UNDG Guidance Note on Establishing, Managing and Closing Multi-Donor Trust Funds

(7 January 2011)

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1. Background

Multi-Donor Trust Funds (MDTFs) have become an important funding mechanism to channel and leverage resources in an effective and coordinated way in support of UN system-wide development efforts. The increasing use of MDTFs is a direct application of the aid effectiveness agenda and UN reform initiatives in support of nationally determined and led development programmes. The principles of national ownership and leadership are key principles of the Paris Declaration on Aid Effectiveness, reconfirmed in the Accra Agenda, and have been central to the UN operational activities for development.

As MDTFs are increasingly being used to address development challenges, the need for a practical Guidance Note on Establishing MDTFs has been recognized. This Note is based on existing UNDG-approved documents and instruments, reflects on the experience of establishing and managing MDTFs and is intended to provide practical guidance. UNDG-instruments on MDTFs include a UNDG MDTF Fiduciary Management Oversight Framework, a Framework for Auditing Multi-donor Trust Funds designed to facilitate periodic summary reporting of the management of risks, internal controls and audit recommendations, as well as standard templates for Memorandum of Understanding (MOU) (see Annex I) and Standard Administrative Arrangement (SAA) to be used for UNDG MDTFs. Additionally, a "Protocol on the Administrative Agent for MDTFs and Joint Programmes, and One UN Funds" has also been developed to clarify the roles and responsibilities of the AAs[2].

This Guidance Note applies to the establishment, management and closing of all MDTFs at country-level including "Delivering as One UN Funds" for which standard UNDG MOU and SAA are signed. This Guidance Note, with some minor adjustments, is also applicable to Common Humanitarian Funds (CHF) operating at country level and to funds operating in a non-country specific context such as thematic, global or regional MDTFs.

2. Definition and Objectives of a Multi-Donor Trust Fund

Definition

A UNDG MDTF is a multi-agency funding mechanism, which is designed to receive contributions from more than one donor that are held in trust by the appointed Administrative

[1] Current UNDG standard MOU and SAA also apply to Joint Programmes using pass-through fund management, however the establishment of Joint Programmes follows the existing UNDG 2003 Guidance Note on Joint Programming.

[2] The Guidance Note is based on the documents that have been approved by UNDG. Any updates to those documents will be reflected in the Guidance Note.

Agent (AA). Donor resources are co-mingled to fund project/programmatic allocations implemented by UNCT members[3] in a specific country in support of the achievement of nationally owned and determined priorities. An MDTF consists of five key elements; a Governance/Decision-Making Body, a MDTF Administrator, Participating Organizations, Implementing Partners and Donors.

A MDTF is governed by common governance arrangements (see below), while responding to a particular country specific situation, that ensures the participation of UN Organizations and governments, in the identification, design, development, approval, implementation and monitoring of activities with participation of other stakeholders, as appropriate.

At the inter-agency level, systems and procedures have been established to strengthen the capacity to manage the co-mingled donor funds by using the pass-through fund management mechanism through an AA that is appointed by the Participating Organizations to act on their behalf.

Objectives

Operating on the principles of joint programming of the UNDG, MDTFs aim to provide more flexible, coordinated and predictable funding to support the achievement of nationally owned and determined priorities. By channelling donor contributions through one mechanism, MDTFs aim to facilitate and streamline donor contributions and align donor reporting. By improving coordination among all stakeholders, MDTFs can also provide a forum for policy dialogue, and programmatic coordination and harmonization. Overall, they have become one of the important financing tools available to the UN to help channel funds towards a strategic vision, that has been defined based on an analysis of programmatic realities and in consultation with all stakeholders.

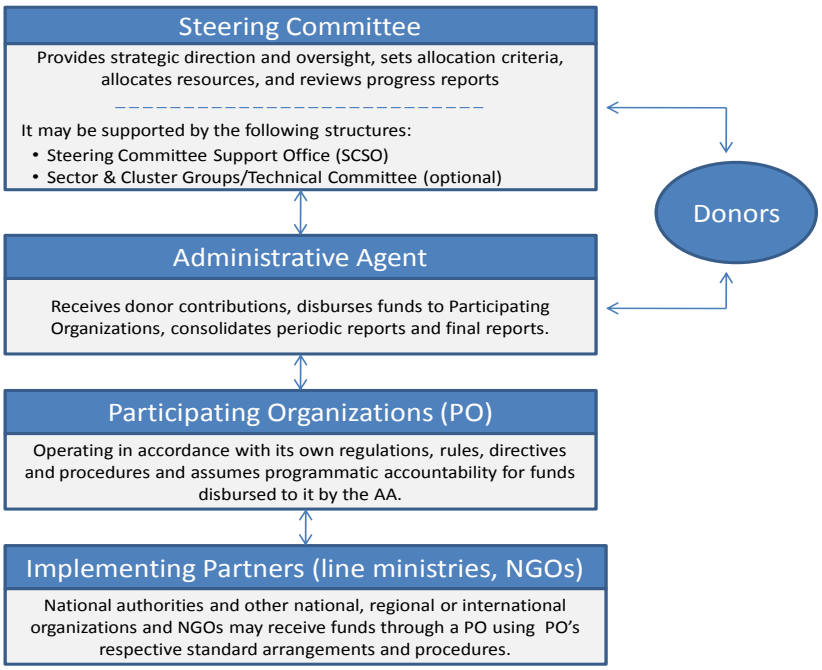
3. Key Stakeholders in MDTFs

MDTFs are designed to respond to the realities of a specific country, regional or global situation. MDTFs usually have five common structural elements: a Steering Committee, an AA, Participating Organizations, Implementing Partners and Donors.[4]

[3] Non-UN Organizations that have similar international character and financial rules and regulations as Participating Organizations may be permitted to participate. Refer to section 3 for more information.

[4] The draft Standardization Guidelines on Common Humanitarian Funds, prepared by UNOCHA, provide specificities on the roles and responsibilities of key stakeholders' in common humanitarian funds.

Key Stakeholders in MDTFs



MDTF Steering Committee[5]

A Steering Committee (SC) or similar entity governs the MDTF, sets allocation criteria and makes decisions on resource allocations, and provides strategic direction in line with the relevant strategic development framework and within the requirements of the specific MDTF. It also defines procedures on programme and MDTF extension and closure. A non-humanitarian, country level MDTF SC is co-chaired by the Government and the UN Resident Coordinator (RC), or the Deputy Special Representative of the Secretary General (DSRSG).[6] Members include the UN and government representatives and may also include donors. The decision on the inclusion of donors will be taken at the country level. Steering Committee composition will ensure the principles of national ownership, inclusiveness and balanced representation, as well as the need to have a manageable size for effective decision-making.

A generic MDTF Steering Committee Terms of Reference (TOR) has been prepared and approved by UNDG (see Annex IV). The Steering Committee also has an oversight role through the review of and approval of periodic progress reports (programmatic and financial)

[5] A Steering Committee refers to the governance/decision making entity that makes funding decisions for and provides oversight over a specific MDTF. In Common Humanitarian Funds (CHFs), the Humanitarian Coordinator assumes some of the responsibilities of the Steering Committee. Decision making on the allocation of funds for humanitarian MDTFs are taken by the Humanitarian Coordinator. For more information on CHFs, review the draft Standardization Guidelines on Common Humanitarian Funds, prepared by UNOCHA.

[6] Global MDTFs generally establish a global level steering or advisory committee and may include similar structures at the national level as well.

consolidated by the AA (see below) based on the progress reports submitted by the Participating Organizations. It may also commission an independent lessons-learned review of the MDTF.

- *Steering Committee Support Office/Technical Secretariat (optional)*

The Steering Committee may be supported by a Steering Committee Support Office (SCSO)/Technical Secretariat (TS). Responsibilities of the SCSO/TS generally involve: ensuring project/programmes submitted to the SC have fulfilled the required submissions and review procedures; undertaking a final review of proposals submitted by Participating Organizations; supporting the cluster/sector working groups/ Technical Committee in the review; initiating programme sign off processes and tracking the operational closure of the Fund. The SCSO/TS also tracks the status of the proposals, provides advice to the SC and follows up on decisions taken by the various MDTF structures. Generally, the SCSO/TS, at the country level, is located in the Office of the Resident Coordinator and reports to the Resident Coordinator, but different arrangements can be made.

- *Cluster & Sector Groups/Technical Committee (optional)*

If applicable, inter-agency clusters or sector groups or a Technical Committee may play a role in the identification, review and/or development of projects/programmes as well as a role in the prioritization of allocation of contributions.

Participating Organizations

UN Organizations become Participating Organizations by concluding the MOU and thereby appointing the AA. Non-UN entities that have an international character and are members of the UN Country Team and have financial rules and regulations comparable to the UN may also become Participating Organizations by concluding a separate MOU with the AA (see also Annex I). Each Participating Organization operates under its own financial regulations, rules and policies and assumes full financial and programmatic accountability for the funds disbursed to it by the AA and for the implementation of the projects/programmes, and provides financial and narrative progress reports to the AA on its activities.7 Indirect costs of the Participating Organizations recovered through programme support costs will be 7%. In accordance with the UN General Assembly resolution 62/208 (2007 Triennial Comprehensive Policy Review principle of full cost recovery), all other costs incurred by each Participating Organization in carrying out the activities for which it is responsible under the Fund/Programme will be recovered as direct costs.

Administrative Agent

The Participating Organizations will appoint a UN Organization, which may also be a Participating Organization, to serve as AA of the MDTF, in accordance with the terms and conditions set out in the MOU. The AA will accept this appointment on the understanding that the Participating Organizations assume full programmatic and financial accountability for the funds disbursed to them by the AA.

[7] Where there is agreement among the Steering Committee members to adopt policies specific to the MDTF (e.g.thresholds for budget revisions or time line extensions) the agreements made by the Steering Committee shall apply to all Participating Organizations.

On behalf of the Participating Organizations, and in accordance with the UNDG-approved Protocol on the Administrative Agent for Multi Donor Trust Funds and Joint Programmes, and One UN Funds, the AA performs the full range of AA-functions, including:

a) Receipt of contributions from donors;
b) Administration of funds received;
c) Disburse funds to each of the Participating Organizations in accordance with instructions from the Steering Committee/Resident Coordinator (on behalf of the Steering Committee);
d) Consolidate statements and reports, based on submissions provided to the AA by each Participating Organization;
e) Provide final narrative and certified financial reporting, including notification that the MDTF/JP/ONE UN FUNDS has been operationally completed;
f) Disburse funds to any Participating Organization for any additional costs of the task that the Steering Committee may decide in accordance with TOR/Joint Programme Document/One UN Programme.

The AA will be entitled to allocate an administrative fee of one percent (1%) of the amount contributed by each donor, to meet the AA's costs of performing the AA's functions described in the MOU. Where the AA is also a Participating UN Organization, a clear delineation, including distinct reporting lines and an accountability framework, will be established and maintained within the organization designated as the AA between its functions as an AA and its functions as a Participating Organization.

Donors[8] to the MDTF

Donors that wish to contribute to an MDTF are required to sign a SAA, with the AA. A generic SAA has been approved by UNDG for use in all UNDG MDTFs. The SAA sets out the terms and conditions governing the receipt and administration of the contribution by the AA, the transfer to the Participating Organizations and the related reporting requirements. The specific roles and responsibilities of the above stakeholders are specified in the standard UNDG MOU and SAA. As outlined above, members of the Steering Committee may also include donors. The decision on the inclusion of donors will be taken at the country level.

Implementing Partners

Participating Organizations have established mechanisms to implement activities through national authorities and other national, regional or international organizations and through NGOs. These Implementing Organizations may receive funds through one of the Participating Organizations. The Participating Organizations assume full financial and programmatic accountability, using their respective standard arrangements and procedures for transferring funds to Implementing Partners.

[8] Donors include any government, private sector or other entity that signs a legal agreement with the AA and contributes to an MDTF.

4. Process of Establishing an MDTF

Based on best practices, it is recommended to follow a number of key steps in establishing a MDTF. The steps outlined below assume the involvement of the entire UNCT in the establishment of the MDTF[9]:

Step 1: Convening of initial consultations between all stakeholders
During this initial phase, the UNCT10, national government, donors and other stakeholders are consulted on the objectives and scope of the MDTF, ensuring government ownership, alignment behind national priorities and plans, including monitoring and evaluation to ensure the effective programme delivery to achieve the planned results. Before considering the creation of a new MDTF, stakeholders should consider using existing funding mechanisms to avoid duplication.

Step 2: Development of a Concept Note
Led by the UNCT, and drawing on the initial consultations convened with relevant stakeholders, a Concept Note stating the programmatic scope and purpose of the proposed MDTF,is developed using the attached template (see Annex II). The Concept Note shall be used as well to outline the financial and governance arrangements, and demonstrate the 'financial viability' of the proposed MDTF.

Step 3: Decision to establish an MDTF
Based on the agreed Concept Note outlining the programmatic scope, purpose and the financial viability of the MDTF, the UNCT decides to establish the MDTF. The RC will ensure that the Concept Note is shared with UNDG Development Operations Coordination Office (DOCO) for posting on UNDG website.

Step 4: Decision on the selection of an Administrative Agent
The UNCT decides on the selection of an AA to act on their behalf as their administrative interface with donors contributing to the MDTF and requests concurrence from the prospective AA in writing. Any UN Organization can be appointed to serve as AA.

Step 5: Development of draft MDTF TORs and Steering Committee TORs
Using the generic UNDG-approved MDTF TOR template (Annex IV), and based on consultations with all stakeholders, the UNCT develops the MDTF TOR with programmatic priorities, governance structures, allocation criteria, and MDTF and project/programmatic allocation closure issues outlined. The UNCT should also develop the MDTF SC TOR, using the UNDG-approved MDTF Steering Committee TOR template. In preparing the template, critical dates such as the Fund End Date should be established. Subsequently, the UNCT can develop the Rules of Procedure for the working of the Steering Committee. The RC will ensure that early drafts (prior to the finalization of the discussions within the UNCT, and with governments and donors) of all of these documents are shared with all resident and non-resident UNCT members and with DOCO. Sufficient time (1 to 2 weeks) should be given to all entities to review and provide comments, if appropriate.

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[9] In some cases a smaller group of UN Organizations may set up an MDTF. Global (or regional) MDTFs can be created by three or more UN organizations working together on a specific strategic theme or issue. For further details on setting up aCHFs, please refer to the draft Standardization Guidelines on Common Humanitarian Funds.
[10] This Guidance note draws upon the definition included in the 2009 UNDAF guidelines which refer to the totality of UN operations in a country (by resident and non-resident agencies, funds and programmes)

Step 6: Finalization of MDTF Terms of Reference
The UNCT agrees and approves the MDTF TOR, which is annexed to the MOU.

Step 7: Preparing to sign the MOU and SAA
An MOU and SAA to establish an MDTF are prepared using the UNDG-approved formats and templates. In accordance with the standard MoU and SAA any substantial or significant modification to the MoU and SAA requires the prior written agreement of the Participating Organizations and the AA of the particular MDTF, and needs to be cleared by the Fiduciary Management Oversight Group (FMOG) through the DOCO. The term 'substantial or significant' is understood as implying a change that is linked to the legal relationships described in the MoU and SAA, the governance mechanisms, reporting arrangements or equivalent.

Step 8: Conclusion of the MDTF MOU (and formal appointment of the AA)
Using the UNDG-approved standard MOU, UN Organizations conclude the MDTF MOU with the AA. With the conclusion of the MOU, the MDTF is formally established and the AA is appointed.

Step 9: Convening of the first Steering Committee meeting
The MDTF Steering Committee convenes its first meeting at which it adopts its TOR and Rules of Procedures, if applicable, based on the UNDG-approved standard templates.

Step 10: Conclusion of the MDTF SAA
Using the UNDG-approved SAA, the AA concludes SAAs with donors wishing to contribute to the MDTF.

With the conclusion of the first SAA the MDTF is operational and the Steering Committee may convene to allocate resources, in accordance with the MDTF TOR and the SC TOR and Rules of Procedures.

5. Process of Managing an MDTF

Based on best practices, it is recommended that a number of management issues are addressed by the Steering Committee and other stakeholders of the MDTF during the lifetime of a MDTF. Management and coordination practices may vary depending upon the specific context in which the MDTF operates, and the overall purpose of the MDTF (e.g. Delivering as One, humanitarian, recovery and reconstruction, development). Regardless of the context, the management of the MDTF should always be guided by the need to not only achieve the overall purpose for which the MDTF was created, but also to maximize the benefits of the MDTF as funding instrument, i.e flexible, coordinated and predictable funding, and a forum for policy dialogue and coordination.

The key management issues are outlined below:[11]

[11] For further details on the management processes related to fund allocation, monitoring, reporting and evaluation for a CHFs, refer to the draft Standardization Guidelines on Common Humanitarian Funds.

- ***Internal Coordination***

MDTFs preferably operate utilizing existing UN Country Team coordination structures in order to avoid duplication, ensure coordination and reduce costs. Where existing sector/cluster groups operate or other coordination structures are in place, such as Delivering as One or UNDAF groups, it is recommended to utilize such structures where relevant. Where structures do not exist to carry out the requisite responsibilities, they may need to be established.[12]

- ***Fund Allocation & Transfer***

Fund allocations can be made for specific projects, as is the case with 'projectised' Funds and/or to programmatic allocations, such as in many Delivering as One Funds. The Steering Committee is responsible for establishing and documenting the procedures and criteria for which fund allocations and project/programme approvals or allocations will be taken. Procedures shall be documented in detail in the Steering Committee TOR and Rules of Procedures or other strategic documents, such as the One Programme/One Fund document. The procedures should be agreed upon with the relevant stakeholders and Participating Organizations, and made available to all interested parties.

Commonly used criteria for fund allocation may include: overall quality of proposal; relevance in view of MDTF's strategic priorities and work plan; demonstrated value for money; realistic implementation period within MDTF end dates; recognized comparative advantage of Participating Organization; scope for leveraging additional resources. Subsequent allocations or approvals may include criteria such as the disbursement and expenditure rate for previously approved allocations.

Whenever a MDTF has been established, transfers of resources between UN Organizations should only occur between the AA and the Participating UN Organizations to avoid multiple cost recovery charges by UN Organizations. Therefore, all UN Organizations that expect to receive funding from a MDTF should become Participating UN Organizations by signing the MOU and funds should flow directly from the AA to each Participating Organization independently from the specific programmatic arrangements. If a Participating UN Organization received funds and it is later decided that another UN Organization should implement part of the programme, funds should ideally be returned to the AA for redistribution, unless the amount is not material. Similarly, if a MDTF provides funding to a Joint Programme, the parallel funding modality should be used for the Joint Programme and only a single AA fee should be charged.

Guidance on the process for submitting the programmatic documents (requests for funding) should be provided in the start up phase of the MDTF. Each approved project/programmatic allocation should include a specific end date by which the activities will be concluded (operational closure date) that also enables the financial closure of the project within the MDTF end date, if applicable. Where multiple transfers or allocations are made to programmatic

[12] The Generic UNDG Steering Committee ToR lists the functions necessary for managing an MDTF. The ToR may be used to assess existing structures to determine if there are additional functions that may need to be established or supported.

outcomes or activities, end dates should be established in line with the overall programme implementation period for example in One UN Funds or UNDAF MDTFs.

In support of the objectives of the MDTF, and to ensure maximum flexibility and adaptation to national priorities, donors are strongly encouraged to contribute with multi-year, unearmarked resources. However, if this is not possible, earmarking by donors will be allowed up to the level of sectors in line with national priorities. Earmarking to a UN Organization is not permitted. It is expected that the percentage of earmarked resources will diminish overtime. When earmarking has been agreed upon, the AA will provide detailed information in the consolidated financial updates.

The allocation of refunds of un-utilized balances and/or interest shall be based on approved and documented procedures established by the Steering Committee in line with individual Participating Organization's financial rules and regulations. Reprogramming of the resources shall following the same established project/programmatic allocation approval procedures.[13]

As outlined in the "Protocol on the Administrative Agent for MDTFs and Joint Programmes, and One UN Funds", subject to availability of funds, the AA will disburse approved funds to each of the Participating UN Organizations in accordance with instructions from the Steering Committee/ RC (on behalf of the Steering Committee), taking into account the budgetary framework set out in the approved programmatic document.

As outlined in the MOU and SAA, the Steering Committee may request any of the Participating Organizations to perform additional tasks in support of the MDTF not related to the AA functions and subject to the availability of funds. Costs for such tasks will be agreed in advance and with the approval of the Steering Committee be charged to the MDTF as direct costs. The resources shall be approved by the Steering Committee based on the submission of a formal budget.

- ***Revisions to Approved Programme Documents/Budgets***

As indicated above, fund allocations can be made for specific projects, as is the case with 'projectised' Funds and/or to programmatic allocations, Once the resource allocation is approved, any substantive changes to scope of the approved programmatic document, including as in their nature, content, sequencing or duration is subject to mutual agreement in writing between the relevant Participating Organization and the Steering Committee. Timeline extensions should be granted within the timeframe of the MDTF end date. Formal procedures for submission and approval of budget revisions and timeline extensions should be established during the start-up phase of the MDTF. These procedures may include thresholds for modifications that require Steering Committee approval. As outlined in the MOU, Participating Organization is to promptly notify the AA through the Steering Committee, of any changes in the budget as set out in the programmatic document.

[13] Project closure, including the return of interest and/or unspent funds, generally takes between one and two years.

- ***Funding Availability***

The AA provides periodic consolidated financial updates to the Steering Committee, including donor contributions (and earmarking if applicable), interest and refunds, to inform the approval of programmes as outlined in the Guidance Note on Joint Programming.

- ***Monitoring & Evaluation***

Within the framework of an MDTF, monitoring and evaluation (M&E) takes place at two levels.

o *At the Project/Programme Level:*

At the Participating Organization level, each Participating Organization is responsible for the M&E of projects/programmatic allocations, which are fully or partially funded with MDTF resources, in accordance with its respective regulations, rules and procedures. Moreover, the Participating Organizations are responsible for implementing the M&E arrangements included in the approved programmatic document and/or the UNDAF M&E Plan. In line with the 2005 UN Evaluation Norms, Participating Organizations are encouraged to make the Evaluation Terms of Reference and reports available to the Steering Committee as a major stakeholder in all projects/programmatic allocations funded by the MDTF.

o *At the MDTF level:*

At the MDTF level, as stipulated in the standard MoU, the M&E of the MDTF will be undertaken in accordance with the provisions contained in the TOR, which are consistent with the respective regulations, rules and procedures of the Participating Organizations. Additionally, the MOU notes that the donor(s), the AA and the Participating Organizations will hold annual consultations, as appropriate, to review the status of the MDTF. In this context, the use of standard monitoring instruments and reports is encouraged, wherever feasible.

The Steering Committee is responsible for monitoring overall implementation of the MDTF in order to track progress being made towards achieving the overall purpose for which the MDTF was created, to document ongoing lessons learned and good practices, and to identify challenges and risks that may affect the achievement of the MDTF's overall purpose and ways to address them. One tool to be used in this monitoring process is the Annual Report consolidated by the AA, based on the submissions of Participating Organizations. In an effort to avoid duplication, existing UN Country Team tools, such as the Annual UNDAF review mechanism, may also be used to track Fund progress.

In addition, the Steering Committee is responsible for monitoring the adherence to the overall timeline of the MDTF. The Steering Committee should ensure that project/programmatic allocation end dates are within the approved MDTF end date, thereby managing an orderly MDTF closure within the agreed upon MDTF end date. To enable the Steering Committee to carry out its monitoring function, it should establish tools that enable it to track project/programmatic allocation end dates, and MDTF operational and financial end dates.

- ***Reporting***

The annual reporting requirements of the UNDG MDTF are outlined in the standard UNDG-approved MOU and SAA, and are harmonized with regards to frequency and structure across all UNDG MDTFs and Joint Programmes with pass-through modality Financial reporting takes place using the UNDG harmonized budget categories. Expenditures for Steering Committee approved use of direct costs shall be reported to the AA annually in accordance with the annual reporting requirements for the MDTF.

- ***Oversight***

The Management and Accountability Framework of the UNDG and its Implementation Plan set out the overall framework for oversight in MDTFs.

At the global level, as part of the Management and Accountability Framework the Fiduciary Management Oversight Framework has been established that outlines the functions and the division of responsibilities associated with oversight of MDTFs, including:

The MDTF Fiduciary Management Oversight Group (FMOG) oversight functions:

- Review and ensure adherence to the standard UNDG-agreed documents;
- Review and make decisions on any deviations in the design of individual MDTFs and any required departures from the standard MoUs, SAAs and Steering Committee TORs; review possible fiduciary risks for the UN system;
- Provide guidance to Participating Organizations on common inter-agency audit issues raised in the summary audit reports and facilitate a coordinated resolution.

Queries and requests for guidance can be addressed to the FMOG by UNDG MDTFs Steering Committees, AA and Participating Organizations. Matters that cannot be resolved at the FMOG level will be referred to the ASG Group of the Participating Organizations only on an exceptional basis when consensus between Participating Organizations could not be reached or in politically sensitive cases.

In line with the UNDG working methods, the following support functions will be provided by the relevant inter-agency team:

- Development of policies on joint funding mechanisms and instruments
- Overall guidance and communication on the policies on joint funding mechanisms and instruments to the Country Teams
- Support and feedback to country offices in establishment of joint funding mechanisms
- Knowledge management

- ***Auditing***

Audit provisions are covered in the standard MOU. In the case of MDTFs, the Framework for Auditing Multi-Donor Trust Funds will apply. This framework is designed to facilitate periodic summary reporting of the management of risks, the status of internal controls and

recommendations made by the Internal Audit Services of Participating Organizations in the MDTFs.

6. Process for Extending a MDTF End Date

If a Steering Committee takes the decision to extend the MDTF end date, it shall inform and seek the agreement of relevant donors, Participating Organizations, AA and Government. The SC decision and agreement of the contributing Donors to the MDTF, Government and all Participating Organizations shall be documented and the TOR should be amended to reflect the new end date. If a Donor(s) does not support an extension, this shall be documented; and if the donor concerned requests that its share of the remaining Fund balance is returned, the AA will calculate and refund this balance, if relevant, following the MDTF closure procedures. Extensions should not be considered when proposing a major change of scope of the MDTF objectives or a second phase.

7. Process of Closing an MDTF

Preparation for MDTF closure begins with the determination of the MDTF End Date during the process of establishing a MDTF and the monitoring of the implementation progress throughout the life of the MDTF, with a view to ensure that the MDTF is closed within the agreed upon timeline.

The steps outlined below are all 'pre-conditions' that if followed will support an orderly closure of the MDTF. The process requires the involvement of all Participating Organizations with a strong monitoring and leadership from the Steering Committee, and the active involvement of the AA in the areas of project/programmatic allocation and MDTF closure (see Annex IV: Flowchart: MDTF Project & MDTF Closure). The actual closure takes place in two parts. First individual projects/programmatic are closed followed by MDTF closure.

Project/Programme Allocation Closure

Participating Organizations close projects/programmatic allocations following their respective Participating Organization regulations, rules and procedures within the agreed upon Fund ToR.

Step 1: Participating Organizations Operationally Close Project(s)/Programme Allocations
First, as outlined in the MOU "Each Participating Organization will advise the AA in writing when all activities for which it is responsible under the approved programmatic document have been completed."

The end date of a project/programmatic allocation is the date that is in the approved project/programmatic allocation at the time of approval or the subsequent extension of duration, if applicable. As outlined in the MOU, the Participating Organization informs the AA in writing when all activities under the approved programmatic document have been completed, while for a joint programme the end date is the date in which the last Participating Organization completes its activities and informs the AA. For MDTF allocations to programme allocations in DaO countries, the end date is often aligned to the end of the UNDAF cycle. Regardless of how the end date is determined, it formalizes the 'operational closure' of the project/programmatic allocation.

As outlined in the MOU, a final narrative report, after the completion of activities including the final year of the activities is prepared by the Participating Organization and submitted to the AA to be provided no later than four months (30 April) of the year following the financial closing of the project/programme. The final report will give a summary of results and achievements compared to the goals and objectives of the MDTF.

Step 2: Participating Organizations Financially Close Project(s)/Programmatic Allocations

After a Participating Organization announces it has operationally closed, it begins the process of financial closure. Before informing the AA that a project/programmatic allocation is financially closed each Participating Organization's own internal project closure procedures must be adhered to and completed.

As part of financial closure of a MDTF funded project/programmatic allocation the following should be completed:

- Any unspent balance should be refunded to the AA;
- Any interest for prior and current year to be transferred to the AA if in accordance with Participating Organization's own regulations, rules, directives and procedures, including those relating to interest;
- No expenditure in excess of funds transferred or in excess of the agreed support costs is reported and the Certified Final Financial Statement and Report is submitted;
- AA confirmed the completion of the above to the Participating Organization and closes the project/programme allocation within its internal system.

The MOU states that the Participating Organization shall submit to the AA "certified final financial statements and final financial reports after the completion of the activities and including the final year of the activities no later than six months (30 June) of the year following the financial closing of the Fund/Programme."

However, Participating Organizations should be encouraged to submit their final narrative and/or certified financial reports at any time throughout the year, including the return of unutilized balances and accrued interest, and the AA should be encouraged to receive the same at any time in the calendar year. Enabling an ongoing project/programme closure cycle will facilitate the timely reprogramming of returned, unutilized and interest funds and ensures sound financial management of the balance of funds.

MDTF Closure

The AA is responsible for MDTF closure following their respective Participating Organization regulations, rules and procedures. MDTF closure processes begin only after all Participating Organizations have satisfactorily financially closed all of their respective projects/programmatic allocation as outlined above. MDTF closure generally takes place within 12 months following the AA's confirmation that all projects/programmatic allocations have been financially closed.

Step 3: Confirmation of Individual Project/Programme Financial Closure

The AA confirms that all Participating Organizations have satisfied financial closure procedures including report submission, and return of interested and unitized balances, if applicable, for all individual projects/programmatic allocations.

Step 4: ***Completion of Internal Financial Closure Processes***

The AA confirms that all closing steps are completed, and all income and expenditures have been fully recorded in line with its Organization's rules, regulations and procedures.

Step 5: Confirmation of Remaining MDTF Fund Balance

The AA will confirm the remaining balance in the MDTF fund account.

Step 6: Decision on Fund Balance and Dispose of Fund Balance

Based on the information provided by the AA, a decision on the use of MDTF fund balances is taken by the Donors and Steering Committee. Following the decision the AA refunds or transfers the MDTF fund balances out of the MDTF fund account.

Step 7: Final Consolidated Narrative and Financial Report for the Fund

As outlined in the MOU, the AA will prepare consolidated narrative progress and financial reports, based on the reports referred to above and will provide those consolidated reports to each donor that has contributed to the MDTF, as well as the Steering Committee, in accordance with the established timetable. The AA will prepare "certified final financial statement (Source and Use of Funds) to be provided no later than seven months of year following the financial closing of the Fund".

Annexes

Annex I: Memorandum of Understanding with non-UN Participating Organization
Annex II: Concept Note template
Annex III: Establishment of an MDTF (flow-chart)
Annex IV: Generic UNDG MDTF TOR
Annex V: Oversight Framework for MDTFs (flow-chart)
Annex VI: MDTF Closure Processes (flow-chart)
Annex VII**:** Standard Definitions

Reference documents:

- The Management and Accountability System of the UN Development and Resident Coordinator System of the UN Development and Resident Coordinator System including the 'functional firewall' for the RC System (27 August 2008)
- Implementation Plan for the Management and Accountability Framework (29 January 2009)
- Protocol on the Administrative Agent for MDTFs and Joint Programmes, and One UN Funds (30 October 2008)
- Standard Memorandum of Understanding for Multi-Donor Trust Funds and Joint Programmes Using Pass-Through Fund Management (30 October 2008)
- Standard Administrative Arrangement for Multi-Donor Trust Funds and Joint Programmes Using Pass-Through Fund Management (30 October 2008)
- UNDG Multi Donor Trust Fund Fiduciary Management Oversight Framework (20 September 2007)
  Annex I: Steering Committee of the MDTF: Generic Terms of Reference
  Annex II: MDTF Fiduciary Management Oversight Group: Key Tasks and Responsibilities
- Framework for Auditing Multi-Donor Trust Funds (20 September 2007)
- Draft Standardization Guidelines on Common Humanitarian Funds (20 November 2009)

Annex I:
Memorandum of Understanding
between
[Name of Non-UN Participating Organization]
and
[Name of Administrative Agent]
regarding the Operational Aspects of the [Name of MDTF]

This Memorandum of Understanding (hereinafter referred to as "MOU") is concluded between [Name of Non-un PO], an inter-governmental organization, established by treaty and having its headquarters at [address of Non-UN PO] and [Name of Administrative Agent], a subsidiary organ of the United Nations, having its Headquarters at [Address of AA] as Administrative Agent of the [Name of MDTF], (hereinafter "_____").

WHEREAS, the Participating UN Organizations to the [Name of MDTF] have signed a Memorandum of Understanding relating to the Operational Aspects of the [Name of MDTF] (attached **Annex** hereto).

WHEREAS, [Name of Non-un PO] wishes to participate in the [Name of MDTF] and receive funds on the same terms as the Participating UN Organizations.

WHEREAS, the Participating UN Organizations and Donors to [NAME OF MDTF] agree to [NAME OF NON-UN PO]'s participation in the [Name of MDTF].

WHEREAS, The Participating UN Organizations authorize [Name of AA] as Administrative Agent to conclude this Memorandum with [Name of Non-un PO] for its participation in the Fund.

NOW, THEREFORE, [NAME OF NON-UN PO] and [Name of AA] hereby agree as follows:

1. [NAME OF NON-UN PO] warrants and confirms that it has entered into relevant basic agreements with the governments of the countries where it will operate in connection with the [Name of MDTF], as a basis for its activities.

2. [NAME OF NON-UN PO] warrants and confirms that it has privileges and immunities in respect of its personnel and assets consistent with those of the Participating UN Organizations in the countries where it is to undertake activities in connection with the [NAME OF MDTF], including functional immunity of its personnel and assets, and immunity from legal process and from search and seizure.

3. [NAME OF NON-UN PO] agrees to carry out its activities on the terms and conditions of the Memorandum of Understanding entered into between the Participating UN Organizations and the [Name of AA] attached hereto as Annex I, which is an integral part of this MOU.

4. For Notices under this Memorandum, the addresses of [Name of AA] and [NAME OF NON-UN PO] are as specified in the attached **Annex** hereto.

5. This Memorandum shall enter into force upon signature by the authorized officials of [NAME OF NON-UN PO] and [Name of AA] and shall continue in force and effect until it expires or is terminated.

IN WITNESS WHEREOF, the undersigned, duly authorized representatives of the respective Parties, have signed this Memorandum in English in two copies.

For: Administrative Agent:

Signature: _____

Name: _____

Title: _____

Place: _____

Date: _____
For: [NAME OF NON-UN PO]

Signature: _____

Name:_____

Title: _____

Place: _____

Date: _____

<u>ANNEX</u>: Memorandum of Understanding between Participating UN Organizations and [Name of AA]

<u>ANNEX:</u> Notices

Annex II: UNDG Concept Note Template

I. Introduction

The establishment of a MDTF requires a clear articulation of the purpose of the proposed Fund, its key stakeholders and the financial viability of the Fund, taking into account the total. The purpose of the concept note template is to articulate the primary information that is needed to make a well informed decision on the establishment of a new MDTF.

II. Purpose and Scope of the [Name of MDTF]

Describe the purpose and scope of the MDTF including references to key policy documents (such as government policy papers, One UN Programme, UNDAF etc). Describe the key programmatic areas to be funded under the MDTF and an indication that the MDTF is established under the leadership of the Government and the UN Resident Coordinator (if applicable).

III. Description of the MDTF Arrangements

A. Contributions to the MDTF

Description of who may make contributions to the MDTF. To ensure maximum flexibility and adaptation to national priorities, a guiding principle of resource mobilization under MDTFs would be that donors are strongly encouraged to contribute with multi-year, unearmarked resources. However, if this is not possible, earmarking by donors will be allowed up to the level of sectors in line with national priorities. Earmarking to a UN organization is not permitted. It is expected that the percentage of earmarked resources will diminish overtime.

B. Eligibility for MDTF Funding

Description who is eligible to participate in the MDTF including UN Organizations and "non-UN entities" that have a similar international character. Where envisaged explain how other organizations will participate in the MDTF as Implementing Partners, receiving funding through UN Participating Organizations.

C. Allocation Decision Making

Explain the proposed project/programme allocation processes envisaged, including review and approval processes. Provide details regarding the establishment, if applicable, of sectoral or thematic windows as basis for allocating resources. The criteria for funding should be elaborated as well as the governance mechanism that would make the decision.

D. Administrative Agent Functions

Indicate who will be requested to be the Administrative Agent and highlight any proposed deviations from the standard Administrative Agent functions outlined in the MOU.

IV. Governance Arrangements

Describe the primary role, responsibility and membership, if applicable, of each level in the following sections. If there are other levels of governance you may add additional sections. This section may also include a diagram illustrating the governance arrangements.

i. *MDTF Steering Committee/Decision Making Body*
   - *Indicate the composition of the Steering Committee (UN, Government, may include donors, others); chairperson/s (UN or UN and Government); number representatives and if any are rotational;*

ii. *Steering Committee Support Office (SCSO)/Technical Secretariat (TS) - optional*
   - *Indicate responsibilities; where it will be located; lines of supervision; how staff will be recruited and at what levels (including national and international);*

iii. *Cluster or Sector Groups / Technical Committee - optional*
   - *Indicate responsibilities and if such structures already exist within the UNCT coordination arrangements or will need to be established;*

iv. *Participating Organizations*
   - *Indicate which UN Organizations and Non-UN entities that have a similar international character may become UN Participating Organizations in the MDTF.*

v. *Administrative Agent*
   - *Indicate which UN Organization will be selected to serve as AA;*

vi. *Implementing Partners*
   - *Describe the role that implementing partners, i.e. national authorities and other national, regional or international organizations and NGOs, may play to implement projects/programmes.*

V. Financial Viability

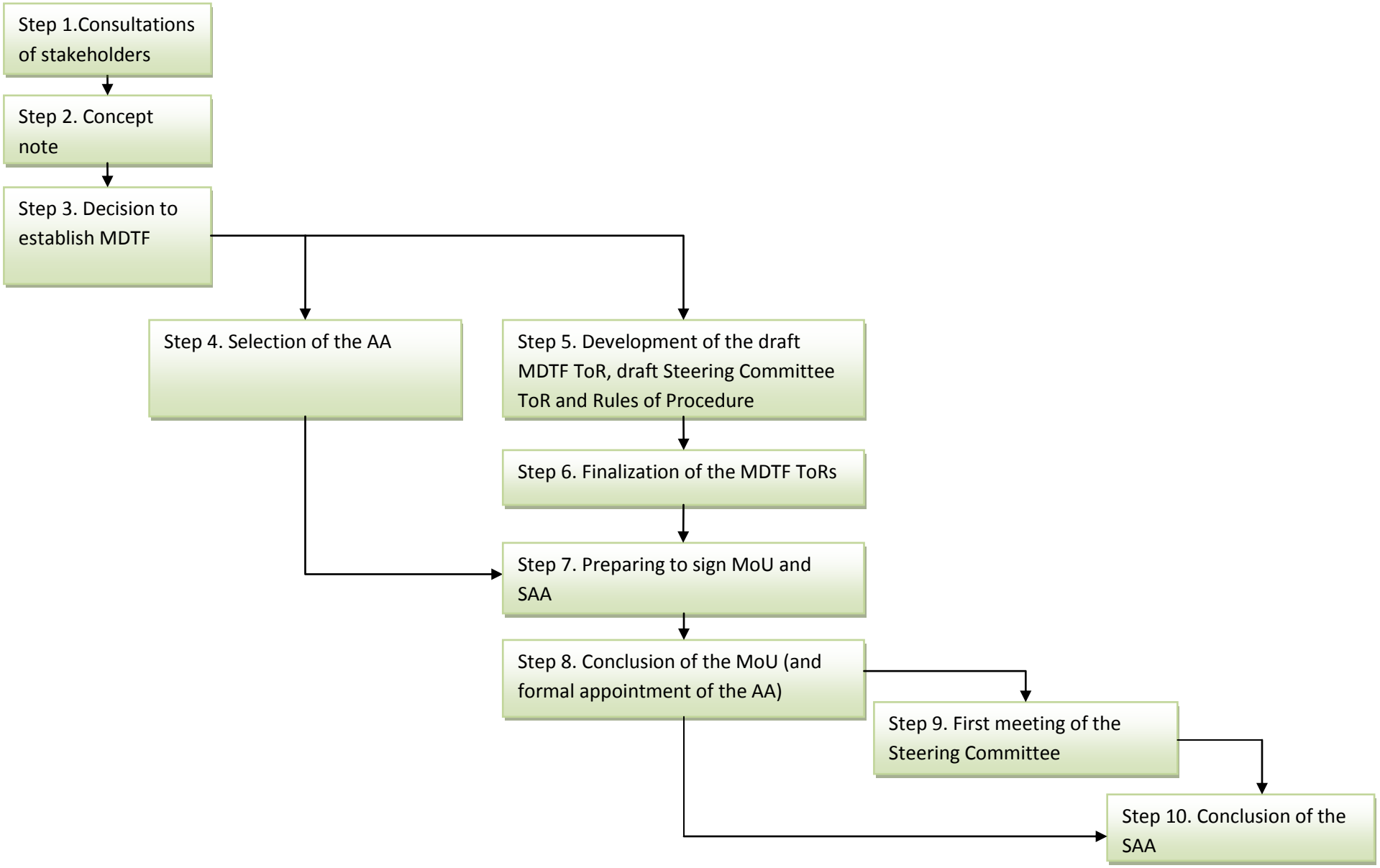
Based on the purpose and programmatic scope of the MDTF and the envisioned governance arrangements, indicate the anticipated minimum contributions necessary to make the MDTF financially viable.

Consideration may be given to the following items:

- *Number years the MDTF is operational (start date - end date)*
- *Anticipated annual contributions*
- *Volume of transfers to and expenditures of Participating Organizations*
- *AA fee (1% of total contributions)*
- *Direct costs of Steering Committee Support Office /Technical Secretariat (staff and M&E)*

If a MDTF does not anticipate mobilizing the necessary minimum resources to make the MDTF financially viable, but has a political or strategic importance outweighs concerns regarding the financial viability, provide further elaboration.

Annex III: Process of Establishing an MDTF



Annex IV: Generic Terms of Reference (Updated XX 2010)[14]

I. Introduction

Background information on and the context within which the establishment of the MDTF takes place, including references to key policy documents (such as government policy papers, Concept Note, One UN Programme, UNDAF etc). Describe the key programmatic areas to be funded under the MDTF and the duration of the MDTF. Indicate that the MDTF is established under the leadership of the Government and the UN Resident Coordinator (if applicable).

II. Purpose, Scope and Principles of the [Name of MDTF]

Describe the purpose of the MDTF, including references to the overall purpose, programmatic scope and principles.

III. Description of the MDTF

A) Life Cycle of the MDTF

Describe the life cycle of the MDTF including the Start Date and End Date. Indicate if the MDTF is a One Fund that corresponds to the UNDAF cycle?

B) Contributions to the MDTF

Description of how contributions to the MDTF may be made (and from who), including reference to general MDTF principle of encouraging donors to contribute multi-year, un-earmarked resources. If applicable, the level of any agreed-upon earmarking to a specific sector or thematic area(s) should be clearly defined.

C) Eligibility for MDTF funding

Description of how United Nations organizations may participate in the MDTF by concluding a Memorandum of Understanding, that "non-UN entities" that have a similar international character and are members of the UN Country Team and have financial rules and regulations comparable to the UN may also become Participating Organizations by concluding a separate MOU with the Administrative Agent. Where envisaged, explain that Implementing Partners will have access to the MDTF through the Participating Organizations, in which case the latter will utilise their standard cooperation modalities for this purpose.

D) Utilization of the MDTF funding

Explain how contributions may be utilized including:

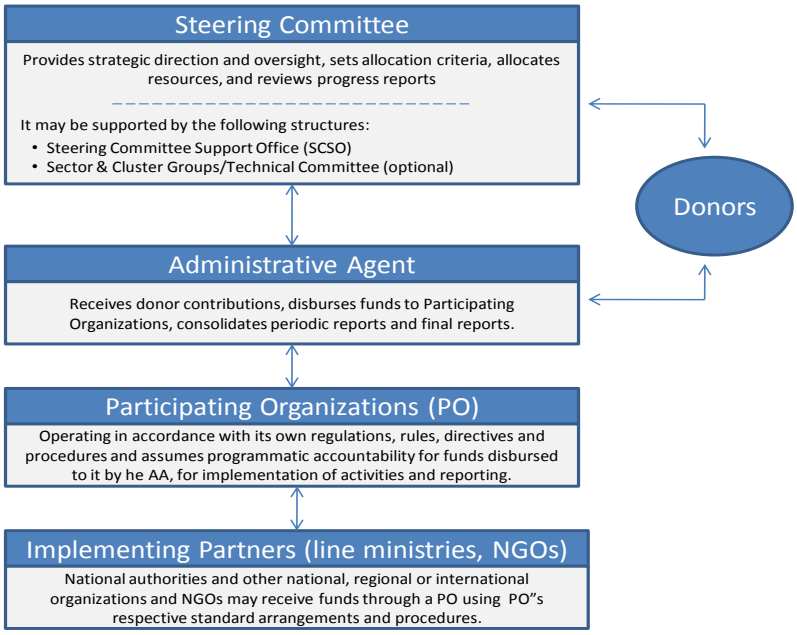
- *Allocations to specific sectors or thematic area(s) that will be established.*
- *Proposed project/ programme development, review and approval processes*
- *Criteria for funding approval of projects/programmatic*

[14] These generic Terms of References are for use in Multi-Donor Trust Funds, including Delivering as One: One UN Funds, at the country level and may be applicable to non-country specific context such as thematic, global or regional MDTFs. Examples of existing MDTF Terms of References are available on www.undg.org

- *Indicate how the direct cost budget may be used to support coordination and the operations of a Steering Committee Support Office / Technical Secretariat, if relevant, based on approved annual budget.*
- *Include standard text from MOU/SAA regarding indirect costs (7%) and AA-fee (1%).*

IV. Governance Arrangements[15]

Description of the governance arrangements of the MDTF, with sections on the MDTF Steering Committee, the Steering Committee Support Office (SCSO)/Technical Secretariat (TS) (if applicable), Cluster or Sector Groups/Technical Committee (if applicable), Administrative Agent, and Implementing Partners (outlined below). If other levels of coordination are involved in the governance arrangement, they may be added. Include details on the role, responsibilities and membership of each level in the following sections. This section may also include a diagram illustrating the governance arrangements. See illustrative example below:



[15] Global MDTFs may include relevant information on coordination/governance arrangements at global, regional and national levels.

MDTF Steering Committee[16]

Describe the MDTF Steering Committee including briefly outlining its responsibilities. Describe the how the Steering Committee shall be chaired or co-chaired by the Government and the UN Resident Coordinator (RC), or the Deputy Special Representative of the Secretary General (DSRSG).[17] *Also explain the composition including the UN and government representatives and donors. The decision on the inclusion of donors will be taken at the country level. Steering Committee composition shall ensure the principles of national ownership, inclusiveness and balanced representation, as well as the need to have a manageable size for effective decision-making.*

The UN Resident Coordinator (if applicable)

Describe the roles and responsibilities of the UN Resident Coordinator and Resident Coordinator Office.

Steering Committee Support Office (SCSO)/Technical Secretariat (TS)

Describe the roles and responsibilities of the MDTF Steering Committee Support Office/Technical Secretariat. As per the MDTF MOU/SAA, with the approval of the Steering Committee, the costs of such support may be charged as direct costs to the MDTF. Anticipate the number of staff, how they will be contracted or seconded, where they will be located and to whom they shall report. Generally, the SCSO/TS, at the country level, are located in the Office of the Resident Coordinator and report to the Resident Coordinator, but different arrangements can be made such as within the relevant government counterpart's office i.e. Ministry of Planning. [18]

Cluster & Sector Groups/Technical Committee (if applicable)

If applicable, describe the role that inter-agency cluster, sector or outcome groups or technical committee may play in the identification, review and/or development of projects/programmes as well as role in the prioritization of allocation of contributions to such areas.

The Administrative Agent

Describe the responsibilities of the Administrative Agent, as per UNDG "Protocol on the Administrative Agent for Multi-Donor Trust Funds and Joint Programmes, and One UN Funds". Description of the AA-fee (as per MOU/SAA) and, where a UN Organization is both an AA and a Participating UN Organization, references to the delineation of roles and responsibilities between the AA and Participating UN Organization. The AA will be entitled to allocate an administrative fee of one percent (1%) of the amount contributed by each donor, to meet the AA's costs of performing the AA's functions described in the MOU.

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[16] A Steering Committee refers to the governance/decision making entity that makes funding decisions for and provides oversight over a specific MDTF.

[17] Global MDTFs generally establish a global level steering or advisory committee and may include similar structures at the national level as well.

[18] In common humanitarian funds (CHFs), the SCSO/TC responds to the Humanitarian Coordinator.

Implementing Partners

Describe the role and responsibilities that Implementing Partners, i.e. national authorities and other national, regional or international organizations and NGOs, may play to implement projects. The Participating UN Organizations assume full financial and programmatic accountability, using their respective standard arrangements and procedures for transferring funds to Implementing Partners.

V. Decision Making / Contribution Allocation/Approval Procedures

Describe the process for decision making for the allocation of contributions to specific sectors or themes[19], if applicable, and the process for project/programme development, review stages and approval. Include the criteria used for taking such decisions. A diagram may be used to demonstrate the process.

VI. Monitoring and Evaluation

Describe the arrangements for MDTF monitoring and evaluation. At the project/programme level, Participating Organizations assume full programmatic and financial accountability for the funds disbursed to them by the Administrative Agent and undertake M&E in accordance with its their own regulations, rules, directives and procedures.

At the Fund level, as stipulated in the standard MoU, monitoring and evaluation of the MDTF will be undertaken as outlined in the MDTF TOR; therefore, adequate information should be provided within the TOR on the monitoring and evaluation arrangement put in place. Additionally, the MOU notes that the donor(s), the Administrative Agent and the Participating Organizations will hold annual consultations, as appropriate, to review the status of the MDTF. In this context, the use of standard monitoring instruments and reports is encouraged, wherever feasible. For example, to avoid duplication existing UN Country Team tools, such as the Annual UNDAF review mechanism, may also be used to track Fund progress.

VII. Audit

Reference to the audit provisions in the standard MOU and SAA, as well as the UNDG Framework for Auditing Multi-Donor Trust Funds (20 Sept. 2007).

VIII. Reporting

Description of the standard reporting arrangements of the MDTF, in line with standard UNDG MOU/SAA.

[19] Global MDTFs may include reference to allocation decisions at the country, regional and thematic levels.

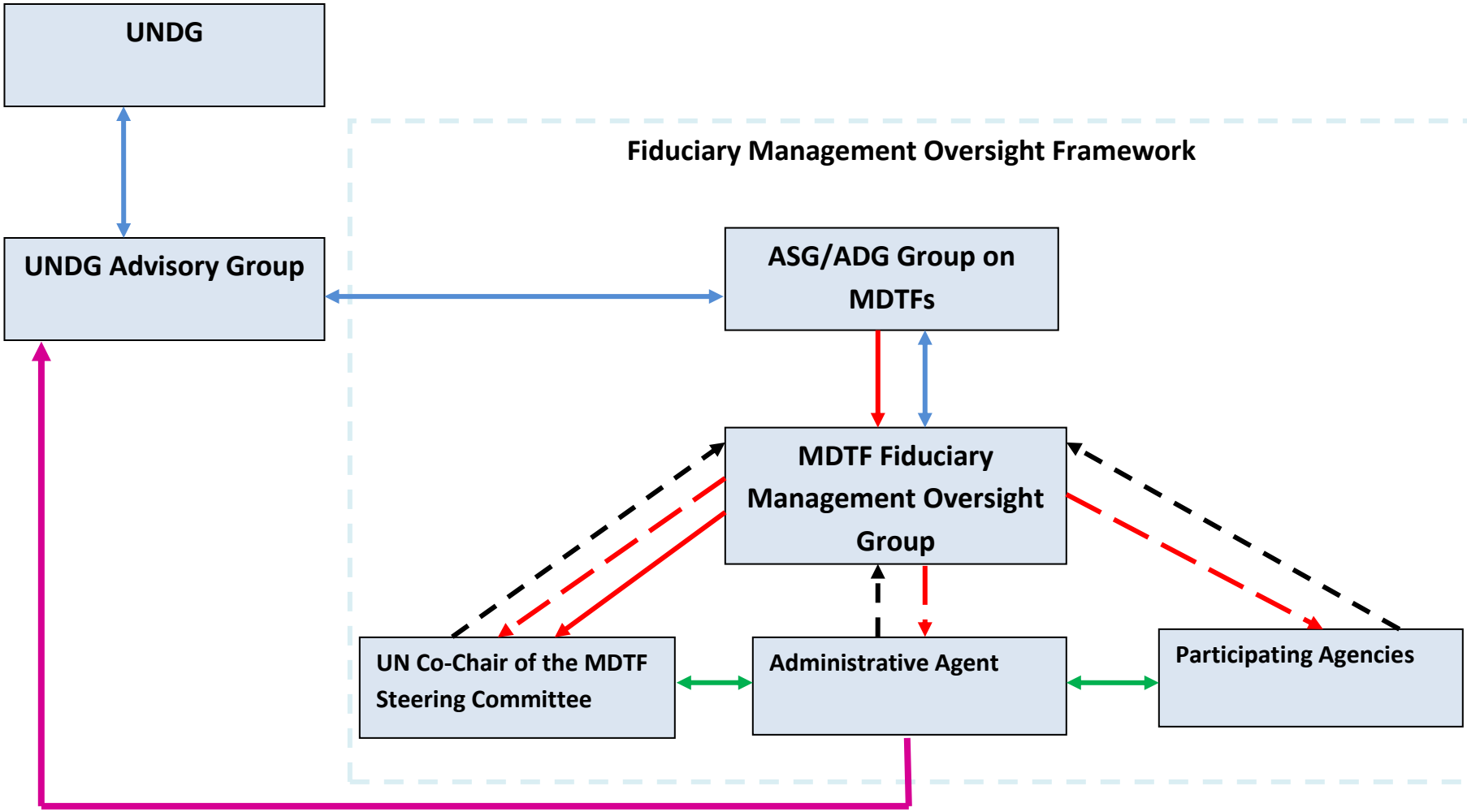
IV. Public Disclosure

Description of the provisions related to public disclosure related to the MDTF.

X. Termination of the MDTF

Description of the provisions related to termination of the MDTF as per standard UNDG MOU/SAA.

Annex V: Oversight Framework for MDTFs



Strategic policy discussions on exceptional high-level inter-agency policy UNDG-wide issues

Oversight (on inter-agency issues)

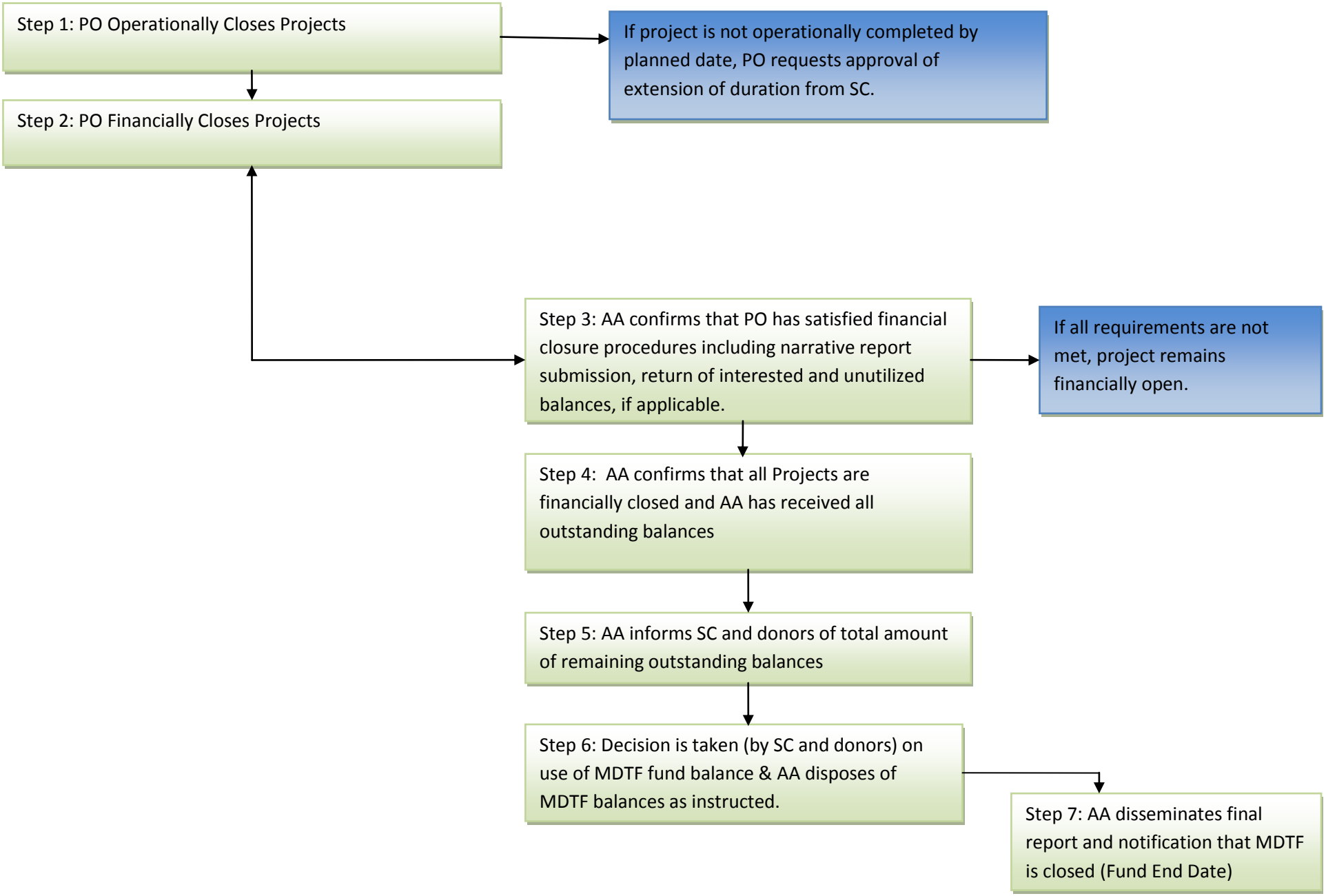
Queries, requests for guidance, endorsement or clarification on inter-agency matters related to MDTFs (fiduciary, legal, audit aspects)

Guidance and advice on inter-agency issues

Reporting

In accordance with the M&A Framework and its Implementation Plan UNDG Advisory Group would receive from UNDG member acting as an AA: reporting, following UNDG guidelines, including on fund allocations, disbursements as well as achievements and challenges in acting as AAs for MDTFs; full financial disclosure of all financial transfers and allocations by Administrative Agents to date, including use of AA fee.

Annex VI: MDTF Closure Processes



Annex VII: Standard Definitions

Fund Start Date
Date when the MDTF Memorandum of Understanding (MOU) is signed by two Participating UN Organizations and the Administrative Agent. This is the date the MDTF is established and Start Date.

Project /Programme Start Date
Date of transfer of first installment from the Administrative Agent to the Participating Organization.

Project/Programme End Date*:*
Date indicated as the end date in the approved project/programmatic document.

Ongoing Project/Programme*:*
A project/programme that continues to implement activities before the project/programme end date and has not concluded 100 percent of the approved programming.

Operationally Closed Project/Programme
A project or programme is considered operationally closed when all activities for which a Participating Organization is responsible under the approved programmatic document have been completed

Financially Closed Project/Programme
A project or programme is considered financially closed when all financial obligations of an operationally completed project or programme have been settled, and no further financial charges may be incurred.

Fund Operational Closure Date
Date on which all projects/programmes funded out of the MDTF have been operationally completed.

Fund End Date
Date on which the Administrative Agent provides final reporting to all stakeholders, including notification that the MDTF has been closed.

Fund Allocation
Individual financial allocations approved by the Steering Committee for a project or programmatic allocation.[20]

[20] *Within the life cycle of the MDTF, multiple allocations may be made toward the same project/programme. In such cases, new programmatic documentation and budgets may not be provided. However, the completion of activities for which the fund allocation has been made, shall be within the Fund Operational Closure Date.*