**EU Reporting**

1. Th[e](https://ec.europa.eu/europeaid/funding/procedures-beneficiary-countries-and-partners/fafa-united-nations_en)[Financial and Administrative Framework Agreemen](https://www.undp.org/european-union/framework-cooperation)[t](https://ec.europa.eu/europeaid/funding/procedures-beneficiary-countries-and-partners/fafa-united-nations_en)[(](https://ec.europa.eu/europeaid/funding/procedures-beneficiary-countries-and-partners/fafa-united-nations_en)FAFA) governs our partnership with the European Commission (EC), for the implementation of the European Union (EU) budget. Each EU contribution comes with a contribution-specific agreement signed between UNDP and the EU representatives.
2. There are different EU contract templates in use depending on the year of signature and the type of EU funding (development or humanitarian). Accordingly, the reporting requirements such as reporting currency (US$ or EUR), formats, frequency and timelines may vary:

i) Up to 2013, there was one type of contract template used for EU contributions channelled through the UN, called the EU Standard Contribution Agreement (SCA) with International Organizations. Since 2013, in addition to this, the use of the EU Grant Contract was introduced. In both cases, the currency of the agreement and the financial reporting are set out in EUR.

ii) In 2015 the EU Pillar-Assessed Grant or Delegation Agreement (PAGoDA-1) template was introduced. While it defines the currency of the agreement in EUR, thefinancial reporting should be presented in the accounting currency of the Organisation i.e. in case of UNDP in US$.

iii) In 2016 the EU PAGoDA-2 contract template was introduced. It allows to define the currency of the agreement either in EUR or in the accounting currency of the Organisation, i.e. in case of UNDP in US$, with the financial reporting to be presented in the currency of the agreement accordingly.

iv) Since 2019, the EU Contribution Agreement (CA) template was introduced. It allows to define the currency of the agreement either in EUR or in US$, with the financial reporting to be presented in the currency of the agreement accordingly.

In both the PAGoDA2 and the CA the choice of the currency of the agreement is at the discretion of the Organisation, i.e. UNDP (not the EU). As a matter of priority, all UNDP contracts should be in US$ whenever possible.

v) There are some specific reporting requirements for contracts funded through DG ECHO (EU Humanitarian Assistance) which impose the currency of the agreement and the financial reporting in EUR.

#  Currency of the Agreement and Exchange Rates

3. The last revision of the FAFA allows for the currency of the agreement to be set out in US$ or in EUR and, accordingly, for reporting to be done in US$ or EUR. In accordance with Article 8.1 of the FAFA “*All contribution-specific agreements between the UN and the Commission shall be denominated either in Euro or in the accounting currency of the UN organization*.”

It is the contribution-specific agreement that defines the details related to the currency of the agreement and the currency of the reporting as chosen by UNDP CO/BU in charge of a given action.

4. For this, it is important to negotiate each contribution-specific agreement in **US$** which is UNDP’s accounting currency in order to facilitate the financial reporting which in such case will be done in US$.

It is to be noted that when the currency of the agreement is US$, the EU’s contribution is limited to the maximum amount defined in EUR and the US$ amount is estimated using the [InforEuro exchange rate](https://ec.europa.eu/info/funding-tenders/procedures-guidelines-tenders/information-contractors-and-beneficiaries/exchange-rate-inforeuro_en)[[1]](#footnote-2) applicable at the time of signature of the agreement. The actual payments are done by the EU using the InforEuro rate applicable at the time of disbursement by the EU and therefore there could be differences between the initial budget estimate and the actual available budget upon receipt of all instalments from the EU.

5. There can still be some exceptions when the currency of the agreement needs to be defined in **EUR**, for example for contract funded by DG ECHO (Humanitarian Assistance) and the financial reporting will be done in EUR.

When the currency of the agreement is EUR, the EU payments are done in EUR and credited to UNDP’s account using the [United Nations Official Rate of Exchange (UNORE)[[2]](#footnote-3)](https://treasury.un.org/operationalrates/OperationalRates.php) applicable at the time when the EU’s contribution is recorded on UNDP’s bank account.

In those cases, and in accordance with Article 2.3 of the FAFA “*where necessary, actual expenditure will be converted into Euro using the rate of exchange* (i.e. UNORE) *at which the EU’s contribution was recorded in the UN organisation’s accounts*” (i.e., US$ for UNDP).

When COs receive only one contribution payment from EU at one UNORE the expenditure will be converted from US$ to EUR using the UNORE at which the EU’s contribution was recorded into UNDP’s accounts.

When COs receive several instalments from EU at different timing, the expenditure will be converted from US$ to EUR using the weighted average rate of UNORE or any other rate(s) as agreed with the EU.

# Measures to mitigate potential currency exchange rate fluctuations

There are certain exchange rate scenarios that are exposed to the foreign exchange gain/loss, to consider when dealing with EU-funded projects:

* When UNDP does pre-financing[[3]](#footnote-4) at the start of the project;
* When the EU pays on time, but given exchange rate fluctuations, UNDP incurs exchange gains/losses. This can be minimized by monitoring the budget on a regular basis and making the appropriate adjustments to the US$ budget so that the spending limit shown reflects what is available to spend;
* When UNDP does the pre-financing before the payment of the last instalment - this can be addressed by negotiating from the outset a smaller percentage to be disbursed as the last instalment. By monitoring the budget often enough (see above) any losses may be minimized as far as possible.

In order to minimize some of these challenges, COs/BUs should negotiate with the EU a 100% pre-financing scheme as default option in accordance with the FAFA. However, it is to be noted that in some exceptional cases the EU will not provide 100% pre-financing, for example for contracts funded through DG ECHO (EU Humanitarian Assistance) where the EU would pre-finance only 80% and retain 20% as final payment.

Furthermore, a reserve for contingencies - not exceeding 5% of the direct eligible costs - may be included in the budget (Annex III) to allow for adjustments necessary in the event of unforeseeable changes of circumstances on the ground, including possible fluctuations in exchange rates. It is to be noted, however, that the reserve can be used only with the prior written authorization of the Contracting Authority (i.e. EU), upon a duly justified request from the Organization (i.e. UNDP). Therefore, the contingency is not calculated in the instalments as it will be released only if necessary and upon approval of the Contracting Authority. The purpose of the contingency reserve is not to recover exchange rate losses, but rather to beef up those budget lines that have been most impacted by the exchange rate fluctuations.

# Reports

6. As per FAFA (Article 2.1), “*Reporting, narrative as well as financial, shall cover the whole of the Action described in the relevant contribution-specific agreements and their attached budgets, regardless of whether this Action is wholly financed or co-financed by the Commission. The narrative reports shall commensurate with the “Description of the action” and focus on results attained during the reporting period, the financial reports shall present the expenses with the same level of details as the “Budget of the action” had*. *The contribution-specific agreement sets out the information to be provided in reports by the United Nations to the Commission”.*

7. UNDP is required to report to the EU according to the approved budget (Annex III) of the EU-UNDP Agreement, thus, for easier reporting, it is preferable that the budget of the EU-UNDP Agreement reflects the structure of the project’s budget in UNDP’s ERP system.

8. The following reports are available for preparing the EU financial reporting[[4]](#footnote-5) (the list is not exhaustive):

* AAA report
* Cumulative Project Interim Financial Report (CPFR)
* Project Budget Balance

# EC Payments

9. The EU may pre-finance up to 100% of the EU’s share to a given year’s budget, without retaining a final payment. When the duration of a given project is up to 18 months, there shall be only 1 pre-financing instalment. When the action is longer than 18 months, the EU contribution would come in several pre-financing instalments per each commencing 12 months of project’s implementation, unless otherwise agreed with the EU.

10. It should be noted that in some exceptional cases the EU may retain up to 20 % of the EU’s share of the final year’s budget, in which case UNDP would need to “advance” and spend the corresponding amounts within the implementation period in line with EU’s eligibility criteria and subject to approval of the final report by the EU.

11. This is still the case for humanitarian operations funded by DG ECHO (EU Humanitarian Assistance) who would pre-finance 80% of its overall contribution to the action and retain 20% as final payment of its overall contribution to the action.

12. UNDP may request the next pre-financing instalment only upon fulfilling the reporting requirements set out in the relevant specific contribution agreement. The payment schedules are detailed in each individual contribution-specific agreement.

UNDP offices implementing EU-funded actions are required to thoroughly review the contribution-specific agreements in order to comply with the prescribed reporting requirements.

Questions relating to EU contractual aspects can be brought to the UNDP Brussels Representation Office-based **Helpdesk at:**  **ecsupport@undp.org**

Questions relating to UNDP’s finance matters can be addressed to fba.all@undp.org

1. [https://ec.europa.eu/info/funding-tenders/procedures-guidelines-tenders/information-contractors-and beneficiaries/exchange-rate-inforeuro\_en](https://ec.europa.eu/info/funding-tenders/procedures-guidelines-tenders/information-contractors-and%20beneficiaries/exchange-rate-inforeuro_en) [↑](#footnote-ref-2)
2. <https://treasury.un.org/operationalrates/default.php> [↑](#footnote-ref-3)
3. Pre-financing requires approval according to [Operational Guide of the Internal Control Framework for UNDP](https://popp.undp.org/_layouts/15/WopiFrame.aspx?sourcedoc=/UNDP_POPP_DOCUMENT_LIBRARY/Public/AC_Accountability_Internal%20Control%20Framework_Operational%20Guide.docx&action=default) (page 71) [↑](#footnote-ref-4)
4. It is to be noted that UNDP doesn’t share these reports with the EU. UNDP will report to the EU using only the agreed Annex III “Budget for the Action” as annexed to the agreement signed with the EU. [↑](#footnote-ref-5)