UNDP ACCOUNTING POLICY

NON-EXCHANGE REVENUE RECOGNITION

UNDER IPSAS 23

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1. PURPOSE

1.1 This policy provides the authoritative methods of accounting and reporting to be applied to the recognition of non-exchange revenue consistent with the requirements of IPSAS 23, which mainly includes voluntary contributions from donor governments, multilateral organisations, the private sector, and other sources.

2. BACKGROUND

2.1 UNDP receives voluntary contributions which represent non-exchange transactions under IPSAS 23 as UNDP receives resources from donors without directly giving approximately equal value in exchange. Voluntary contributions are provided to UNDP in the form of the following:

2.1.1 Regular resources contributions (core): unrestricted funds, no stipulations. Contributions are primarily from donor governments.

2.1.2 Other resources contributions: earmarked contributions for a specific geographic region, theme, programme, or project. Contributions are from donor governments, bilateral donors, multilateral organisations, local resources from programme countries, the private sector, and other sources.

2.1.3 Other contributions including, but not limited to GLOC (government contributions to local office costs) and donations.

2.2 Voluntary contributions are primarily represented in the form of contribution agreements with donors. For donors that provide regular funding to UNDP, UNDP has framework agreements or standard templates to minimise non-standard agreements (where possible). As stated below, non-standard agreements are approved by the Legal Office and OFRM. All non-standard agreements are separately documented and tracked.

3. SCOPE

3.1 This policy will apply to the recognition, measurement, and disclosure of UNDP non-exchange revenue as presented in UNDP's annual IPSAS financial statements.

4. KEY DEFINITIONS[1]

4.1 **Revenue**: "*gross inflows of economic benefits or service potential received and receivable by the reporting entity, which represents an increase in net assets/ equity, other than increases relating to contributions from owners*" (IPSAS 23.12).

4.2 **Conditions on transferred assets**: "*stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor*" (IPSAS 23.7). The recipient incurs a return obligation (i.e. a liability) to transfer future economic benefits or service potential to third parties when it initially gains control of an asset subject to a condition.

4.3 **Contingent asset**: "*an item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition may warrant disclosure in the notes as a contingent asset*" (IPSAS 23.36).

4.4 **Control of an asset**: "*arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit*" (IPSAS 23.7).

[1] Text in quotation marks reflects text directly from IPSAS standards as referenced.

4.5 **Non-exchange transactions**: "*transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange*" (IPSAS 23.7).

4.6 **Restrictions on transferred assets**: "*stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified*" (IPSAS 23.7). Gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained, therefore the full amount of the asset can be recognised as revenue.

4.7 **Stipulations on transferred assets**: "*terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity*" (IPSAS 23.7). Stipulations relating to a transferred asset may be a either conditions or restrictions (refer separate definitions for each). Stipulations are enforceable through legal or administrative process. If a term in laws or regulations or other binding agreements is unenforceable, it is not a stipulation.

Substance over form: transactions are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. In determining whether a stipulation is a condition or a restriction, it is necessary to consider whether the requirement to return the asset or other future economic benefits or service potential is enforceable and would be enforced by the transferor.

5. IPSAS AUTHORITATIVE GUIDANCE

This section outlines the IPSAS 23 requirements for identifying when a non-exchange transaction should be recognised as an asset and the equivalent amount as revenue or as a liability. IPSAS 23 takes a two-step approach, differentiating between the asset recognition criteria (step 1) and the revenue recognition criteria (step 2).

5.1 Asset Recognition

5.1.1 The recognition of an asset depends on the characteristics of a contribution and its binding arrangement.

5.1.2 IPSAS 1 defines assets as "*resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity*".

5.1.3 IPSAS 23.31 states that "*an inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognised as an asset when, and only when (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and (b) the fair value of the asset can be measured reliably*". IPSAS 23.42 further states that "*an asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition*".

5.1.4 Hence, the following criteria need to be jointly met to recognise an asset:

5.1.4.1 Controlled by an entity;

5.1.4.2 Result of past events;

5.1.4.3 Probable that future economic benefits will flow to the entity; and

5.1.4.4 Fair value of the asset can be measured reliably. Assets are measured at their nominal value unless the time value of money is material, in which case the asset is recorded at its present value, calculated using a discount rate that reflects the risk inherent in holding the asset.

5.1.5 IPSAS 23.36 states that "*an item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition may warrant disclosure in the notes to the financial statements as a contingent asset*".

5.2 Revenue/ Liability Recognition

5.2.1 IPSAS 23.44 states that "*an inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow*".

5.2.2 Once the contribution receivable has been recognised as an asset, a corresponding revenue is recognised unless stipulations (refer Section 4: Key Definitions) qualifying as 'conditions over transferred assets' (IPSAS 23.17) exist in the binding agreement. In the presence of qualifying conditions, the recipient incurs a present (return) obligation on initial recognition that is recognised as a liability. Revenue recognition is deferred until such conditions and present obligations are met. This has no bearing on asset recognition.

5.2.3 The presence of a return obligation in the agreement must be reviewed hand-in-hand with the **substance over form** criteria (IPSAS 23.20-25) to ascertain if conditions qualify:

5.2.3.1 Enforceability: can the condition (i.e. the return obligation) be enforced by the donor?

If the donor cannot enforce the return obligation, the stipulation is in substance a restriction and not a condition.

5.2.3.2 Past experience: does the donor enforce?

Even if the return obligation is enforceable in the event of a breach of the stipulation, however past experience shows that the donor does not enforce it, the stipulation is in substance a restriction and not a condition.

5.2.3.3 No experience: is there prior experience with the donor/ prior experiences of breaches?

Without past experience and evidence to the contrary, it would assume that the donor would enforce the return obligation, hence the stipulation meets the definition of a condition.

5.2.4 If the stipulation is determined to meet the definition of a condition, and a liability is recognised as a result, IPSAS 23.48 states that "*revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognised by the entity*", i.e. revenue is recognised equal to the reduction of the liability from satisfying the present obligation.

5.2.5 IPSAS 23.50 states that *"a present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognised as a liability when, and only when: (a) it is probable that an inflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and (b) a reliable estimate can be made of the amount of the obligation*". IPSAS 23.57 further states that "*the amount recognised as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date*".

5.3 Constraints on Application[2]

5.3.1 Materiality: the concept of materiality is important in the application of IPSAS 23 and depends on both the nature and amount of the item judged in the particular circumstances of UNDP. UNDP, on an annual basis, determines its internal materiality thresholds for financial reporting purposes. The application of IPSAS 23 will be considered in light of the UNDP internal materiality.

5.3.2 Cost-benefit: in applying IPSAS 23, cost-benefit considerations must be taken into account given the costs imposed by financial reporting (i.e. application is subject to cost-benefit

[2] IPSAS,The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, Constraints on Information Included in General Purpose Financial Reports, para.3.32-3.40.

constraint). In this regard, the IPSAS Conceptual Framework includes guidance and indicates that "*the benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/ or quantify all the costs and all the benefits of information included in General Purpose Financial Reports (GPFRs)*".

6. APPLICATION OF IPSAS 23 TO UNDP – ASSET RECOGNITION

6.1 Overview

6.1.1 In general, UNDP's signed contribution agreements are considered enforceable and therefore an asset is recognised upon receipt of a signed agreement. The full amount of contribution agreements is also recognised for multi-year agreements even if the schedule of payments is distributed over several reporting periods. Exceptions may exist due to stipulations as in cases listed below (i.e. parliamentary approvals, variable payment amounts, contingent portions, and government cost sharing agreements).

6.1.2 When a donor's contribution to UNDP is recognised as an asset, the corresponding revenue is generally also recognised unless the contribution agreement contains stipulations qualifying as 'conditions' (refer Section 7: Application of IPSAS 23 to UNDP – Revenue/ Liability Recognition for detailed considerations). If the contribution agreement contains an IPSAS 23 condition, a liability is recognised and only released to revenue when the condition is satisfied.

6.2 Control

6.2.1 UNDP controls a non-exchange asset at the earlier point in time of a binding, enforceable right to the future delivery of an asset, or upon delivery of the asset (such as a cash receipt).

6.2.2 UNDP enters into financing agreements to evidence a promise of a future revenue resource. A financing agreement is a standard contract between UNDP and the donor that defines the basic conditions for programme financing. It contains terms and conditions which may either be general in nature, or be specifically linked to conditions around reporting or disbursements. A financing agreement may be a single or multi-year agreement, with single or multiple instalments. In some cases, it may be preceded by a framework agreement.

6.2.3 <u>Parliamentary approval</u>

6.2.3.1 Some agreements (usually those with donor governments) include a clause that disbursements are subject to parliamentary/ government approval. While it may appear that this clause limits control of the asset since it is not certain that the agreement amount will be honoured, in UNDP's experience, donor governments have a history of transferring agreed resources. The clause refers to the donor's general annual process for its overall budget and is not specific to its particular commitment to UNDP. For the majority of cases, asset recognition is appropriate.

6.2.3.2 The exception to this is where the agreement merely states an intention to transfer resources (refer IPSAS 23.33) and the actual commitment would be communicated formally at a later stage (e.g. Strategic Partnership Agreement with Denmark 2017-2019 for core). In this case, asset recognition is deferred until the letter of commitment is received by UNDP.

6.2.4 <u>Availability of funds</u>

6.2.4.1 Agreements may include a general clause on the availability of funds. In UNDP's past experience, funding has not been withheld as a result of the existence of this clause. Therefore, asset recognition is appropriate.

6.2.5 <u>Variable/ performance-related portion</u>

6.2.5.1 Certain agreements may include variable or performance-related payment amounts, linked to specific targets (performance/ expenditure/ reporting) being met (e.g. Memorandum of Understanding with DFID 2018-2021 for core contribution).

6.2.5.2 The achievement of targets is not always under the control of UNDP and may require the involvement and assessment of targets for other partners, including other UN Agencies. Consequently, only the fixed portion (i.e. not the variable or performance-related payment amount) meets the definition of an asset since it is under UNDP's control. The variable or performance-related portion is considered a contingent asset and is recognised as an asset only once the specific targets are met.

6.2.6 Contingent portion

6.2.6.1 Some agreements may include a reserve for contingencies, allowing amounts to be adjusted in the event of unforeseeable changes in political or economic conditions (e.g. to cover possible fluctuations in exchange rates). For e.g., select European Commission (EC) agreements include a 5% contingent amount which can only be used with the prior written authorisation of the EC, upon a duly justified request from UNDP. Since the contingent amount is not under UNDP's control, asset recognition is not appropriate for the contingent amount until UNDP receives written confirmation from the donor that the amount will be transferred.

6.2.7 Termination clause

6.2.7.1 The "termination clause" is a standard term in UNDP's general and donor-specific agreement templates, is very general in nature, and a common feature of most agreements involving two or more parties. The clause further states that UNDP will continue to hold unutilized payments until all commitments have been satisfied.

6.2.7.2 While there is no trend for termination clauses to be invoked by specific donors or in specific countries, there have been instances where agreements were terminated due to the political situation in a programme country impacting project implementation (crisis, change in government, etc) or changes to sanction lists. Outside these unpredictable and exceptional circumstances, donors have not acted on this standard clause. Asset recognition is appropriate unless information becomes available that brings the probability of inflows into question.

6.3 Result of Past Events

6.3.1 The past event is the financing agreement signed between UNDP and the donor which becomes enforceable upon signing by both parties.

6.3.2 Some agreements may state that the agreement comes into effect upon signature and first deposit. Even so, the past event required for asset recognition is the signature; the additional deposit is not necessary to qualify an agreement for asset recognition.

6.3.3 In cases where there is no agreement in place, or the receipt of cash precedes the agreement (e.g. core contributions from France, Germany and the Republic of Korea), asset recognition on a cash-basis is appropriate because the past event in this case would be the transfer of cash as a result of control. Refer to 6.2.1 above.

6.4 Probability of Future Economic Benefit

6.4.1 Financing agreements may include clauses that restrict the timing of disbursements. In the case of multi-year agreements, contributions may be disbursed upfront or be divided into several tranches over the course of the agreement.

6.4.2 Disbursement clauses may be in the form of (i) requests for payments; (ii) submission of progress/ financial reports; (iii) donor approval of progress/ financial reports; and (iv) a periodic payment schedule.

6.4.3 Even when disbursements are tied to UNDP submitting requests/ forms/ reports, UNDP's past experience with different donors has shown that the inflow of resources will still occur, notwithstanding that the funds may not have been transferred at the reporting date. In substance, the resources are in UNDP's control once the agreement is signed and the schedule of payments does not preclude the recognition of an asset.

6.4.4 There could be exceptional circumstances when future economic benefits may not be probable (e.g. COVID-19 crisis or other exceptional circumstances) which could result in payments being deferred and/or cancelled. When UNDP has information that payments may be deferred and/or cancelled, asset recognition will be reassessed as appropriate.

6.5 Reliable Fair Value Measurement

6.5.1 IPSAS 23 requires that an asset should be recognised only when the transaction can be reliably measured, which in UNDP's case is the negotiated amount stipulated in contribution agreements.

6.5.2 Assets are measured at their nominal value unless the time value of money is material, in which case the asset is recorded at its present value, calculated using a discount rate that reflects the risk inherent in holding the asset. UNDP will periodically assess the impact of the time value of money and record an adjustment when material.

6.5.3 Some donors include a clause with an "indicative amount", using terms such as "up to", "estimated", "not exceeding", or "the maximum amount of". Based on past experience with these donors and the review of several agreements containing those terms, donors have fulfilled the agreement amount in full in spite of this clause. As such, asset recognition is appropriate.

6.5.4 In order to determine fair values, reasonable ranges may be considered where appropriate.

7. APPLICATION OF IPSAS 23 TO UNDP – REVENUE/ LIABILITY RECOGNITION

7.1 Overview

7.1.1 In general, when a donor's contribution to UNDP is recognised as an asset, the corresponding revenue is also recognised unless the contribution agreement contains stipulations qualifying as 'conditions' which specify that future economic benefits need to be consumed as specified or else returned (return obligation). The consideration of whether a return obligation exists in the agreement must be reviewed closely with the **substance over form** criteria (refer Section 5: IPSAS Authoritative Guidance). In limited circumstances as listed below (unused funds, ineligible expenses), adjustments to revenue may be recorded to comply with IPSAS 23.

7.1.2 <u>Return of funds that are unused/ unutilised/ unspent</u>

7.1.2.1 The stipulation that unused funds should be returned to the donor at the end of project implementation does not impose a condition. Unused funds merely indicate that overall actual expenditure is less than earlier budgeted expenditure, and this residual amount is to be refunded to the donor. The potential liability is limited to amounts received but unused. As part of the year-end closure process, an estimate of refunds of unused amounts will be calculated as appropriate and an adjustment to revenue will be made as necessary.

7.1.2.2 Conclusion: asset recognition is followed by revenue recognition. Unused amounts will be assessed annually, and a liability will be recorded as appropriate.

7.1.3 <u>Return of funds for fraud</u>

7.1.3.1 Some agreements stipulate that the donor can either demand repayment of funds lost or suspend payments due to fraud/ corruption/ financial irregularities (which could be related to third parties such as implementing partners and suppliers, and not necessarily caused by UNDP. Per IPSAS 23.22, a clause in the agreement that requires UNDP to perform an action that it has no alternative but to perform, may lead UNDP to conclude that the clause is in substance neither a condition nor a restriction, because the performance obligation is imposed by the operating mandate of the entity, not by the terms of the transfer/ agreement. UNDP has clear policies and procedures on fraud and corrupt practices which apply to all activities and operations of UNDP, hence the performance obligation is internally imposed regardless of whether stated explicitly in an agreement.

7.1.3.2 Conclusion: asset recognition is followed by revenue recognition. Return of funds due to fraud/ irregularities will be assessed annually, and a provision will be made if amounts are deemed material.

7.1.4 Return of funds for ineligible expenses

7.1.4.1 Some agreements state that the donor may recover amounts unduly paid if expenses are not eligible based on reports submitted to the donor. For e.g., EC agreements specifically have strict rules around eligible expenditures which are closely monitored via verification missions/ audits. Past experience has shown that these instances are difficult to predict/ estimate and can occur at any time between the submission of the first progress report and up to 5 years after project closure. As part of the year-end closure process, refunds of ineligible expenses will be estimated on a donor-by-donor basis and an adjustment to revenue will be made as necessary in the period in which the expenditure is deemed to be ineligible.

7.1.4.2 Conclusion: asset recognition is followed by revenue recognition. Return of funds for ineligible expenses will be assessed annually, and a provision will be made if amounts are deemed material.

7.1.5 Return of funds for other non-compliance/ under-performance (not used for stipulated purpose / performance or reporting obligations not met/ etc)

7.1.5.1 Some agreements state that the donor can demand repayment/ suspend payments if UNDP violates any obligations as defined in the agreement.

7.1.5.2 With clear earmarking of funds in UNDP's internal project accounting and budgeting process, the likelihood of funds being spent on a purpose not agreed upon are low, i.e. an outflow of resources for this reason is not probable and the stipulation is not in substance a condition.

7.1.5.3 On breaches of obligations (e.g. reporting/ making payments when due/ etc), analysis of past experience demonstrates that the stipulation has the form but not the substance of a condition. UNDP has a longstanding relationship with its significant donors who have continued to support UNDP's activities regardless of reporting or payment delays, etc., i.e. an outflow of resources for this reason is not probable and the stipulation is not in substance a condition.

7.1.5.4 Conclusion: asset recognition is followed by revenue recognition. Return of funds for non-compliance/ under-performance will be assessed annually, and a provision will be made if amounts are deemed material.

8. SUMMARY OF ASSET & REVENUE/ LIABILITY RECOGNITION BY STREAM

8.1 Core (Regular Resources)

8.1.1 Core revenue is unearmarked funding received as voluntary contributions primarily from donor governments. The formal arrangements with each donor vary: multi-year agreements, annual letters of intent/ commitment, or cash receipt prior to formal agreement/ communication.

8.1.2 General recognition criteria for core revenue:

ASSET RECOGNITION	
Control	Yes: binding arrangement in the form of a signed agreement/ letter or transfer of resources (cash).
Past Event	Yes: upon signature of agreement/ letter or upon receipt of cash.
Probable Future Inflow	Yes: past experience has shown that an inflow of resources will occur.
Fair Value	Yes: estimated as the agreement amount as historically donors have fulfilled their commitment.
REVENUE/ LIABILITY RECOGNITION	
Conditions/ Restrictions (substance over form)	Unrestricted funding without any stipulations/ return obligations.
CONCLUSION	**An asset and corresponding revenue is recognised upon signature based on the amount stipulated in the signed agreement/ letter, or upon receipt of cash (for cases where no agreement is signed, cash is transferred prior to an agreement).**

8.1.3 Other considerations for core revenue:

Description	Accounting Treatment
Parliamentary approvals that form part of the donor's general annual process and do not restrict asset recognition ("soft" approval).	Asset and revenue recognition based on full agreement amount.
Parliamentary approval/ annual letter from the donor required before commitment is confirmed ("hard" approval), i.e. UNDP has no control of the asset.	Asset and revenue recognition based on amount confirmed in writing annually. *E.g.* ***Denmark****: agreement amount is non-binding & annual commitment letter required for asset recognition.*
No agreement signed/ cash transfer prior to agreement, i.e. the past event would be the transfer and not the agreement.	Asset and revenue recognition based on cash transfer amount. *E.g.* ***France/ Germany/ South Korea****: cash precedes agreements (if any) hence asset recognised on a cash basis.*
"**Availability of funds**" clause has not resulted in funds being withheld based on past experience, i.e. UNDP has control of the asset.	Asset and revenue recognition based on full agreement amount.
Variable/ performance-related portions may be outside the sole control of UNDP and tied to other partners, including other UN Agencies; these are not recognised as assets.	Asset and revenue recognition based on fixed amount. Variable amount recognised only when conditions are met. *E.g.* ***UK****: performance-related portion tied to other UN agencies excluded from asset recognition.*
Contingent amounts may be specified in some agreements; however, an asset is only recognised upon approval by the donor.	Asset and revenue recognition exclude the contingent portion as it is subject to donor approval.
"**Indicative amount**" clause has not resulted in funds being withheld based on past experience, i.e. fair value equals nominal value.	Asset and revenue recognition based on full agreement amount. *Exception: the* ***US*** *excludes the % estimated to be spent in sanctioned countries based on annual estimate provided by UNDP BERA: the final amount received is less than the amount committed.*

8.2 Non-core (TPCS – third party cost sharing)

8.2.1 Non-core revenue is earmarked for a specific purpose, often multi-year. Most arrangements are formalised via either a donor-specific or generic UNDP agreement template which contain standard accepted clauses. Some donor-specific templates are governed by overarching framework agreements with clauses that have been reviewed and accepted by UNDP. Any changes to agreements are formally agreed upon via a signed amendment.

8.2.2 Infrequently, a non-standard agreement format may be used where clauses would need to be individually reviewed in greater detail against the asset and revenue recognition criteria and approved by the Legal Office/ OFRM. All non-standard agreements are separately documented and tracked.

8.2.3 General recognition criteria for non-core revenue:

ASSET RECOGNITION	
Control	Yes: binding arrangement in the form of a signed agreement.
Past Event	Yes: upon signature of agreement.
Probable Future Inflow	Yes: past experience has shown that an inflow of resources will occur.
Fair Value	Yes: estimated as the agreement amount as historically donors have fulfilled their commitment.
REVENUE/ LIABILITY RECOGNITION	
Conditions/ Restrictions (substance over form)	Either agreements have stipulations that are not conditions (there are no return obligations), or per IPSAS 23.22, clauses in agreements are in substance neither conditions nor restrictions, because the performance obligation is imposed by the operating mandate of the entity (UNDP), not by the terms of the agreement (e.g. clauses relating to financial irregularities, fraud, corruption, deviation in use, breach of reporting deadlines, etc).
CONCLUSION	**An asset and corresponding revenue are recognised upon signature based on the amount stipulated in the signed agreement.**

8.2.4 Other considerations for non-core revenue:

Description	Accounting Treatment
Parliamentary approvals that form part of the donor's general annual process and do not restrict asset recognition ("soft" approval).	Asset and revenue recognition based on full agreement amount.
"**Availability of funds**" clause has not resulted in funds being withheld based on past experience, i.e. UNDP has control of the asset.	Asset and revenue recognition based on full agreement amount.
Variable/ performance-related portions outside the control of UNDP are not recognised as assets.	Asset and revenue recognition based on fixed amount. Variable amount recognised when conditions are met.
Contingent amounts may be specified in some agreements; however, an asset is only recognised upon approval by the donor.	Asset and revenue recognition exclude the contingent portion as it is subject to donor approval.
"**Indicative amount**" clause has not resulted in funds being withheld based on past experience, i.e. fair value equals nominal value.	Asset and revenue recognition based on full agreement amount. *E.g. for **DFID** (UK)**, KfW** (Germany), **MFA** (Norway)**, Netherlands, Norway, SDC** (Switzerland), some agreements from these donors contain indicative amounts, however based*

	on past experience donors have fulfilled the agreement amount in full in spite of this clause.
JPO (Junior Professional Officer) arrangements: based on MOUs and in practice, donors only commit to funding on an annual basis, and appointment letters are structured into 12-month periods. Cost estimates for each year are agreed by the JPO Unit (Copenhagen) with donors annually via exchange of letters/ emails.	Asset and revenue recognition based on amounts agreed annually.
MPTF (Multi-Partner Trust Fund) contributions: the ProDoc signed by the MPTF Secretariat and participating agencies for joint programmes reflects the full approved amount.	Asset and revenue recognition based on the full approved amount in the ProDoc.

8.3 European Commission (EC)

8.3.1 EC revenue is earmarked from the EC for a specific purpose, often multi-year. For each contribution to UNDP, the EC signs either a Delegation Agreement or a PA Grant Agreement (depending on the specifics of the financing/ implementation structure) which detail the project name and contribution amount. While the contribution agreement contains standard wording, there may be additional clauses which are discussed further in the table below. Any changes to agreements are formally agreed upon via a signed amendment.

8.3.2 The contribution agreements are governed under the Financial and Administrative Framework Agreement (FAFA, 2003) between the EC and the UN, supplemented by an Annex II (latest version effective 2019). Annex II explains in great detail the specifics of the relationship between the Contracting Authority (EC) and the Organisation (UNDP), including reporting, disbursement requirements, and eligibility of expenses.

8.3.3 General recognition criteria for EC revenue:

ASSET RECOGNITION	
Control	Yes: binding arrangement in the form of a signed agreement.
Past Event	Yes: upon signature of agreement.
Probable Future Inflow	Yes: past experience has shown that an inflow of resources will occur.
Fair Value	Yes: estimated as the agreement amount as historically donors have fulfilled their commitment.
REVENUE/ LIABILITY RECOGNITION	
Conditions/ Restrictions (substance over form)	Per IPSAS 23.22, clauses in agreements are in substance neither conditions nor restrictions, because the performance obligation is imposed by the operating mandate of the entity (UNDP), not by the terms of the agreement (e.g. clauses relating to financial irregularities, fraud, corruption, breach of reporting deadlines, etc).
CONCLUSION	**An asset and corresponding revenue are recognised upon signature based on the amount stipulated in the signed agreement.**

8.3.4 Other considerations for EC revenue:

Description	Accounting Treatment
Contingent amounts: some agreements include a 5% reserve for contingencies and/ or possible fluctuations in exchange rates, however an asset is only recognised upon approval by the donor.	Asset and revenue recognition exclude the contingent portion as it is subject to donor approval.

"**Indicative amount**" clause is in all EC agreements, where a maximum amount is set in EUR. *Exchange differences:* For agreements where the payment schedule is in EUR, the negotiated amount (nominal value) follows the maximum EUR amount stipulated in the agreement. For agreements that are further estimated into USD with payment schedules also set in USD, the negotiated amount (nominal value) is set in USD. Given the EUR ceiling, if there are fluctuations in exchange rates, UNDP may receive less in USD than originally anticipated overall. However, based on past experience, these exchange differences are immaterial, and the asset is recognised in full. *Forecast balance:* Some agreements are not fully pre-financed, and the final tranche is a "forecast balance", which is paid only after the final report is approved by EC. The amount received depends on actual expenditure, therefore UNDP may receive less than originally anticipated overall. However, based on past experience, the differences between the amount in the agreement and the amount received are immaterial and the asset is recognised in full.	Asset and revenue recognition based on full agreement amount. Any shortfall as a result of the "forecast balance" in the final tranche is adjusted in the period in which the donor determines the amount of the final disbursement.

8.4 Government Cost Sharing (GCS)

8.4.1 GCS contributions are received from UNDP programme country governments, earmarked for a specific purpose in the programme country itself. A government could be the national government or any regional/ local branch of the government duly authorised to enter into arrangements with UNDP.

8.4.2 Depending on the standard practice with each programme country government, arrangements may be formalised either via an agreement which contains standard accepted clauses, or a project document ('ProDoc').

8.4.3 While ProDocs take a somewhat different form to agreements, historically they have been used by certain programme country governments as the standard approach to declare the intention to transfer resources to UNDP and for formalising GCS contributions.

8.4.4 As for agreements, infrequently, a non-standard agreement format may be used where clauses would need be individually reviewed in greater detail against the asset and revenue recognition criteria and approved by the Legal Office/ OFRM. All non-standard agreements are separately documented and tracked.

8.4.5 General recognition criteria for GCS revenue:

ASSET RECOGNITION	
Control	Yes: binding arrangement in the form of a signed agreement/ ProDoc.
Past Event	Yes: upon signature of agreement/ ProDoc.
Probable Future Inflow	Yes: past experience has shown that an inflow of resources will occur. However, the inflow is subject to significant variability (refer to the fair value section below).
Fair Value	Donors exhibit significant variability in how much funding is ultimately transferred to UNDP (based on historical experience). Therefore, the fair value in many cases cannot be measured reliably. For donors with a consistent transfer history, the fair value is estimated as either the agreement/ ProDoc amount or by determining reasonable ranges where appropriate.

REVENUE/ LIABILITY RECOGNITION	
Conditions/ Restrictions (substance over form)	ProDocs: no stipulations. Agreements: the standard GCS template does not have stipulations that are conditions (there are no return obligations).
CONCLUSION	**An asset and corresponding revenue are recognised upon signature when the fair value can be reliably measured.** **Where the fair value cannot be reliably measured, recognition will take place upon the transfer of cash.** UNDP will continue to periodically review future GCS inflows to determine if the fair value can be reliably determined based on changes in payment trends from programme governments.

8.5 Government Contributions to Local Office Costs (GLOC)

8.5.1 GLOC are contributions from UNDP's host governments towards the local costs of country offices. OFRM calculates GLOC targets annually using best estimates of the local office costs (based on actual expenses) and UNDP communicates the targets to country offices through their respective regional bureaus usually in Q4 for the following year's GLOC targets. The country offices in turn communicate the set targets to their host governments.

8.5.2 Calculation of GLOC targets considers the following:

8.5.2.1 Local economic conditions may impact on the ability of programme countries to meet their obligations; a system of waivers exists depending on the country's income category (based on per capita GNI).

8.5.2.2 Governments may choose to contribute towards their targets via in-kind contributions (e.g. for premises), which are considered as part of the total local office cost and total GLOC target.

8.5.3 The Standard Basic Assistance Agreements (SBAA) that govern UNDP operations in programme countries make reference to assisting UNDP by paying towards the local cost of country offices, but no amounts are specified, and no further agreements are signed for the payment of GLOC. The SBAA requires the host government to make the payment to UNDP annually on the basis of "a lump sum mutually agreed between the parties". The absence of binding agreements renders GLOC targets unenforceable and based on experience, annual collection rates fluctuate from one year to another (44%, 39%, 42%, 54% and 56% in 2014 to 2018 respectively) and across different host governments. Aged amounts from some host governments have remained outstanding due to local political and economic factors and slow progress has been achieved by country offices following up the payment with host governments.

8.5.4 General recognition criteria for GLOC revenue:

ASSET RECOGNITION	
Control	No binding arrangement, hence enforceable claim to resources only established upon transfer of resources in the form of cash or in-kind contributions.
Past Event	No agreement, hence past event is the transfer of resources.
Probable Future Inflow	Yes: past experience has shown that some inflow of resources does occur although collection rates vary.
Fair Value	Difficult to estimate in advance as GLOC targets vary annually depending on the country's income level and in-kind contributions, and government contributions may vary annually depending on local political/ economic factors.

	For cash transfers, the fair value is the nominal value. For in-kind contributions, the fair value is based on the market value of the donated premises which is determined through a valuation exercise.
REVENUE/ LIABILITY RECOGNITION	
Conditions/ Restrictions (substance over form)	No binding agreement, hence, no stipulations. Asset recognition is followed by revenue recognition.
CONCLUSION	**An asset and corresponding revenue are recognised based on the cash value of the transfer and the fair value of the in-kind contribution.**

8.6 The Global Environment Facility (GEF)

8.6.1 UNDP is one of GEF's implementing agencies, assisting countries in designing and implementing activities consistent with both the GEF mandate and national sustainable development plans. Where UNDP is selected as a country's implementing partner, the arrangement between UNDP and GEF is governed by a Financial Procedures Agreement (2010), where The International Bank for Reconstruction and Development (IBRD) acts as the Trustee. UNDP maintains the UNDP/ GEF Trust Fund to receive, hold, and administer funds transferred to it by the Trustee.

8.6.2 Approval and disbursement process:

8.6.2.1 Countries submit project proposals to the GEF Council for approval. Once approved by the GEF Council, UNDP works with the government to formulate the project document, budget and workplan for submission to the GEF Secretariat. Endorsed projects are communicated via a CEO Approval Letter, with project details, grant amount, and agency fees. Subsequently, the Trustee sets aside the approved amount and then commits the funds in its system and communicates all new commitments monthly via a Letter of Commitment. If the funding allocation is decreased for any reason, the Trustee will cancel the commitment in its system and notify UNDP via a Letter of Commitment Cancellation.

8.6.2.2 Once committed by the Trustee, UNDP can request for funds via a Cash Transfer Request form (every 6 months or other mutually agreed frequency). Cash requests are aggregated at fund level (i.e. project level detail is not required) and submitted every December and June. Project level allocations are managed in UNDP via ASL.

8.6.2.3 At the point where the GEF Council approves project proposals, a Joint Summary of Council Approval notification is issued, which the Trustee uses to commit the 1st tranche of fees to UNDP. Depending on when the projects were approved, and the size of the projects, the fees may be released in 2 or 3 tranches over the course of the project. Regardless of the number and timing of tranches, the process remains the same i.e. UNDP can only request for the fees after the monthly Letter of Commitment is received from the Trustee (as part of the same Cash Transfer Request for project funds).

8.6.3 General recognition criteria for GEF revenue:

ASSET RECOGNITION	
Control	Yes: binding arrangement in the form of the CEO Approval Letter.
Past Event	Yes: upon signature of the CEO Approval Letter.
Probable Future Inflow	Yes: past experience has shown that an inflow of resources will occur.
Fair Value	Yes: estimated as the CEO Approval Letter amount as historically GEF has fulfilled its commitment.
REVENUE/ LIABILITY RECOGNITION	

Conditions/ Restrictions (substance over form)	Per IPSAS 23.22, clauses in agreements are in substance neither conditions nor restrictions, because the performance obligation is imposed by the operating mandate of the entity (UNDP), not by the terms of the agreement (e.g. clauses relating to financial irregularities, fraud, corruption, deviation in use, breach of reporting deadlines, etc).
CONCLUSION	**An asset and corresponding revenue are recognised upon signature based on the amount stipulated in the CEO Approval Letter.**

8.6.4 Other considerations for GEF revenue:

Description	Accounting Treatment
Contingent amounts: some agreements may include contingent amounts; however, an asset is only recognised upon approval by the donor.	Asset and revenue recognition exclude the contingent portion.

8.7 The Green Climate Fund (GCF)

8.7.1 UNDP received GCF accreditation in March 2015 and the arrangement is governed by an Accreditation Master Agreement (2016), where The International Bank for Reconstruction and Development (IBRD) acts as the Trustee. UNDP maintains a GCF Account to receive, hold, and administer GCF funds.

8.7.2 Approval and disbursement process:

Umbrella projects a. GCF Readiness projects (~USD 300k each) b. National Adaptation Plans (NAPs) (~USD 2-5mil each)	**Full-sized projects**
Umbrella projects are managed at the project level. Funding proposals are submitted to the GCF and endorsed projects are communicated via an Approval Letter, specifying the project, grant amount (excludes fee), and fee % (usually 8.5% or 10%). After approval, the 1st disbursement request can be submitted independently. Subsequent disbursements must be aggregated for several projects as part of biannual cash requests (January & July), detailing project names, total grants, amounts already requested, amounts already spent, and current requests. The GCF is meant to release funds within 30 days, however in practice this may take several months as they usually request for further details. The GCF Approval Letter specifies the exact fee % for that project, which can be requested in full with the 1st disbursement.	Each full-sized project has a separate Funded Activity Agreement (FAA), with a payment schedule and other clauses, which UNDP signs first. Some agreements may contain contingency clauses, the revenue for which is only recognised upon cash receipt. When the GCF receives UNDP's signed FAA, the GCF Secretariat issues an Effectiveness Notification (a 1-page document stating that they have accepted the project and the start date). Payments are made in accordance with the payment schedule. The FAA details the fee % and disbursement. Prior to February 2019, 100% of the fee was requested with the disbursement of the 1st tranche. Since then, the % is reduced to 90%, and the balance 10% is requested after the final progress report is issued.

8.7.3 General recognition criteria for GCF revenue:

ASSET RECOGNITION	
Control	Yes: binding arrangement in the form of the Approval Letter/ FAA (excl. contingent amounts).
Past Event	Yes: upon signature of the Approval Letter/ FAA.

Probable Future Inflow	Yes: UNDP received GCF accreditation in 2015, hence has limited past experience on determination of future inflows. However, experience since inception supports the conclusion that future inflows of resources will occur.
Fair Value	Yes: estimated as the Approval Letter/ FAA amount as GCF has so far fulfilled and is expected to continue to fulfil its commitment.
REVENUE/ LIABILITY RECOGNITION	
Conditions/ Restrictions (substance over form)	Per IPSAS 23.22, clauses in agreements are in substance neither conditions nor restrictions, because the performance obligation is imposed by the operating mandate of the entity (UNDP), not by the terms of the agreement (e.g. clauses relating to financial irregularities, fraud, corruption, deviation in use, breach of reporting deadlines, etc).
CONCLUSION	**An asset and corresponding revenue are recognised upon signature based on the amount stipulated in the Approval Letter/ FAA (excl. contingent amounts until such a time that they are approved by GCF and UNDP gains control).**

8.7.4 Other considerations for GCF revenue:

Description	Accounting Treatment
Contingent amounts: some agreements may include contingent amounts; however, an asset is only recognised upon approval by the donor.	Asset and revenue recognition exclude the contingent portion.
Co-financing: some UNDP-GCF agreements for full-sized projects include co-financing clauses, where funds may be sourced from several donors (separate agreements would be signed with each donor). GCF would need to be informed of any changes in co-financing, and next steps may include no-objection letters and/ or new Board approval. This is considered usual business practice for most projects, where donors are updated of project financing changes and new arrangements would be reached.	Asset and revenue recognition based on full agreement amount.

8.8 The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)

8.8.1 UNDP is one of GFATM's major partners in the implementation of Global Fund grants. UNDP acts as interim Principal Recipient (PR) in countries with capacity constraints, conflict, fragile governance or other exceptional circumstances. The arrangement is governed by a Framework Agreement (2016) and Grant Agreements signed between UNDP and GFATM. UNDP as PR will engage responsible parties referred to as sub-recipients (SRs) and may further disburse funds to these SRs to support the implementation of the projects. SRs may also contract and further disburse funds to sub-sub-recipients to support them in project implementation.

8.8.2 Approval and disbursement process:

8.8.2.1 The GFATM funding model runs in three-year allocation periods that correspond to donor replenishment cycles (2014-2016, 2017-2019, 2020-2022, etc). An allocation period is the three-year period during which eligible applicants may apply for funding for grant programs. In each allocation period, GFATM allocates funds by country and disease component. Allocation Letters are issued by the Global Fund Secretariat to each Country's National Committee referred to as the Country Coordinating Mechanism (CCM). The CCM should confirm or propose a revision to the disease split of the funding in the allocation letter prior to applying for funding. The start and end dates of the Implementation Period are defined in the grant agreement; the standard duration is three years.

8.8.2.2 The CCM develops a Proposal and high-level Budget for how the country would use the allocated funds and submits it to Global Fund's Technical Review Panel (TRP) for evaluation. Once cleared, the CCM and the TRP nominate a Principal Recipient (in this case, UNDP) to prepare the grant documents in consultation with stakeholders through a "Grant Making" process and produce individual Grant agreements which set out how and when the activities in the Grant will be implemented and evaluated.

8.8.2.3 The grant documents are submitted to the Grant Approval Committee (GAC) for review and clearance who in turn submit them to the Global Fund Board for approval. Upon approval by the Board, the Grant Confirmation is signed by the Global Fund Secretariat and issued to the Principal Recipient for implementation of the grant.

8.8.2.4 In year 1, the Global Fund Secretariat makes an Annual Funding Decision (AFD) based on the approved budget and disburses the funds on a quarterly basis. In subsequent years, UNDP as PR will submit a Progress Update and Disbursement Request (PUDR) to request funding for the following year and buffer period. GFATM reviews the Disbursement Request and makes an AFD confirming their committed funding for the following year and buffer period, the overall commitment and disbursement schedule to date. The Global Fund Secretariat disburses funds quarterly after issuing a Disbursement Notification to UNDP and the amount disbursed may be adjusted based on the progress of implementation.

8.8.2.5 Where variations to the Grant Confirmations are necessary (e.g. to increase/ decrease grant amounts), an Implementation Letter is issued by the Global Fund Secretariat. In most cases, there is a balance of the grant budget that remains unutilised at the end of the grant, which may consist of amounts not disbursed by GFATM and balance held by UNDP after commitments are met. Balances held by UNDP may be carried over to the next Grant (an Implementation Letter is issued) or refunded to GFATM.

8.8.3 In addition to being one of GFATM's PRs, UNDP also receives funding in its role as the Country Coordinating Mechanism (CCM) Funding Recipient. CCMs play a central role in proposal development, submission, and grant oversight, thus incurring administrative costs without independent resources to cover them. As they cannot draw from approved grant funds to cover support costs, GFATM established a separate pool of funds for this purpose.

8.8.4 CCM is not a legal entity and cannot enter into binding agreements, hence it designates a CCM Funding Recipient (such as UNDP) as the entity responsible to receive and manage funds on its behalf (amounts usually total less than USD 600k). As a CCM Funding Recipient, UNDP signs a CCM funding agreement with GFATM, usually for a three-year period. UNDP and CCM prepare a costed workplan annually which is reviewed and approved by GFATM. GFATM disburses funds to UNDP on an annual basis in advance, and UNDP ensures that funds are only used for activities in the workplan and are consistent with the terms of the CCM funding agreement.

8.8.5 General recognition criteria for GFATM revenue:

ASSET RECOGNITION	
Control	Yes: binding arrangement in the form of the Grant Confirmation/ CCM Funding Agreement.
Past Event	Yes: upon signature of the Grant Confirmation/ CCM Funding Agreement.
Probable Future Inflow	Yes: past experience has shown that an inflow of resources will occur.
Fair Value	Yes: estimated as the Grant Confirmation/ CCM Funding Agreement amount as historically GFATM has fulfilled its commitment.
REVENUE/ LIABILITY RECOGNITION	
Conditions/ Restrictions (substance over form)	Per IPSAS 23.22, clauses in agreements are in substance neither conditions nor restrictions, because the performance obligation is imposed by the operating mandate of the entity (UNDP), not

	by the terms of the agreement (e.g. clauses relating to financial irregularities, fraud, corruption, deviation in use, breach of reporting deadlines, etc).
CONCLUSION	**An asset and corresponding revenue are recognised upon signature based on the amount stipulated in the Grant Confirmation/ CCM Funding Agreement.**

8.8.6 Other considerations for GFATM revenue:

Description	Accounting Treatment
Contingent amounts: some agreements may include contingent amounts; however, an asset is only recognised upon approval by the donor.	Asset and revenue recognition exclude the contingent portion.

8.9 United States Agency for International Development (USAID) – Letter of Credit

8.9.1 USAID uses either of two funding modalities: either cash disbursements or Letters of Credit (LOC). The modality in force is specified in the contribution agreement with UNDP.

8.9.2 Agreements using the cash disbursement modality follow the same approach as a non-core contribution (refer Section 8.2: Non-core). This section refers specifically to where the funding of USAID grants is based on a LOC established by the US Government in favour of UNDP.

8.9.3 Agreements are negotiated and signed by UNDP country offices and the local US Government representative. Drawdowns against the LOC are performed via the Department of Health and Human Services (DHSS) Payment Management System (PMS). Drawdowns are performed quarterly based on expenditures recorded in Atlas by UNDP country offices at the end of each quarter. In addition, USAID allows further amounts for up to 3 days of future projected expenditures.

8.9.4 USAID agreements refer to both an Estimated Amount and an Obligated Amount. The Estimated Amount is the maximum amount that may be allocated by USAID for that grant, subject to the availability of funds and mutual agreement to proceed. The Obligated Amount is the amount USAID immediately commits as available for expenditure.

8.9.5 The maximum amount that can be drawn from PMS is the Obligated Amount. Additional funding for the project may be available up to the Estimated Amount, which requires the submissions of a formal request by UNDP, review and approval by USAID, and issuance of a Modification of Assistance notice from USAID before the funds become available for drawdown. The Obligated Amount then may be adjusted to equal the Estimated Amount. The agreements stipulate that USAID is not liable for reimbursing any costs incurred in excess of the Obligated Amount.

8.9.6 General recognition criteria for USAID (LOC) revenue:

ASSET RECOGNITION	
Control	Yes: binding arrangement in the form of a signed agreement.
Past Event	Yes: upon signature of agreement.
Probable Future Inflow	Yes: past experience has shown that an inflow of resources will occur.
Fair Value	Yes: estimated as the Obligated Amount as historically donors have fulfilled their commitment.
REVENUE/ LIABILITY RECOGNITION	
Conditions/ Restrictions	Either agreements have stipulations that are not conditions (there are no return obligations), or per IPSAS 23.22, clauses in agreements are in substance neither conditions nor restrictions, because

(substance over form)	the performance obligation is imposed by the operating mandate of the entity (UNDP), not by the terms of the agreement (e.g. clauses relating to terrorism, breach of contract obligations, etc).
CONCLUSION	**An asset and corresponding revenue are recognised upon signature based on the Obligated Amount stipulated in the signed agreement.** The difference between the Estimated Amount and the Obligated Amount is disclosed as a contingent asset in the financial statements.

8.9.7 Other considerations for USAID (LOC) revenue:

Description	Accounting Treatment
Contingent amounts: some agreements may include contingent amounts; however, an asset is only recognised upon approval by the donor.	Asset and revenue recognition exclude the contingent portion.

8.10 Donations

8.10.1 UNDP also receives small-value donations (including online donations) from individuals or other entities without agreements or reporting requirements. These are voluntary transfers of assets (cash) that are free from stipulations.

8.10.2 Donations are recognised upon receipt of cash per IPSAS 23.95, which states that "*the making of the gift or donation and the transfer of legal title are often simultaneous, in such circumstances, there is no doubt as to the future economic benefits flowing to the entity*".

8.10.3 General recognition criteria for donations:

ASSET RECOGNITION	
Control	Yes: enforceable claim to resources established upon transfer of resources in the form of cash.
Past Event	Yes: the transfer of resources in the form of cash.
Probable Future Inflow	Yes: the past event and the inflow of resources are simultaneous.
Fair Value	The fair value is the nominal value of the cash transfer.
REVENUE/ LIABILITY RECOGNITION	
Conditions/ Restrictions (substance over form)	No stipulations. Asset recognition is followed by revenue recognition.
CONCLUSION	**An asset and corresponding revenue are recognised upon receipt of cash.**

9. FINANCIAL STATEMENT DISCLOSURE REQUIREMENTS

UNDP is required to comply with the disclosure requirements of IPSAS 23 (para.106-115) and other disclosure requirements from other IPSAS standards (e.g. IPSAS 30.44, whereby UNDP will disclose by class of financial asset an analysis of the age of receivables from non-exchange revenue that is past due at the end of the reporting period,

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In Person Signer Events	Signature	Timestamp

Editor Delivery Events	Status	Timestamp

Agent Delivery Events	Status	Timestamp

Intermediary Delivery Events	Status	Timestamp

Certified Delivery Events	Status	Timestamp

Carbon Copy Events	Status	Timestamp

Witness Events	Signature	Timestamp

Notary Events	Signature	Timestamp

Envelope Summary Events	Status	Timestamps
Envelope Sent	Hashed/Encrypted	6/5/2020 2:50:11 AM
Certified Delivered	Security Checked	6/5/2020 10:14:19 AM
Signing Complete	Security Checked	6/5/2020 10:15:12 AM
Completed	Security Checked	6/5/2020 10:15:12 AM

Payment Events	Status	Timestamps

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