**Risk Management Framework for Vertical Fund Projects**

Work in Progress – January 2024

1. **Background**

As an entity accredited to the Global Environment Facility (GEF), the Green Climate Fund (GCF), and the Adaptation Fund (AF), UNDP has entered into agreements with these Vertical Funds (VF) that guide the relationship between UNDP and the VF, and assign accountability to UNDP for ensuring that the resources provided by the VFs are used for their intended purpose in accordance with the policies and guidelines of the VF.

UNDP policies and procedures (in the [UNDP POPP](https://www.undp.org/accountability/policies-and-procedures)) clarify the accountability framework that enables UNDP to fulfill its legal responsibilities as an Accredited Entity. These policies and procedures include VF specific instruments such as the VF Delegation of Authority (DOA) letter for [GEF](https://popp.undp.org/document/ppm-appraise-and-approve-delegation-authority-agreement-gef-projects-master-template) and [GCF](https://popp.undp.org/document/delegation-authority-agreement-gcf-full-funding-proposal-master-template), the GEF project [RACI](https://popp.undp.org/document/raci-gef-oversight), the GCF NIM project [RACI](https://popp.undp.org/document/gcf-raci-nim-projects), UNDP [project documents](https://popp.undp.org/document/project-document-template) to be used for GEF or GCF financed projects, amongst others.

The application of VF requirements across a large portfolio of VF projects can be challenging for UNDP and project Implementing Partners. These challenges range, for example, from keeping abreast of new requirements regularly imposed on Accredited Entities by the VF Governing Bodies, to capacity constraints in providing the level of oversight required for VF projects fully implemented by government Implementing Partners. In this evolving and complex environment, non-compliance with the requirements of the VF can lead to significant reputational and financial risks for UNDP.

1. **VF project specific risks**

To support compliance with VF imposed requirements, a set of VF project specific risks have been identified (see Annex 1). These pre-defined VF project specific risks are aligned to the UNDP risk categories and sub-categories of the UNDP Enterprise Risk Management Policy and are additional to other project risks that may be identified during project design and implementation.

As highlighted in Annex 1, risk tolerance/appetite thresholds have been established for each pre-defined VF project specific risk and a risk significance of low/moderate/substantial/high is automatically assigned to the VF project specific risk based on the likelihood and impact of the risk being realized. The likelihood of the risk occurring is determined by the expected materialization of the risk (e.g., when date for compliance is approaching) and the impact is determined by the level of non-compliance and/or exposure to UNDP.

Most of the pre-defined VF project specific risks are automatically generated using project cycle data (e.g. planned date of mid-term evaluation completion) entered in the PIMS+ system during the VF project life cycle from early initiation through to project closure. Other qualitative risks are added (as ‘other’ risks) when identified during project oversight.

PIMS+ is a system viewable to all UNDP colleagues (see [the PIMS+ CO Dashboard](https://co.pims.undp.org/site/dashboard)). Data entry to PIMS+ is limited to BPPS Environment Hub colleagues involved in VF programming and the VF Programme Support, Oversight, and Compliance Unit.

1. **Roles and responsibilities in VF project specific risk management**

VF project specific risks, like all project risks, are treated and managed by the Project Assurance Function as outlined in the project governance and management arrangements. The first line of defense for most nationally implemented VF projects is a UNDP Programme Manager in the Country Office. All project risks, including VF project specific risks, are recorded and monitored in the project risk register (in Quantum). When a VF project specific risk is flagged in the PIMS+ risk dashboard, the CO is sent an automatic notification informing the risk owner, and the risk owner assesses and accepts the VF project specific risk and enters it into the project risk register[[1]](#footnote-2).

Technical risk support (second line of defense) is provided by experts in the Regional Bureaus and Hubs, the BPPS Environment Hubs and the VF Programme Support, Oversight and Compliance Unit depending on the type of risk and the risk significance level.

The BPPS Environment Hubs[[2]](#footnote-3), in close coordination with the Environment Hub Team leads (RTLs) in the Regional Hubs, provide second layer technical risk support of all VF project risks – including VF project specific risks - during the annual project reporting period (e.g., GEF PIR and GCF APR). The risk management actions agreed with the risk owner are documented in the risk management action plan of these annual project reports. These action plans are pulled into the project risk file in PIMS+. Risk support also occurs during regular oversight missions and this due diligence is documented in the risk management action plan in PIMS.

The VF Programme Support, Oversight and Compliance Unit monitors VF project specific risks and informs the relevant BPPS Environment Hubs, Regional Hub and Regional Bureau colleagues when additional risk management, treatment and/or escalation may be required to avoid the reputational and financial consequences to UNDP should these risks materialize. The Unit is also required to inform the VF Secretariats of certain risks and actions taken.

VF project specific risks that become high risk, and escalated VF project specific risks, are jointly treated and managed by senior management in the relevant business unit, the Regional Bureau (and Hub), and the relevant Environment Hub, coordinated by the VF Programme Support, Oversight and Compliance Unit.

1. **VF programme specific risks**

Some VF project specific risks are flagged across many VF projects in a given business unit (e.g. a Country Office) and this can be a strong indication that the root cause is a systemic issue that requires higher level management support. In these cases, a separate notification is sent from PIMS+ to senior managers of a business unit when 40% of the VF portfolio in the business unit has a Substantial or High VF project specific risk flagged during project implementation (not during project design and development). The senior manager will assess and accept the VF programme risk and enter the risk into the programme risk register (Quantum+) for further monitoring, treatment and escalation. See Annex 2 for suggested VF programme specific risks to add to programme risk registers, at minimum, when the 40% VF project specific risk threshold is reached.

**Annex 1: Pre-defined VF Project Specific Risks**

| **No** | **UNDP Risk Category and sub-category** | **Pre-defined VF specific risk** | **Definition** | **Risk consequence to UNDP as an AE of the VF** | **VF** **Tolerance**  | **Risk Significance** | **Point of Risk Deactivation**  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Low** | **Moderate** | **Substantial** | **High** |
| **1** | **1. Social and Environmental**1.3. Grievances (Accountability to stakeholders) | **Other: SECU case** | Eligible cases as reported by OAI | Non-compliance with VF policy affecting accreditation status | Zero | n/a | n/a | n/a | All projects that meet this criterion | When VF Hub manually deactivates when SECU reports case closed |
| **2** | **2. Financial**2.3. Corruption and fraud | **Other: OAI investigation case** | Eligible cases as reported by OAI.The VF Unit Directorate enters in PIMS and informs the VF.  | **Non-compliance with VF policy affecting accreditation status** | Zero | n/a | n/a | n/a | All projects that meet this criterion | When VF Hub manually deactivates when OAI reports case closed. |
| **3** | **2. Financial**2.5. Delivery | **Low delivery (against ProDoc workplan)** | Delivery against the expected delivery (i.e. as per ProDoc workplan) | Financial viability | 5% | 35% | 15% | 5% | When added as ‘other’ risk and escalated  | Delivery against ProDoc workplan > 35%  |
| **4** | **3. Operational**3.2. Leadership & Management | **At risk project** | 3 consecutive years of annual project progress rating (IP and/or DO rating) in the GEF PIR, GCF APR or AF PPR is "Unsatisfactory" or "Highly Unsatisfactory | Non-compliance with VF guidance affecting UNDP reputational with VF Governing Body. | 2 consecutive years | n/a | n/a | n/a | All projects that meet this criterion | When VF Hub Directorate manually deactivates based on evidence provided by PTA/RTL |
| **5** | **3. Operational**3.2. Leadership & Management | **Performance issues flagged in annual reporting** | Annual project progress rating (IP and/or DO rating) in the GEF PIR, GCF APR or AF PPR is “Unsatisfactory” or “Highly Unsatisfactory” | Non-compliance with VF guidance affecting UNDP reputation with VF Governing Body. | Zero | n/a | U | HU | n/a | For PTA approval of risk management action plan. Removed when PTA approves in PIMS+. |
| **6** | **3. Operational**3.2. Leadership & Management | **Slow performing project** | Projects with annual DO/IP rating of U or HU that have not been monitored by NCE | Non-compliance with VF guidance affecting UNDP reputation with VF Governing Body. | Zero | n/a | n/a | All projects where PTA has not approved the risk management action plan by specified date | n/a | When PTA approves risk management action plan. |
| **7** | **3. Operational**3.1. Responsiveness to audit and evaluations (Delays in the conduct of and implementation of recommendations) | **Unsatisfactory MTR outcome rating** | MTE ratings (either outcome rating or objective rating) provided by external evaluator is unsatisfactory or highly unsatisfactory | Non-compliance with VF guidance affecting UNDP reputational with VF Governing Body. | Zero | n/a | Unsatisfactory | Highly Unsatisfactory  | n/a | Next PIR/APR completed or manually deactivated by Directorate based on evidence provided by PTA/RTL |
| **8** | **3. Operational**3.1. Responsiveness to audit and evaluations (Delays in the conduct of and implementation of recommendations) | **Unsatisfactory MTR sustainability rating** | MTE sustainability rating provided by external evaluator is unsatisfactory or highly unsatisfactory | Non-compliance with VF guidance affecting UNDP reputation with VF Governing Body. | Zero | n/a | Moderately Unlikely | Unlikely | n/a | Next PIR/APR completed or manually deactivated by VF Hub Directorate based on evidence provided by PTA/RTL |
| **9** | **4. Organizational**4.5. Monitoring and oversight | **Mid-term Evaluation deadline approaching** | Date of MTRs/MTEs completion and reported to VF | Delay in disbursement of VF Fee (30%) to UNDP affecting financial viability. | Date reported to VF | Minus 4 months | Minus 3 months  | Minus 2 months | n/a | Actual Date of Mid-Term Review date entered. |
| **10** | **4. Organizational**4.5. Monitoring and oversight | **Terminal Evaluation deadline approaching**  | Date of TE completion and reported to VF  | Non-compliance with VF guidance affecting UNDP reputation with VF Governing Body, and potential to unfunded project extension  | Date reported to VF | Minus 4 months | Minus 3 months | Minus 2 months  | n/a | Actual Date of Terminal Evaluation date entered |
| **11** | **4. Organizational**4.5. Monitoring and oversight | **First Disbursement Request (GCF) deadline approaching**  | Date of first disbursement request submission (GCF projects only) or extension required approval by GCF | Non-compliance with VF policy affecting reputational with project partners. | 90 days | Minus 50 days | Minus 30 days | Minus 20 days | n/a | Disbursement Request Submission date entered |
| **12** | **4. Organizational**4.5. Monitoring and oversight | **IP signature deadline approaching** | Date of PPG IP to be signed  | Non-compliance with VF guidance affecting financial viability, and project may be cancelled.  | 25 days | n/a | n/a | 10 days | n/a | PPG IP Signature  |
| **13** | **4. Organizational**4.5. Monitoring and oversight | **ProDoc signature deadline approaching** | Date of project to be started (CEO Endorsement/Board Approval to ProDoc signature) | Non-compliance with VF guidance affecting financial viability, and project is at risk for implementation delay. | 6 months for FSP | Minus 3 months | Minus 2 months | Minus 1 month | n/a | Actual Date of ProDoc Signature date entered |
| Non-compliance with VF guidance affecting financial viability, and project is at risk for implementation delay. | 3 months for MSP | n/a | Minus 2 months | Minus 1 month | n/a |
| Non-compliance with VF guidance affecting financial viability , and project is at risk for implementation delay. | 4 months for EA | n/a | Minus 2 months | Minus 1 month | n/a |
| **14** | **4. Organizational**4.5. Monitoring and oversight | **GEF First Disbursement deadline approaching** | Date of first disbursement of GEF project to be completed in the Quantum+  | Delay in disbursement of VF Fee (50%) to UNDP affecting financial viability. | 8 months | Minus 3 months | Minus 2 months | Minus 1month | n/a | Actual Date of First Disbursement in Quantum+ date entered |
| **15** | **4. Organizational**4.5. Monitoring and oversight | **Probable delay of Oper Closure** | Date of operational closure completion and reported to VF  | Non-compliance with VF guidance affecting financial viability, and may incur extending oversight costs | Expected date as per PIMS+ | Minus 3 months  | Minus 2 months | Minus 1 month | n/a | Actual Date of Operational Closure date entered |
| **16** | **4. Organizational**4.5. Monitoring and oversight | **Overdue Financial Closure** | Delay in financial closure past date planned and reported to VF extending oversight costs | Non-compliance with VF guidance affecting financial viability | Expected date as per PIMS+ | 1 month | 2 months | 3 months | n/a | Actual Date of Financial Closure date entered |
| **17** | **5. Reputational**5.5. Stakeholder management | **Significant SES implementation challenges** | evidence of a grievance; or assessment by SES TA that harm is occuring or could occur; or other compelling evidence that SES measures are severely failing | Non-compliance with UNDP and VF policy affecting accreditation status | No such risks | n/a | Rating decided and selected by SES TA in APR/PIR  | Rating decided and selected by SES TA in APR/PIR  | Rating decided and selected by SES TA in APR/PIR  | Marked differently in the next APR/PIR or manually by Directorate based on evidence provided by PTA/RTL  |
| **18** | **6. Regulatory**6.3. Deviation from UNDP internal rules and regulations | **CEO Endorsement Submission Cancellation Risk 1** | Project automatically cancelled by GEF due to delay in submission to VF for approval | Non-compliance with VF policy affecting reputation with project partners | 12 months from PIF approval to submission for FSPs / 8 months for MSPs | Minus 3 months | Minus 2 months | Minus 1 months | n/a | Actual Date of CEO ER/Proposal Submission date entered |
| **19** | **6. Regulatory**6.3. Deviation from UNDP internal rules and regulations | **CEO Endorsement Cancellation Risk 2** | Project automatically cancelled by GEF due to delay in final VF approval of project (due to incomplete submission by UNDP)  | Non-compliance with VF policy affecting reputation with project partners | 18 months from PIF approval to endorsement for FSPs/12 months for MSPs | Minus 3 months | Minus 2 months | Minus 1 months | n/a | Actual Date of CEO Endorsement date entered |
| **20** | **6. Regulatory**6.3. Deviation from UNDP internal rules and regulations | **FAA effectiveness deadline approaching (GCF)** | Date FAA must be signed, or project is cancelled (GCF projects only) | Non-compliance with VF policy affecting reputation with project partners | 90 days | Minus 50 days | Minus 30 days | Minus 20 days | n/a | FAA Effectiveness/Project Start date entered |
| **21** | Depends on the other risk | **Other** | Added on discretion of RTA who provides 2nd layer oversight. |  |  | To be assigned depending on the Impact the risk would have if realized and the Likelihood of the risk begin realized. To be determine by RTA, PTA and RTL. | Manually deactivated by Directorate based on evidence provided by PTA/RTL |

**Annex 2: VF programme level risks**

| **No.** | **UNDP Country Programme VF Risk name** | **UNDP Risk Category** | **UNDP risk sub-category** | **Corresponding VF project specific risks flagged in** **the PIMS+ CO risk dashboard** |
| --- | --- | --- | --- | --- |
| **Event** | **Cause** | **Impact** |
| 1 | Non-compliance with Vertical Fund policies and regulations  | 40% of the VF portfolio in the business unit has a Substantial or High VF project specific risk flagged during project implementation  | * Non-compliance with VF policy affecting accreditation status;
* Non-compliance with VF policy affecting reputation with project partners;
* Non-compliance with VF guidance affecting UNDP reputational with VF Governing Body;
* Non-compliance with VF guidance affecting UNDP reputation with VF Governing Body, and potential to unfunded project extension;
* Non-compliance with VF guidance affecting financial viability, and project may be cancelled;
* Non-compliance with VF guidance affecting financial viability, and project is at risk for implementation delay; and/or
* Non-compliance with VF guidance affecting financial viability
 | 6. Regulatory | 6.3 Deviation from UNDP internal rules and regulations | * At risk project
* Other risk
* Safeguards implementation off-track
* Unsatisfactory MTR outcome rating
* Unsatisfactory MTR sustainability rating
* Performance issues flagged in GEF PIR/GCF APR
 |
| 2 | VF projects not delivered on time | 40% of the VF portfolio in the business unit has a Substantial or High VF project specific risk flagged during project implementation | * Financial viability;
* Delay in disbursement of VF Fee (30%) to UNDP affecting financial viability; and/or
* Delay in disbursement of VF Fee (50%) to UNDP affecting financial viability.
 | 2. Financial | 2.1 Cost recovery | * First disbursement deadline approaching (GCF and GEF)
* Low delivery
* MTR deadline approaching
* TE deadline approaching
* Operational closure deadline approaching
* Financial closure deadline approaching
 |

1. BPPS and BMS are working to automate the transfer of VF project specific risk that are flagged during project implementation from PIMS+ to Quantum. [↑](#footnote-ref-2)
2. The Principal Technical Advisor (PTA), and the Regional Technical Advisor (RTA) or Regional Technical Specialist (RTS) [↑](#footnote-ref-3)