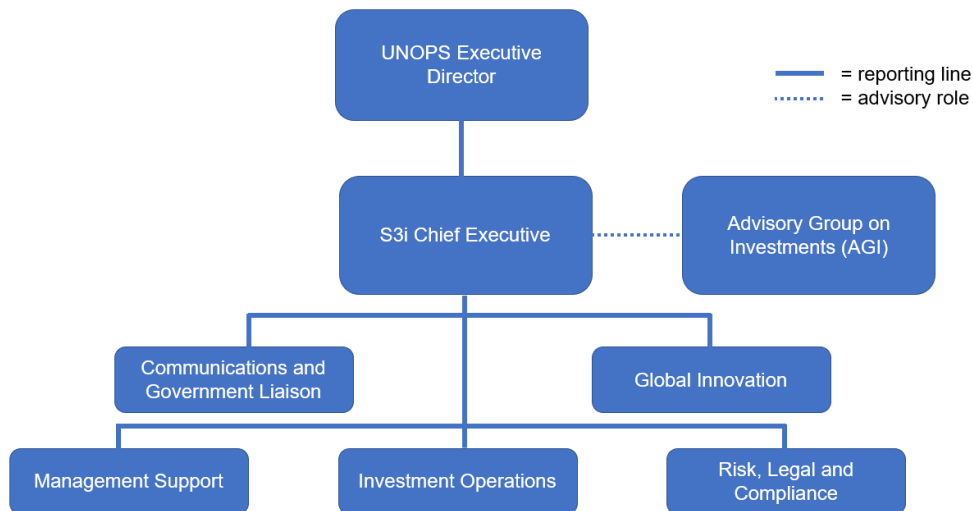


Figure 5: Governance structure for S3i during May 2021 - April 2022



The AGI was formed to assist the S3i CE on policy development, pipeline development, review of investments, portfolio performance, evaluation, sector strategy and innovation. Based on its ToR, the members of the AGI are selected by the S3i CE, who designates one of them as Chair. However, the appointments are subject to concurrence by the ED. In its initiation, the AGI consisted of 11 external impact investment and financing professionals with different geographical and sectoral backgrounds. We reviewed documentation related to the meetings of the AGI. The minutes of the meetings underline the advisory role of the Group. The AGI met for the first time on 28 May 2021.

We find that the AGI could have played a professional investment committee role. They were envisioned to have a role as a committee that endorses decisions, but the role was quickly underplayed due to the on-going S3i reviews and investigations. Many of the members joined the AGI to support a good cause. They were able, in a comparatively short time, to highlight the risks and challenges of the S3i business model and point out opportunities for improvements in the short and long term.

### 3.3 Segregation of Duties

Based on UNOPS' Financial Rules and Regulations' Rule 5.02 from 2018, there shall be a segregation of duties between personnel who may enter into commitments on behalf of UNOPS and personnel who may verify that payments be made on behalf of UNOPS.

Since 12 October 2010, the DED was delegated the authorities of the UNOPS DED, Chief Operating Officer and Executive Chief Procurement Officer. The delegation of authority (DoA) included wide authorities relating to HR, financial management, procurement, engagement acceptance, ICT, security, release of internal audit reports, dispute settlement, and approval, sign-off and authorisation of transactional nature in the ED's name. In conclusion, the DED had significant authorities to approve and authorise transactions on behalf of UNOPS during his time as the DED and had significant authority towards the Finance Group.

In February 2020, the DED was delegated the authorities of the S3i CE, which superseded the previous DoA. The new DoA included S3i-related procurement, HR management, engagement acceptance and project closure and dispute settlement. However, some of the DED DoAs were terminated in UNOPS' finance system only during September/October 2021, seven to eight months after the earlier DoA had been revoked.

Although the Financial Rules and Regulations (FRR) do not fully reflect the multi-stage process for development financing, KPMG notes that the requirement for the segregation of duties was not followed in S3i. The DED/CE was strongly involved in preparing, negotiating and entering into contracts on behalf of UNOPS, resulting in obligations for disbursement of resources. Simultaneously, the DED acted as the de-facto verifying officer as he authorised the payments against UNOPS' resources. Furthermore, the DED/CE controlled and was in a key position in the entire chain of activities from partner identification and deal negotiation to monitoring and reporting of the activities. The only segregation of duties in the investment process in relation to the DED's role was provided by the ED and the EAC+. The EAC+ assessed and endorsed the investments for the ED's approval. However, as mentioned earlier, the EAC+ structure was not effective due to the DED/CE's supervisory position towards all EAC+ members.



The organisational structure with limited segregation of duties did not completely fulfill the FRR Rule 5.01, under which the ED shall maintain an internal control mechanism that shall provide effective and efficient examination and review of financial, management and operating activities.

### 3.4 Policies and Procedures for S3i

The S3i-specific investment policies and frameworks that had been developed with the support of an external consultant were not in place when the investment decisions and contracts were made (with the exception of the India Solar project in 2021).

The DoA given to the S3i CE on 29 February 2020 describes the legal instruments applicable to S3i as follows: 1.1) UN instruments applicable to UNOPS, 1.2) Executive Director Principles (abolished in Aug 2022), 1.3) Executive Office Directives (EOD) and Instructions (EOI), to the extent that the latter are not superseded by 1.4 below, and 1.4) special policies issued for S3i. Additionally, it states that UNOPS' Operational Instructions (OIs), Guidance and Informational Documents will apply to S3i to the extent they are not superseded by any S3i-specific policy document. This is contradictory to UNOPS' Legislative Framework, based on which the Executive Office Directives and Executive Office Instructions form the highest category of instructions, followed by Operational Directives (OD) and Instructions (OI), and later Guidance and Informational Documents. Based on the Legislative Framework and promulgation requirements, KPMG understands that the S3i policies fall into the category of 'guidance and informational documents'. Therefore, putting the S3i policies higher than EOIs is not in-line with the legislative hierarchy as described in UNOPS' EOD on Legislative Framework.

Based on the minutes of the SLT on 26 April 2020, the SLT agreed on "*the importance of finalising the S3i EOD and the incorporation of all S3i related policy and guidance documents into the Legislative Framework Committee*" and "*that further clarification of the criteria and formula for allocation of resources for S3i is required, and that an EOI regarding the Growth & Innovation reserve is to be finalised by Finance Group.*" However, neither the EOD nor the EOI were ever promulgated, as the DED did not initiate the policy development during the proof-of-concept period of the S3i.

The following manuals have been created for the S3i. The manuals are to a large extent based on the external consultancy work carried out in 2016. However, the manuals were completed only after all SHS financing facilities had been approved and funds disbursed. The policies were prepared prior to the full S3i team starting in January 2021 but, based on interviews, the S3i CE did not continue to develop the policies during 2021. The S3i manuals include:

- S3i Management and Process Framework (dated February 2020, 13 pages), laying out the S3i overall management roles and accountability and the stages in the investment management process. The document Annex includes the principles and parameters for the S3i proof-of-concept period.



- S3i Due Diligence procedures (dated February 2020, 9 pages), laying out the process of evaluating prospective investment deals across five categories (political and economic feasibility, constructability, financeability, development impact and partner vetting) and the potential roles of internal and external parties in conducting due diligence.
- S3i Office Partnership Policy (dated February 2020, 7 pages), laying out how the S3i office should consider and potentially enter into strategic engagements with core partners. The policy includes definitions of types of partnerships, partnership principles, partner selection, partner vetting and approval of agreements.
- S3i Guidelines for Operations (dated October 2020, 25 pages, taking effect as of 1st November 2020), laying out the investment principles and process, the relationship between UNOPS and S3i and the key organisational features, the portfolio and risk management, the partnership approach and the funding framework. These are further detailed in the six annexes to the Guidelines for Operations.
- Operational Instruction for the S3i on asset valuation, promulgated by the S3i CE on 23 November 2021. The OI provides instructions regarding the process of valuing invested assets in the S3i portfolio and provides instructions regarding the roles of internal and external parties in conducting S3i asset valuation.

Based on KPMG's review and interviews, the above policies provided a solid basis for the S3i operations. However, there has been room for further development of these manuals and policies in order to fully guide the various steps of investment processes. However, the DED never initiated this type of development work to be conducted by the S3i team.



## 4 Partner Selection and Decision-Making Process

### 4.1 Partner selection

Based on our review, the partner selection process for the investments under S3i lacked transparency in many areas and a comprehensive due diligence. UNOPS has a full set of administrative and financial rules, but the selection process of S3i partners did not follow all of these procedures.

Based on interviews, the DED was actively reaching out to stakeholders in the investment space, including investors, foundations and project developers prior to the selection of key partner for S3i. However, the broader management (including the COG) and UNOPS staff had a minor role in this engagement. The geographical expertise and technical capabilities of UNOPS were also not being effectively utilised in the impact investment formulation and screening of partners. Prior to the selection, there were limited concrete results from the planning efforts and consultations with investment stakeholders. UNOPS management, which was in-charge of driving forward S3i, had not been able to identify clear added value or complementarity that the agency could bring to the investment market or appropriate partners with which to cooperate.

Based on our interviews, the DED initially had some contacts with UNOPS' personnel in local offices relating to finding impact investing possibilities. Some regional personnel conducted site visits to potential partner sites, but those investments never materialised and these activities ceased before the 2019 financing decisions were made. This led to a situation where local structures and knowledge were not utilised effectively, exposing UNOPS to increased local operating, environmental and reputational risks. The regional personnel were not provided information on the selection and decision-making processes of S3i partners and investments. Discussions with local stakeholders were conducted by S3i personnel, which in practise meant mostly the DED and at times the Social Impact Investment Specialist.

The preparatory actions in relation to the selection of SHS as a key partner for S3i were not transparently and more broadly discussed within UNOPS. The plan to partner with SHS through a platform approach was officially presented in the EAC+ meeting on 18 January 2019.

Based on our understanding and the EAC+ meeting minutes, one of the key reasons justifying the decision to partner with SHS in the housing projects was the Baupanel technology (patent owned by the SHS). In the EAC+ meeting in January 2019, the DED highlighted this as a globally recognised technology. However, based on multiple interviews, there is no indication of a competitive selection process for the technology, or a documented comparison of housing technologies in the market. It appears that limited technical due diligence was conducted despite UNOPS' strong expertise in infrastructure. Additionally, no analysis of the construction materials, including local availability and sustainability, was found available during our review. No full feasibility studies of the concepts were available or found to have been conducted prior to the investments.

Concentrating investments through one platform was justified by the ED to the EAC+ by noting that Development Finance Institutions apply a similar platform approach as that envisaged for SHS in the cooperation with UNOPS. In the earlier planning stage (in 2015





and 2016), suggestions were made that a fund manager would be hired to manage a portfolio of UNOPS' impact investment projects and the ED's comment could be seen as a reference to this. However, no documentation was provided to the EAC+ or for our review that would demonstrate a SHS track record in managing an impact investment portfolio. The idea of diversifying the risk by investing in different countries and sectors through one platform, as presented by UNOPS' management, ultimately led to the pooling of risks to a single group of associated entities.

EAC+ members raised key concerns prior to the 2019 investments related to the significant exposure of one partner, limited due diligence on individuals involved and commercial potential, operational capacity of the partner, no collateral on the loans, and reputational risks, as well as and UNOPS' capacity for implementing projects in four countries simultaneously and possible challenges with the allocated land (provided by the local governments). Based on the EAC+ meeting minutes, the DED justified SHS as being the best partner for UNOPS by referring to proven technology, network of contacts in business and politics, ownership and/or access to land in a number of locations, and access to significant financial resources. However, there were limited documents to support these justifications available for our review. The concerns raised by the EAC+ members were not fully addressed, mitigated, or resolved before the investment decisions were endorsed and approved by the ED.

## 4.2 Investment decision-making

The first concept and operational models for impact investing were developed together with external support as early as 2015. Some aspects of the initial concepts and models were taken into use, but many oversight and segregation of duty elements were not implemented. This led to a situation where S3i investment decisions were done without an investment policy framework in place or decision-making processes established.

The plans for impact investing highlighted that UNOPS needed to strengthen its organisational capacity before venturing into this sector. However, limited investments in people or processes were made prior to making the first significant investment decisions. The envisioned objectives were ambitious compared to UNOPS' track record and capability to deliver on investment activities. Due to this limited capacity and experience in similar investment arrangements, it appears that the management did not fully take into account the risks involved.

To support S3i decision making, the ED convened meetings with select members of the COG and named them the Engagement Acceptance Committee+ (EAC+). The members of the EAC+ all reported to the DED, who was also a member of the EAC+ together with the ED. No technical experts or investment professionals were included in this committee. There was a lack of segregation of duties in relation to the decision-making process. The DED, who had led the development of the investment projects, also presented the projects to the EAC+, was a member EAC+ and signed the financing contracts after the ED approval. A perception of urgency was created around the preparation and investment decision process. Combined with the described culture of fear and lack of an investment framework, this contributed to a weakened environment for decision-making.



Based on the ED's decision, the EAC+ was formed in order to function as a review panel on S3i investments. The meetings on 19 March 2019 and 7 October 2019 were referred to as EAC+ meetings although no official ToR or official mandate for the EAC+ was established (18 January 2019 meeting was referred to as a S3i EAC meeting). Based on our understanding, the EAC+ operated under a similar mandate as the regular EAC, although the mandate of EAC+ was unofficial. The mandate of the regular EAC is to review engagement agreements with a high-risk profile as well as framework, collaborative or teaming agreements that may have potential organisation-wide consequences. EAC is not a decision-making body itself, but it makes recommendations to the ED. All the EAC+ meetings were chaired by the ED and the DED presented the investments to the EAC+. The ED, who holds the decision-making authority, made the investment decisions based on the endorsements of the EAC+. However, the proposed investments were brought to the EAC+ without alternative suggestions or a clear view of the investment proposal preparation process or investment pipeline.

The EAC+ had a role mainly to discuss and endorse the proposed S3i investments and did not have a mandate or responsibilities to oversee the investments after they had been approved. In some later EAC+ meetings, the DED presented S3i status updates but the monitoring was not systematic nor was it a mandated role of EAC+.

The key EAC+ (or S3i EAC) meetings in relation to S3i are presented below:

- In August 2018 a loan facility of USD 8.8 million to WWRE for the Monterrey Wind Project was endorsed. Prior to this, USD 900,000 had been paid in February 2018 as an advance payment to cover due diligence related costs in February 2018.
- In January and March 2019 investments of USD 30 million in the form of a loan facility to SHS and related companies were endorsed and finalised. This included USD 15 million to social housing projects in Kenya, Ghana, India, and Antigua and Barbuda, and USD 15 million to a renewable energy portfolio.
- In October 2019 an investment of USD 20 million in the form of a loan facility to an SHS housing project in Pakistan was endorsed.
- In October 2020 an investment of USD 4.2 million to a solar power plant project in India with a DFI and private solar developer was endorsed.

In total of USD 58.8 million of loan facilities were provided and disbursed to SHS and its related and/or affiliated entities based on the EAC+ decisions. The total investment decisions amount to USD 63.0 million.

The materials provided to EAC+ included internal submission forms (except for the Monterrey Wind Project for which a different type of material was provided), impact scorecards and some other supporting documentation. These provided a summary of the proposed investment and its expected impact. However, in KPMG's view, the submission forms lacked fundamental information of the project structure, governance, risks and financing.

Limited expertise within the EAC+ and deficiencies in the segregation of duties led to limited due diligence and vetting procedures performed on the investment partner and investment projects. As an example, interviews and available material indicates that EAC+ did not receive appropriate documents related to the financial model nor an



analysis of the financial model for the housing projects, which comprised USD 35 million of the investments made.

Additionally, limited information on potential engineering partners, project managers, and construction partners was provided as part of the proposals. The other materials provided to the EAC+ were not standardised and the quality varied significantly. No pitch decks were presented to the EAC+ outlining the possible financing structures.

Based on KPMG's review, there are many unclear items in the EAC+ submission forms. All the submission forms referred to UNOPS and SHS being in advanced discussions with multiple potential funding partners and the outlook for funding looked very positive, however there is no detailed information about these partners and the amounts of possible financial contributions. As the financing from these potential partners has not materialised, it remains unclear what information this optimistic outlook was based on at the time it was presented to the EAC+. The submission forms seem to be missing coherent and detailed descriptions of how, when, why and where the loan capital would be used.

The EAC+ decision minutes endorsed the investments (in some cases the wording was "unanimous in favour of the investments"). However, the meeting minutes and emails indicate that some EAC+ members presented questions prior to and during the meetings, as well as flagged key risks for consideration in the meetings. The questions were addressed in the meetings or separately discussed in emails afterwards. However, the concerns and risks addressed were not fully resolved in most cases. KPMG's interviews indicate that some of the EAC+ members noted that they did not have expertise in impact investing and therefore did not have the capacity to professionally assess the investment proposals. However, it should be noted that none of the EAC+ members recused themselves from the endorsement process of the EAC+.

In early 2019, concerns were raised by EAC+ members in relation to, among other issues, the concentration of all investments to SHS and related companies, the lack of guarantees requested and the operational capacity of the partner and UNOPS (see section 4.1 for other concerns raised by the EAC+). There were some efforts by the EAC+ members to get clarity on and to mitigate these issues. As an example, an assessment of the family relations between individuals involved in SHS and WATO was done and plans were drafted on how to mitigate the potential reputational risks to UNOPS arising from the close relationships.

However, these concerns that were noted in the investment preparation and due diligence process were to a large extent disregarded, and final financing decisions were made on 22 March 2019. As a mitigating measure, instead of the USD 50 million financing that was initially planned in January 2019, the EAC+ recommended investing USD 30 million in the form of loans into five projects (with a commitment of up to USD 50 million). The full disbursements of USD 30 million were made immediately after the contracts had been signed.

UNOPS took significant financial and reputational risks with the commitments for sustainable housing although the concept was merely at piloting stage. Together with the governments of several partner countries, UNOPS committed to constructing 760,000 houses in five countries (with financing contracts signed), which would have required total investments in the scale of USD 20 - 50 billion. (The investment value is based on an average cost of USD 25,000 – 50,000 presented in the submission



documentation, which has not been verified or thoroughly vetted by UNOPS.) With an average household size of five people, the projects would have created houses for 3.8 million people. Publicly, UNOPS had committed to sustainable housing in seven countries with a total of 1.3 million houses.

### 4.3 Risk Management

UNOPS' FRR set the baseline for the risk management responsibilities. Accordingly, the ED shall maintain a risk-management system to manage and control financial and other type of risks including the identification, evaluation, and measurement of possible impact on UNOPS, and the selection and maintenance of various solutions to mitigate risk. In addition, the heads of UNOPS' business units shall, on an annual basis, define their major risks and business opportunities, and risk appetite and risk tolerance shall be defined periodically based on the changing business environment.

The projects that UNOPS was investing in under S3i included a wide range of risk areas including financial, legal, reputational, political, social and environmental etc. The scale of the planned projects was significant. However, no structured risk review considering these various elements was found to be conducted prior to committing UNOPS' funding and disbursing the funds to SHS and related entities. Based on our assessment, this was a weakness that can be associated with the failures in the S3i process.

Based on our review procedures, we could not find evidence that there has been a systematic risk management in place for the Monterrey wind farm, housing or the renewable energy portfolio investments. Some risks were raised and discussed in the EAC+ meetings, but the handling of the risks has not been systematised nor has there been documented risk assessments to support the decision-making. Additionally, the risk appetite or risk tolerances for the S3i investments were never clearly defined, although it is indicated by the EAC+ meeting minutes that taking risk in relation to S3i was needed. Similarly, a systematic approach to risk mitigation and monitoring of risks was not found to be implemented.

For the India Solar Project, which was the first and only investment managed by the S3i team in Helsinki according to interviews, there are indications of a more systematic risk management. Based on the documentation, the S3i team has prepared monthly risk reports for the investments in 2022 and held monthly internal risk discussions based on the risk reports. The risk reports indicated that the team had identified a number of risks (a total of 39 – 43 risks) in the field of construction, environmental, social, legal/regulatory, supply chain, strategic/partnering, land, financial markets, governmental and force majeure. Additionally, the risks were discussed in weekly meetings with the co-investor and project developer.

In KPMG's view, the ED and the DED, who were driving the S3i initiative forward, have not followed the UNOPS' FRR in relation to risk management. There were significant deficiencies in the incorporation of risk management into the S3i investment decision-making process and the impact investing modality as a whole.



**Third-party review of effectiveness of the UNOPS oversight mechanisms for  
Sustainable Investments in Infrastructure and Innovation (S3i)**

**UN Office for Project Services**

**28 November 2022**



## 4.4 Due Diligence

The limited experience in processing the investment cases led to limited due diligence performed on the investment partner and investment projects. Based on our understanding, no structured approach to perform due diligence (DD) procedures for the S3i investments was taken by UNOPS.

During the time of the potential S3i partners' review, the DD procedures conducted by UNOPS for investment partners were not standardised and the team had limited methodology, tools, workpapers or checklists to document the procedures performed. As a result, the DD work requests and conclusions were not clearly documented. Instead the requests were communicated through emails in an unstructured format and conclusions are in some cases only available in the form of emails. Thus, KPMG could not retrospectively verify the full extent of the DD procedures on potential S3i partners. During the time of the S3i-related DD work in 2018-2019, the OI for the DD was only being operationalised. Based on KPMG's review of the OI, the DD would provide a general background of the company and its ownership but would not constitute a full legal DD that would cover a review of legal obligations and rights of the partner, ownership structures and organisational documents etc.

Based on information available for our review the Legal Group performed some DD procedures for the key partner SHS, with the focus on reputational DD procedures. The Legal Group obtained and reviewed company registration documents, did a search on company directors and a review of media reports. No financial DD was performed by the Legal Group. Based on documentation available, the financial DD procedures for SHS and the investment projects were limited to a review of financial statements. However, this review procedure provided limited conclusions as the entities under review had been fairly recently established. Based on the documentation that was available for the KPMG review, a full financial, business and technical DD has not been conducted for the SHS housing projects and renewable energy portfolio investments. The limited DD procedures can be considered as a deficiency in UNOPS' S3i investment process.

The Baupanel technology from SHS was presented by the DED as unique and affordable, but a complete technical due diligence on the technology or feasibility studies of the concept by designated expert teams were not found to have been conducted, despite UNOPS' strong expertise in infrastructure. Overall, limited documentation on technical due diligence was available for our review.

The reputational DD procedures that were conducted for the SHS housing projects in Antigua and St. Lucia highlighted risk areas for further investigation (with reference to media reports from 2014 and 2016). Another observation from the DD was that the selection method of sole-sourcing with SHS required particular attention. KPMG did not obtain clear documentation on the justification for the sole sourcing.

In addition to the more formal DD procedures, a standard DD process usually includes interviews with key management, directors and owners of a partner organisation. Based on interviews there were discussions between UNOPS and SHS. SHS directors also visited UNOPS Headquarters in Copenhagen and met with UNOPS top management.



Interviews indicate that on a general level communication was mainly between SHS and the UNOPS DED. The broader EAC+ membership had limited involvement in this communication.

In the Monterrey Wind project and India Solar project some external due diligence support was utilised. The due diligence performed on the Monterrey Wind project appeared to include certain legal and technical DD procedures but, based on the material available, the DD procedures do not cover all relevant aspects. For example the legal DD reports only provide an opinion from the viewpoint of governmental permits, licenses and contracts for the project, not the company and related governance. The documentation and EAC+ minutes seem to indicate that one of the big global audit firms performed financial DD but this cannot be verified based on the available documentation. No memo or statement by the audit firm on the financial due diligence was found available.

For the India Solar Project, UNOPS was a minority investor and joined the DD sourced jointly by the equity investors and procedures done on behalf of UNOPS. Due diligence procedures were performed by external parties covering areas such as integrity, legal, technical, financial and tax, ESG and land. Some of these DD reports were in draft stage at the time of the EAC+ meeting in October 2020. These reports are considerably more comprehensive than the procedures on all other S3i investments.

## 4.5 Red Flags and Risk Alerts

Prior to any investment being made, gaps, risks and red flags were identified by UNOPS. Based on our review procedures we note that UNOPS has identified a number of red flags as part of the S3i investment timeline. The red flags in relation to the S3i activities were identified and reported at different times and at different organisational levels by UNOPS and its oversight bodies. The red flags were brought to the attention of the EAC+ including the ED and DED (especially prior to the investments in 2019) and to a certain extent to the oversight functions. However, the UNOPS management and oversight functions did not effectively act on these warning signals. Risks were also highlighted by the EAC+ members, but ultimately decisions to proceed with the investments, as presented by the DED, were endorsed by the EAC+.

A whistleblower complaint was made in early 2019 on the S3i arrangements. The complaint highlighted many of the risks that materialised later on, including investing in one partner without any competitive vetting process and limited due diligence.

One red flag that was observed early on is that members of the same family were associated with both SHS and WATO. WATO had received a USD 5.0 million grant from UNOPS in February 2017, of which USD 3.0 million was disbursed in a single payment after the Memorandum of Agreement (MoA) was signed. A new MoA was prepared with Oceans Generation in November 2018 continuing the grant implementation activities of WATO, and the remaining grant of USD 2.0 million was transferred to the new MoA. Only USD 0.3 million of that grant was utilised and in 2019 Oceans Generation terminated the MoA and returned unused funds. UNOPS observed challenges in the early stages of the WATO grant implementation, including what UNOPS has referred to as an unexpected



need to create a new entity, Oceans Generation, to continue the implementation of the grant activities in 2018.

UNOPS did not require WATO to provide complete audited financial statements including income statement, balance sheet and notes. It can be noted that UNOPS, as part of the financial monitoring activities, accepted an audited statement of receipt and disbursements of WATO as of December 31, 2017, not containing any notes.

The below Figure 7 highlights some of the red flags that were noted in the S3i process. The events are described in this and later sections of the report.

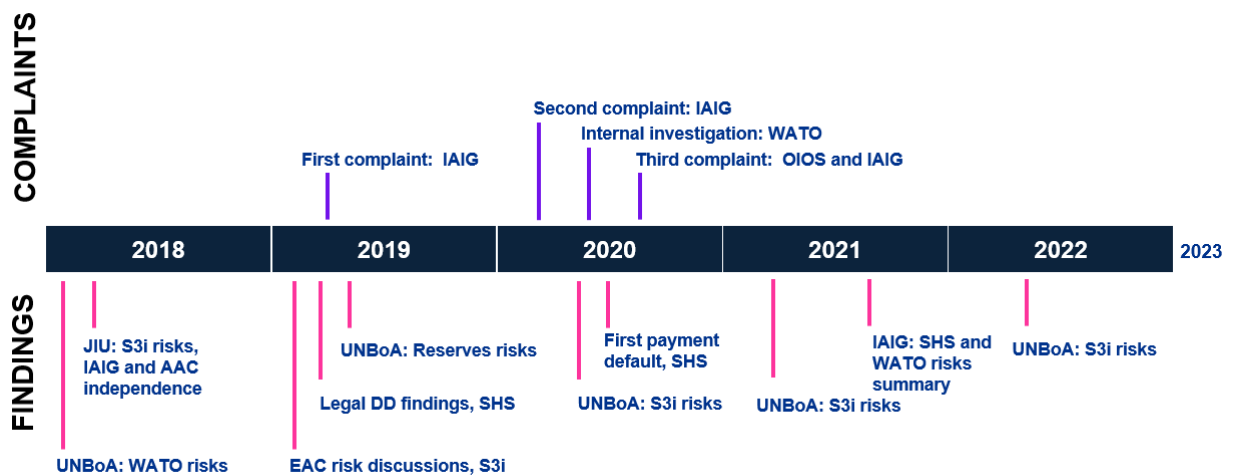


Figure 6: Timeline of red flags regarding S3i

## 4.6 Contractual arrangements

The contractual setting for the housing projects follows the structure below:

1. Memorandums of Understanding (MoUs) between UNOPS and the respective Governments. Bilateral MoUs were entered with Kenya, Ghana and the Indian states of Goa, Maharashtra and Haryana. In the MoUs, UNOPS commits to assist in the development and implementation of social and affordable housing projects.
2. Tripartite Agreements between the respective Government, UNOPS and SHS. Tripartite Agreements were entered in Kenya, Ghana and Pakistan. However, it should be noted that the Tripartite Agreement in Ghana was signed 10 December 2018 and the Tripartite Agreement in Pakistan on 31 July 2019. Both are prior to the EAC+ meetings where the UNOPS investment in these projects was confirmed.
3. To operationalise the above, UNOPS entered into Facility Agreements with SHS. All Facility Agreements followed a similar structure and stipulated in more detail the multiple covenants and obligations towards UNOPS. The Project Development plans are Annexed to the Facility Agreements, which provide some general information about the schedule of the projects.





UNOPS and SHS concluded an MoU on 22 March 2019 to support the collaboration towards designing and developing projects in sustainable social housing, renewable energy and healthcare. Based on the MoU, UNOPS may take on a paid operational role, including a project management and oversight role. The MoU includes a provision on mutual collaboration, such as convening meetings at regular intervals and the possibility of each party to send observers to meetings and conferences. Additionally, the MoU includes a provision that UNOPS may conduct audits and/or investigations relating to any aspect of the MOU and/or each Facility Agreement.

Later in March 2019, UNOPS and SHS signed a supplemental agreement to MoU, which confirms that UNOPS is allocating an unsecured USD term investment facility of a total principal amount up to USD 50 million of which a payment of USD 30 million will be made subject to Facility Agreements. The Agreement states that such amount will be paid by UNOPS to SHS. UNOPS did not choose to mitigate the risk by i.e., making a disbursement in tranches or against defined milestones.

It is our understanding that a sense of urgency was created in the preparation and drafting of the S3i agreements. Based on interviews and emails reviewed, the DED wanted to proceed with the arrangement and get the agreements signed as soon as possible. UNOPS had limited previous experience of impact investing, and thus also in the drafting of the contracts needed for S3i.

The India Solar Project was not part of the SHS-portfolio. The project set-up differed from the earlier housing projects and followed a more standardised investment process. The parties of the deal included a development finance institute, a local project developer, a local infrastructure loan bank. However, the additionality of UNOPS in the investment process was potentially limited due to the already established set-up and status of the financing deal, when UNOPS joined the process.



## 5 Management and monitoring

### 5.1 Control Mechanisms

At UNOPS, internal control and management control environments establish the first and the second lines of defense in their application of “Three Lines of Defence Model”. These include mechanisms such as an internal control framework, contract and partner engagement management, planning and budgeting procedures, quality management and assurance, results and performance, and risk management. Based on our review, these mechanisms were to a large extent not followed in S3i processes and/or were not utilised effectively in a significant financing arrangement.

For project management and tracking, UNOPS uses the oneUNOPS Projects (oUP) system that has an interface with the oneUNOPS (oU) enterprise resource planning (ERP) system. As part of UNOPS’ project management procedures, all engagements have to be created in oUP prior to the signing of an agreement with the partner. Once the engagement is approved via the Integrated Practice Advice and Support engagement review in oUP, the project is also opened in the oU ERP system and the funding can be allocated to the specific project. For UNOPS’ regular engagements, the oUP system enforces the UNOPS control framework via system-based controls. However, as the oUP is specifically designed to manage UNOPS regular projects, it was not fully compatible for the S3i portfolio of loan facilities. As a result, the S3i investments were not recorded in oUP. Thus, there was no system-based controls framework in use for the S3i investment portfolio.

The S3i investments were recorded as loans under the administrative/corporate budget side of the oU system. A specific project code was opened for S3i at the administrative side. However, the administrative side does not have a system-based control framework.

Payments under the S3i were to a large extent executed based on requests of the DED. The personnel in charge of processing the payments were all under the supervision of the DED and he had the mandated authority to request the payments.

We observed some gaps in the payment documentation related to the S3i investments. As an example, an advance payment in relation to the Mexico wind farm project was made for the purposes of due diligence reviews. No full contract was found available supporting the USD 900,000 prepayment. The advance was partly cleared based on an invoice made to the Monterrey wind farm. However, the full track of the advance clearance cannot be verified based on the documentation we received during the review.

Based on our understanding, any reporting from the SHS and related entities has been submitted to the DED and the progress and financial monitoring of the deals was to a far extent conducted by the DED. The Chief Financial Officer (CFO) performed some financial reviews prior to and during the period of the investments. However, the scope, purpose and conclusions of the work performed by the CFO remain unclear based on the information available for our review. Thus, there were deficiencies in the set-up of the monitoring and the process was not effective, making it difficult to react to challenges in the projects early on.

To date, the loan principals of the S3i loans remain largely unpaid. Several notices of payment have been issued. Since May 2022, the recovery efforts have been led by the UN Office of Legal Affairs. At the time of the reporting, SHS and related entities have made repayments in total amounting to USD 6.2 million.



## 5.2 Reporting

S3i was included in key UNOPS external and internal reporting. Based on our interviews it seems that the reported information was largely controlled by the DED and there was no effective control mechanism in place to verify the accuracy of the reporting provided by the DED. Also, the reporting was limited and not fully transparent, especially in relation to addressing risks identified as part of the S3i timeline and implementation. The S3i procedures were further separated from UNOPS starting from 2021 onwards when the office in Helsinki was set up and the information flow between the S3i office and the UNOPS HQ was largely controlled by the DED.

### *External reporting*

The results of S3i were reported as part of UNOPS' annual reporting and there was no specific reporting for S3i until mid-2021. S3i was briefly covered in the UNOPS annual reports during 2019-2021, and prior to this as a 'social impact investing initiative'. However, there were few substantive results to report, and the reporting mainly provided a short introduction to S3i and a listing of S3i's commitments in the various countries. Based on interviews, the information incorporated into the annual report was mainly provided by the DED.

The S3i team has issued two annual reports to the Ministry for Foreign Affairs of Finland (MFA): one in June 2021 (covering the year 2020 and the first quarter of 2021) and one in May 2022 (covering the period of January 2021 – May 2022). The reports provided an overview of S3i, project specific information on the investment portfolio, and a financial report on use of the Finnish MFA grant. However, the 2020-2021 report does not address the identified risks S3i was facing at the time of the reporting and about which the management was aware. The United Nations Board of Auditors (UNBoA) had flagged risks due to S3i and loan provisions as part of its audits in 2019 and 2020, but this is not noted in the 2020-2021 annual report. Also, SHS, which was a key partner and had received the majority of the loan funding, is not specifically mentioned in the report. The 2021-2022 annual report, submitted in May 2022, noted challenges including the removal of the S3i CE, the OIOS investigation, the halting of new investments, defaults in the S3i portfolio, and the UNBoA observations.

### *Executive Board*

The EB has received information about the developments of the S3i initiative over the S3i timeline. The EB has received information through normal annual reports, speeches, audit reports, additionally requested reports and through informal discussions before and after EB meetings. The reporting on S3i activities was not fully transparent in addressing and disclosing risks that were already known to management in 2019 and understood more clearly in 2020. The EB endorsed and encouraged the ED to pursue a role for UNOPS in the impact investing space.

The level of detail reported to the EB between years 2017 and 2020 was, according to our review, at an expected level despite being general. More detailed reporting followed in 2021 and 2022 after the investigations into S3i had started. Deliberations and discussions following the reporting to the EB remains at a general level due to the wide agenda of the meetings. The ED reported to the EB about the expansion of the Social



Impact Investing initiative with the goal to work with the private sector to expand resource-base in connection with the annual meetings of 2016 and 2017. This objective has been repeated in every report since then. UNOPS identifies housing, renewable energy, and water and sanitation as priority sectors for investments in the 2017 annual report. The Mexico wind project and the agreements with the Governments of Kenya and Ghana for social housing are mentioned in the 2018 report, dated 29 March 2019.

In 2019, the ED gave a speech at the Annual Meeting and reported that hundreds of thousands of homes will be constructed in developing countries and that there were several renewable energy investments to be closed in 2019. In the Annual Meeting held 3 June 2020, the ED announced the cooperation with Finland and further highlighted the housing project commitments. UNOPS reported to the EB about the situation with the net assets of the organisation in relation to the 2020 Annual Meeting. In the report, it is stated that “All UNOPS investments have strict oversight requirements in place within established investing frameworks, reported annually in the UNOPS financial statements.”

According to our review, some of the facts stated in the speeches and in the reports between years 2019 and 2020 are not fully accurate and do not reflect the information and identified risks that are available as part of the S3i timeline.

This pattern continued going forward. At the 2021 Annual Meeting, reporting on S3i did not correctly reflect the underlying DD and selection procedures. The ED addressed the Board on 11 June 2021 in the Statement to the Annual Session and highlighted S3i achievements, including the establishment of the innovation and growth reserve as well as the investments made that accumulate to USD 58.8 million. The ED explained that the Secretary-General had appointed the UNOPS DED as the new Head of S3i. The ED further reported that “UNOPS operates as a project developer, conducting rigorous social due diligence and ensuring that projects are suitable for investment, is a model for channeling private sector investment towards meeting critical national needs in affordable housing and renewable energy”. We find that S3i conducted some social due diligence but not to an extent that would have been expected and required under UNOPS policies. We also find that the intent to channel private sector investments was there, but the results have not materialised to-date.

In the 2022 Annual Session, held 6-10 June 2022, the Annual Report of the ED brings up the will to “expand the pool of resources” through private sector engagements and notes UNOPS’ investment in a solar power plan project in India with a development finance institution and a private solar developer. It was also mentioned that the EB had approved, during the year, the establishment of a S3i reserve to be used for further investments.

### ***Internal reporting***

Information related to S3i was included in some of the UNOPS internal Quarterly Business Reviews (QBR) starting from Q2/2020. In 2020 and 2021, additional versions of the QBR were provided to the SLT, which included more detailed information about S3i in some cases.

The information provided on S3i in the QBRs has varied. In 2020, the SLT was mainly provided updates on the status of the affordable housing and renewable energy projects, a short description of the S3i finances, and an update on the S3i office and S3i pipeline.



S3i's loan portfolio repayment issues and risks were communicated to the SLT in the QBR Q4/2020 report, which states the write-off of 2020 interest for the affordable housing projects and recording of a provision for the accrued interest from the renewable energy portfolio. During the first two quarters of 2021, there was no report section for S3i. When S3i reporting resumed in Q3/2021, the QBRs started to provide portfolio financial overviews and status updates, highlights of the S3i innovation programme as well as the portfolio pipeline.

Based on our interviews, the information relating to S3i reporting was to a large extent provided by the DED. The DED provided the information to the Finance Group, which is responsible for compiling the QBRs. Based on KPMG's review of the QBRs, there were no key performance indicators (KPIs) or milestones against which S3i progress could have been transparently and effectively measured.

### 5.3 Ethical Guidelines and Whistleblowing

Ethical guidelines have been in place at UNOPS during the timeframe of the review. The Ethics Office of UNOPS was established in February 2009 as an independent office within UNOPS pursuant to the Secretary-General's bulletin (ST/SGB/2007/11). The Ethics Office's responsibility is to administer the financial disclosure programme, protect staff against retaliation, develop standards of ethics, train staff, advise staff on ethics, and ensure the coherence of the office with other UN entities. Through our review, we observed that the Ethical Guidelines have lacked certain aspects over time, and they have been improved through feedback provided by the JIU and other bodies.

Based on our review, the ethical requirements and standards have not always been upheld at UNOPS, even at the top level of management. Based on interviews there is a message that the tone from the top has not always been towards communicating and creating an ethical culture upholding high integrity standards. A contradiction between the ethical guidelines and the real practises at UNOPS seems to have prevailed during the S3i initiation and implementation. For example no consistent process appears to be in place on how supervisors and senior management should handle matters related to whistleblowing, grievances, investigations, etc. Senior personnel seem to have considerable personal discretion in deciding how to take complaints forward, and this may undermine the systematic approach to ethical principles and standards described in the ODs and OIs. The lack of transparency in relation to the S3i activities, as noted earlier in the report, has also been an issue in the organisational culture. Based on interviews, the communication has improved since mid-2022.

The whistleblowing system has been unorganised in certain aspects. Multiple reporting channels have existed (which is inherently a strength) but also different bodies have been responsible for handling different types of cases causing confusion among staff. Based on interviews, it has been unclear to UNOPS personnel how the whistleblowing system works and if the system can maintain confidentiality. Generally due to these issues, there has been a lack of trust in the appropriate processing of complaints. Also, fears of retaliation among staff were clearly noted in several interviews.

We analyse and review the Ethical Framework as well as the organisational culture in more in detail in the forward-looking report and provide recommendations on how to improve the Ethics Office and its functioning.



## 6 Internal and External Oversight

Oversight refers to actions taken to review and monitor organisations and their policies, plans, programs, and projects, to ensure that they are achieving the expected results, represent value for money, and are in compliance with applicable policies, laws, regulations, and ethical standards.

The analysis below presents a summary of the UN oversight frameworks and specifically outlines a series of observations of gaps in risk management and ineffective oversight in relation to S3i. A broader analysis of the internal and external oversight arrangements is also presented in the forward-looking report, with an outline of recommendations needed to address the problems within the existing risk management and oversight framework.

Based on our review we identified indications of inadequately designed oversight mandates, a failure of oversight functions at different levels to effectively respond to S3i-related red flags, and ineffective risk management procedures. These identified deficiencies contributed to the failures associated with S3i.

There are several oversight bodies within the UN system that have different mandates, responsibilities, and reporting lines of authority. There have been a number of risks, red flags and recommendations stemming from these various oversight bodies and whistleblower channels throughout the timeline for S3i.

There have been several observations that indicate that the information related to these red flags were not consolidated and responded to in an adequate and timely manner. The intended objective of oversight to monitor, scrutinise with professional judgement and skepticism, and challenge management decisions was not effective. The following section describes some of these observations.

### 6.1 Risk Management Framework

The policy framework on risk management and oversight stems from various Executive Office Directives and Instructions. Historically, UNOPS has created directives and instructions on Principles and Governance, Delegation of Authority and Accountability Framework, Audit Advisory Committee (AAC), and the Financial Regulations and Rules. There are also various Operational Directives and Instructions including finance and asset management, internal control, management of partners, cost recovery model, procurement, human resources, ethics, due diligence etc.

Based on our review, many of these directives and instructions were created already before the S3i timeline and some have been revised from year to year. In September 2022, for example, UNOPS issued a new operational instruction for risk management and others have also been recently changed. Other directives and instructions are undergoing a review process as at the date of this report.

The ultimate responsibility for risk management rests with the highest-level governing authority of UNOPS. In this respect, the Executive Board ensures that UNOPS remains responsive to the evolving needs of programme countries, and supports UNOPS' efforts to share expertise in infrastructure, procurement, project management, financial management and human resources.



The ED is responsible and accountable to the Executive Board for defining UNOPS' governance model and its organisational structure, defining roles, responsibilities and accountabilities, establishing control mechanisms, implementing the strategic plan endorsed by the Executive Board, determining the risk appetite, and establishing a risk and quality framework. The ED, via the organisational structure instruction, is responsible for the hierarchical arrangements of reporting lines, duties and communications, that determine how standards, roles, accountabilities and responsibilities at UNOPS are established, controlled, overseen and coordinated.

The risk management framework has been under development since 2016 in many respects. This includes defining a risk management framework as part of the second line of defence, defining positions and roles, and hiring specific risk management personnel.

## 6.2 Oversight Arrangements

### 6.2.1 Internal Audit and Investigation Group (IAIG)

#### Mandate

IAIG is the principal channel for receiving allegations of misconduct and is responsible for conducting investigations into all reports of alleged wrongdoing involving UNOPS personnel or other persons, parties or entities. IAIG is the sole office in UNOPS mandated to conduct investigations. Based on information received from several sources, IAIG is not mandated to investigate matters related to the ED or DED.

The original IAIG Charter and way of working required the IAIG Director to report to the ED. Pursuant to the IAIG Charter, IAIG is supposed to have "free and unrestricted access to the EB and the AAC". Based on our review, this mechanism was not implemented in practice and has since been changed in the new 2022 IAIG Charter.

In 2022 IAIG conducted a self-assessment of its independence. The self-assessment report highlights 11 recommendations, including ensuring that IAIG has direct access to the EB and the AAC, as well as issues related to its mandate, and responsibilities, resources and budget, and the contract terms for IAIG staff. KPMG concurs with these recommendations, and we see that fundamental changes are required in IAIG.

Furthermore, the JIU completed a review of the audit and oversight committees in the UN system with a final report issued in June 2019. The JIU also issued a report on its review of the state of the investigation function in January 2020. These reports included relevant recommendations; for example, the 2019 report recommended that UN organisations should review the ToR or charter of their IAIG and AAC bodies to include specific references to their independence and reporting line to their legislative and/or governing bodies. Based on our review, this recommendation was not actioned by UNOPS in a timely manner.

On 23 August 2022, an Operational Directive was issued in response to strengthening the independence of IAIG in accordance with the resolution of the EB's Decision at its Annual Session in 2022. The revised Charter aims to better protect its independence and ability to decide on who or what to audit or investigate, and to protect IAIG from management interference. The revised Charter states that the Director of IAIG shall



report independently and exclusively to the ED of UNOPS and shall also have free and unrestricted access to the EB and the AAC.

Our review procedures have identified a series of aspects that impacted the independence of the IAIG prior to these changes and specifically the effective oversight of S3i.

### **Timeline of IAIG Investigations on S3i**

The IAIG received its first whistleblower complaint related to S3i in March 2019. IAIG completed its investigations into WATO and SHS in late 2021, two and a half years later. Throughout this time period there were investigation activities on-going and communication with UNOPS management in different forms.

The following information provides a summary of the timeline of complaints, investigations, internal handling, and reporting protocols within IAIG.

- In March 2019, IAIG received an anonymous complaint through OIOS regarding UNOPS' S3i investments. The complaint reported that UNOPS issued loans to SHS without competitive bidding and that the due diligence was rigged. The complaint also raised that there was a family connection between SHS and WATO. However, no investigation was taken either by OIOS or IAIG at that time (please refer to the mandate of IAIG noted elsewhere in this report).
- In March 2019, IAIG observed related party transactions in the use of the WATO grant and notified the ED and DED and selected member of EAC+ of the matter.
- In June 2020, IAIG received an anonymous complaint in relation to the renewable energy project in Mexico. IAIG reviewed the complaint and concluded that unless and until the complainant sends any direct evidence to support the claims, IAIG would close the case. However, in July 2020, IAIG opened a formal investigation and started gathering background information based on the complaint. Members of IAIG investigations met with the complainant.
- In September 2020, IAIG engaged an external audit company to conduct an investigation in relation to the project in Mexico. IAIG decided to pause the external audit company's work considering a repayment that was to become due. IAIG continued its own investigation.
- In parallel, between September and December 2020, IAIG began reviewing the WATO project agreement and its expenses. After an extended process, IAIG identified, among others, a number related-party transactions that also had been previously flagged by IAIG to EAC+.
- In December 2020, as a result of UNOPS not receiving the payments on the loans within the deadlines, IAIG continued the investigations. IAIG hired an audit firm to investigate certain aspects in relation to the housing projects.
- In January 2021, the IAIG team was informed that communication in relation to the investigations must go through the General Council's office. This was explained by complaints to the ED made over IAIG's investigations.
- In March 2021, the audit firm issued their report on SHS. Between March and June 2021, IAIG continued its enquiries in relation to the investigations.





- In June 2021, IAIG presented a summary of the key findings from their investigations to the SLT with recommendations for further actions.

### **IAIG and UNOPS Responses to Risk**

There was a series of complicated and sensitive complaints and investigations ongoing since 2019 within IAIG and UNOPS.

Our procedures identified that there was an oversight and risk response weakness within UNOPS. The oversight design was ineffective in the context that IAIG did not have the mandate to investigate the team leading S3i, specifically the DED. A lack of appropriate structural set-up mechanism for S3i and indications of possible interference with IAIG work, raised in interviews, were key risks that impacted the effectiveness of oversight from IAIG.

The DED was put on administrative leave in December 2021 following an OIOS investigation.

### **6.2.2 Audit Advisory Committee (AAC)**

The stated purpose of the AAC is to advise and assist the ED on systems of internal control, accountability, risk management, policies, financial rules, financial statements, and to review and advise on matters from the IAIG and the UNBoA. The ToR states that the ED is responsible for appointing members who are independent and external to UNOPS. The AAC is required to prepare a report on its work for each calendar year for presentation to the ED and to be made available to the EB at its annual session. The members of the AAC are appointed by the ED and the AAC is not a sub-function to the Executive Board.

Based on KPMG's review, the AAC is not structured and mandated in a typical audit and risk management committee role. The AAC does not perform a supporting role to the Executive Board, it does not oversee the role of the ED or Executive Office, and it does not provide a direct reporting line of authority to the IAIG. Based on information received for the review, the AAC had limited authority to challenge decisions taken by the Executive Office. There was an inherent structural weakness in that the role of the AAC was dependent on the information received through the top management.

The annual reports of the AAC indicate that they received an update on the progress achieved by S3i during the timeframe, and that the ED reported that solid procedures for systematic due diligence and risk management of S3i projects had been put in place. We identified that the AAC received selected pieces of information, risks and red flags in relation to the S3i initiative since 2015. This included information about the strategic partnership with SHS in 2019, and the provisioning of the S3i investment in 2021.

### **6.2.3 United Nations Board of Auditors (UNBoA)**

The UNBoA provides external audit to the UN and its funds and programmes. The UNBoA delivers independent audit opinions through audit reports, makes recommendations to the auditees, follows up on the implementation status of the recommendations, and reports and responds to matters raised by Member States, the General Assembly, the Advisory Committee on Administrative and Budgetary Questions, and other stakeholders. UNBoA made several observations regarding the S3i starting



from 2019. The UNBoA is mandated to perform an annual statutory audit of the financial statements of UNOPS in accordance with International Standards on Auditing.

The 2019 audit report issued on 21 July 2020 was unqualified, and there was no emphasis of matter. However, the long form audit report highlights observations on S3i. This includes “UNOPS authorised investments (USD 8.8 million in 2018, USD 30 million in 2019 and USD 20 million in February 2020) under the S3i initiative without any formal governance structure or framework.”

The 2020 audit opinion issued on 22 July 2021 was unqualified. However, there is an emphasis of matter drawing attention to a USD 22.2 million of provisions relating to S3i projects. Furthermore, the 2020 long form report of the UNBoA went into more specific details in relation to the risk exposure of the S3i projects and noted that “UNOPS invested in all of the seven S3i projects (amounting USD 58.8 million) by entering into agreements with seven special-purpose vehicles, all affiliated with a single private holding group. The deficiencies in partnership diversification might further expose S3i initiative investments to risks”.

Similarly, the 2021 audit opinion issued on 21 July 2022 was unqualified. However, there is an emphasis of matter drawing attention to the USD 19.1 million of new provisions and impairments relating to the S3i projects, and that the total bad debt allowance and impairments against the S3i investments amounted to USD 39.02 million. The audit opinion is not modified in respect of these matters.

#### **6.2.4 Joint Inspection Unit (JIU) of the UN System**

The JIU is mandated to conduct evaluations, inspections and investigations at a UN system-wide level. The JIU is part of the third line of defence for UNOPS as an external unit of oversight. The JIU has a task of inspecting 28 UN participating organisations on four different themes: Audits and Committees, Investigation and Ethics, Accountability Frameworks and Reporting on Business Continuity.

The JIU has issued several reports in recent years that are relevant to UNOPS. These include: a report for a review of management and administration in UNOPS in 2018; a UN-wide report on a review of audit and oversight committees in the UN system in 2019; a report on a review of the state of the investigation function and progress made in the UN system organisations in strengthening the investigation function in 2020; and a report of the review of the ethics function in the UN system in 2021. These reports have led to a number of recommendations across the UN, including UNOPS.

The report issued in 2019 for UNOPS noted that the “Audit Committee (AAC in UNOPS) does not fully correspond to the requirements of leading practices and good governance as established by the Institute of Internal Auditors.” The report noted a difference in the mandate, member appointment practices, and independence and frequency of its self-assessment when comparing to other similar committees. The JIU recommended the EB to adopt a revised ToR prepared by the ED for the AAC in compliance with good practices and established standards. The Executive Board at that time noted the management response, the three newly appointed members to the AAC, the merger of the AAC and the Strategic Advisory Group, and that the recommendation was considered implemented and closed. In KPMG’s view, the implementation of the recommendation did not resolve all issues observed by the JIU.



### 6.2.5 Office of Internal Oversight Services (OIOS)

The OIOS is the internal oversight body of the UN. The OIOS assists the Secretary-General in fulfilling his/her oversight responsibilities in respect to the resources and staff of the UN through the provision of internal audit, investigation, inspection, and evaluation services. The mandate of OIOS is derived from relevant General Assembly resolutions and decisions, including the founding resolution 48/218 B of 29 July 1994. The OIOS has dual reporting lines to the General Assembly and the Secretary-General. OIOS reports are submitted to the Secretary-General, or the delegated programme manager. OIOS is mandated to report to the General Assembly biennially and may submit any other reports to the General Assembly as necessary.

In March 2019, the IAIG received an anonymous complaint through OIOS regarding UNOPS' S3i investments. In March 2019, OIOS communicated this IAIG by email. The communication noted that the DED "falls under the jurisdiction of OIOS but without the appropriate evidence to either refute or corroborate the reports we can do nothing". The content of the claim has been explained earlier in the report. The case was closed at that point without further investigation until later in 2021.

OIOS undertook an investigation in 2021 and as a result the DED, at that time S3i CE, was put on administrative leave in the end of 2021. KPMG has not received the investigation report.



## 7 Annex I: Summary of S3i related decision-making roles and bodies

**The Executive Board (EB)** is comprised of 36 members from UN member states and is the main governing and legislative body of UNOPS. The EB mandated UNOPS to work with impact investing.

**Executive Director (ED)** is an Under Secretary-General position appointed by the UN Secretary-General and is the highest-ranking official at UNOPS. The ED is fully responsible and directly accountable to the EB for all aspects of UNOPS activities.

**Deputy Executive Director (DED)** is an Assistant Secretary-General position appointed by the UN Secretary-General and the second highest-ranking official at UNOPS.

**Chief Executive for S3i (S3i CE, 29 February 2020 to 13 December 2021)** was the leader of the S3i Office and responsible for the implementation of the strategy, policies, investment proposals and the management of the S3i portfolio. The DED was appointed as CE S3i on 29 February 2020.

**Engagement Acceptance Committee (EAC)** evaluates UNOPS engagements with high-risk profiles and is the highest review authority for engagements in UNOPS. **EAC+** was an S3i-specific meeting platform unofficially established by the ED. The EAC and EAC+ did not hold an independent decision-making authority.

**Corporate Operations Group (COG, 2006 to 14 August 2019)** was a regular coordination forum for UNOPS' senior management to share information, discuss and align priorities and to provide advice for decisions of the Executive Office (EO). The COG was comprised of Directors of eight HQ Business Units, Directors of six Regional Business Units and four ex-officio members in an advisory capacity. The COG did not hold an independent decision-making authority.

**Senior Leadership Team (SLT, 14 August 2019 to May 2022)** was established to support the EO with effective prioritisation of corporate and strategic initiatives, and with the creation of an enabling environment for prompt and consistent implementation of such initiatives. The SLT was comprised of six key members: the ED, DED and four senior Directors. The SLT also had several different working-level forms. The SLT did not hold an independent decision-making authority. It was replaced by the **Management Team** in **May 2022**. The Management Team's job is to advise and support the EO in the Management of UNOPS.

**Advisory Group on Investment for S3i (AGI, 28 May 2021 to April 2022)** was to advise the CE S3i on policy development, pipeline development, review of investments, portfolio performance, evaluation, sector strategy and innovation. The members of the AGI were external to UNOPS. The AGI was suspended in April 2022.



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