

## **Advantages and Disadvantages of Different Funding Mechanisms for UNDP Electoral Projects: Standard Cost-sharing, trust funds, and baskets of funds**

### **Scenario #1: Funding is received and managed in support of a UNDP electoral assistance project**

As discussed previously, the following funding arrangements apply when donor funding is received in support of an electoral assistance initiative that is based on a UNDP project. For more guidance on UNDP's programming instruments and project management issues please consult the UNDP User Guide<sup>1</sup>.

#### **Standard Cost-Sharing Arrangement**

Cost-sharing is a co-financing modality under which contributions can be received for specific UNDP projects in line with UNDP policies, aims and activities<sup>2</sup>. Donor governments as well as other donors — such as private sector entities, foundations and CSOs, all called 'third parties' because they are not parties to signing the project document — contribute funds to UNDP projects. These funds are multi-donor in nature, meaning that as many donors as possible or necessary can contribute to a given set of agreed results and project outputs. Funding is co-mingled and can include funds from UNDP (TRAC allocations). Financial reporting on cost-sharing contributions (as well as closed trust funds, as discussed below) is undertaken at the project level in ATLAS. Cost-sharing contributions continue to be the instrument on which basis the majority of other (non-core) resources are being received.

**Main advantages.** Financial contributions received as cost-sharing are easy to manage: The Country Office has the authority to enter into these agreements as long as they are consistent with current standard agreement templates and UNDP rules and regulations. It is important to remember that donor-specific agreements take precedence over the generic standard agreement templates<sup>3</sup>. Donors can earmark their contributions at the ATLAS project level.

If a donor insists on specific agreement clauses that differ from the agreed standard text, the Division for Resource Mobilization in BRSP should be contacted (via e-mail, at [cosupport@undp.org](mailto:cosupport@undp.org)) to assist with the clearance of non-standard agreements.

#### **Trust Funds**

A trust fund is a co-financing modality established as a separate accounting entity under which UNDP receives contributions to finance UNDP programme activities specified by the donor. Trust funds may be established by the executive board or by the administrator for specified

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<sup>1</sup> See <http://content.undp.org/go/userguide/results>.

<sup>2</sup> See BRSP Intranet at <http://content.undp.org/go/groups/brsp/Non-Core/Cofinancing-Modalities/?g11n.enc=ISO-8859-1&src=brsp>.

<sup>3</sup> A list of standard co-financing agreements can be found at the BRSP Intranet Web site at <http://content.undp.org/go/groups/brsp/Non-Core/Formats/?g11n.enc=ISO-8859-1>). Meanwhile, donor-specific agreements are listed at <http://content.undp.org/go/groups/brsp/Non-Core/Don/?g11n.enc=ISO-8859-1>).

purposes consistent with the policies, aims and activities of UNDP. Each trust fund is established either on the basis of a written agreement signed on behalf of UNDP and one or more donors or by the issuance of ToR for the trust fund in anticipation of receipt of contributions from prospective donors. The establishment of trust funds and the conclusion of agreements regarding contributions from donors take place under the authority of the Associate Administrator. That individual, except when she/he has explicitly delegated such authority, signs all trust fund agreements or documents establishing trust funds<sup>4</sup>.

**Main disadvantages.** Trust fund arrangements must undergo a particular clearance process often involving various HQ units before they can be formally established. (Thematic Trust Funds are an exception here since they have already been corporately established.) A Trust Fund Manager has to be appointed for each fund. Financial reporting is undertaken at the fund (summary) level only; no project level reporting is available.

### ***Receiving contributions from the European Commission on the basis of a standard ‘closed trust fund’ arrangement***

Any contribution from the European Commission (EC) has to be received on the basis of a standard ‘closed trust fund’ arrangement. Such an arrangement implies that the trust fund allows receipt of only one contribution from one donor in support of one particular project; or, in other words, it is ‘closed’ to other donors and projects. Closed trust fund contributions are treated the same way as cost-sharing in ATLAS: Both arrangements are considered project-level co-financing with financial reporting at the project level.

In terms of resources and number of projects, the EC is UNDP’s most significant partner in the area of electoral assistance. Between 1997 and 2006, the EC and UNDP collaborated on implementing 54 electoral assistance projects, mainly targeting African, Caribbean and Pacific countries. During that period, the EC contributed a total of €359 million (US\$459 million) in support of such projects. More detailed guidance for Country Offices on how to work with the EC and what to keep in mind when signing agreements with the EC is available in the ‘Resource Mobilization Toolkit’<sup>5</sup>.

### ***Receiving contributions through the Democratic Governance Thematic Trust Fund***

In some cases, donors prefer to channel their financial support through the Democratic Governance Thematic Trust Fund (DGTTF) using the service line for ‘electoral systems and processes’. When doing so, they often earmark their funding towards a particular country project<sup>6</sup>.

**Main advantages.** An existing funding mechanism is in place, which means there is no need to establish a new trust fund. Also, signature of trust fund agreements is delegated to the Country Office, where procedures are simplified through standard documents/templates. Some donors also assume

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<sup>4</sup> Standard documents and policies that apply to the different types of trust funds are available at the BRSP Intranet site at <http://content.undp.org/go/groups/brsp/Non-Core/Formats/?g11n.enc=ISO-8859-1>.

<sup>5</sup> For more information about UNDP’s partnership with the EC as well as related operational details, see [http://resourcemobilization.brsp.undp.org/3d\\_Working\\_with\\_European\\_Commission.cfm](http://resourcemobilization.brsp.undp.org/3d_Working_with_European_Commission.cfm).

<sup>6</sup> More detailed information on the Democratic Governance Thematic Trust Fund (DGTTF) and its operations can be found at <http://practices.undp.org/democratic-governance/ttf/index.cfm?src=121515>.

that by contributing through the DGTTF they are particularly supportive of the thematic area, thereby 'buying into' the overall picture as reflected in DGTTF report. This is not a common way of receiving contributions for electoral assistance projects, given the preference for cost-sharing arrangements negotiated and signed at the local level.

### ***Receiving contributions through an 'open trust fund'***

In the past, Country Offices worked through specific trust funds in support of electoral assistance projects open to various donors. These 'open trust funds' frequently were established to give particular visibility to donors providing the necessary funding. However, UNDP has widely come to question the necessity of these trust funds arrangements because with the introduction of ATLAS there seems to be no particular operational argument in favor of trust fund instead of cost-sharing arrangements. In principal, trust fund arrangements are much more cumbersome to establish and costly to administer in comparison with cost-sharing arrangements. Therefore, the establishment of open trust funds is corporately discouraged and is only approved by the Associate Administrator on an exceptional basis.

### **Basket Funds**

'Basket fund' arrangements in the context of electoral assistance are first and foremost instruments aimed at improving coordination among donors and partners involved in the implementation of these very complex, politically sensitive and highly visible projects. To emphasize their cooperation in supporting a particular electoral assistance project, donors and partners sign a memorandum of understanding (MoU) with UNDP to that effect. See sample standard MoU: [http://toolkit-elections.unteamworks.org/?q=webfm\\_send/155](http://toolkit-elections.unteamworks.org/?q=webfm_send/155).

Basket funds do not represent a new funding mechanism; in such arrangements, funding continues to be received on the basis of UNDP's standard cost-sharing or closed trust fund arrangements, both described previously. Financial reporting on basket fund arrangements has proved challenging in the past.

**Main advantages.** A basket fund arrangement enables a number of development partners to provide electoral assistance in close formal cooperation with each other. The enhanced coordination structure of a basket fund (reflected in the Basket Fund Coordination Committee) helps resolve issues caused by the ad hoc and sometimes disjointed nature of informal collaboration. It assists in providing maximum efficiency in resource use and service delivery, thereby helping to eliminate duplication of efforts and over-supply of certain activities. The basket fund model embraces the advantages of networked linkages and collaboration. Such arrangements provide a common voice and presence for donors in what can be a volatile environment.