

UNDP Intranet

## Programme and Operations Policies and Procedures

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### Direct Execution (DEX) and Direct Implementation (DIM) Finances

RELATED SUB PROCESSES

N/A

#### DESCRIPTION

This section provides general guidelines regarding the financial management under **Direct Execution (DEX) and Direct Implementation (DIM) modalities**. The financial management procedures covering DEX/DIM are the general policies and procedures applicable to UNDP operations.

Please refer to the [Results Management Policies and Procedures - Selection of Implementing Partners](#) for information regarding DEX/DIM definitions, approval process, and project management arrangements.

In carrying out its human development mission, UNDP provides a range of support services to project implementation. In specific circumstances (see Executive Board Decision 98/2 on the use of Direct Execution) UNDP may take on the role of executing agent. In this task, UNDP must ensure that direct execution is carried out in an effective, efficient and transparent manner.

The execution of the projects requires that the UNDP, acting as Executing Agent/Implementing Partner, has the technical and administrative capacity to assume the responsibility for mobilizing and applying effectively the required inputs in order to reach the expected outputs. On the other hand, it is expected that the implementation of the DEX/DIM modality contributes to build national capacities. The UNDP Country Office ascertains the national capacities during the project formulation stage, determining where the strengths/weaknesses are, how UNDP can assist to build new capacities, and the exit strategy of the project, ensuring that the intervention of UNDP has collaborated to the development of new capacities.

As executing agent/implementing partner, UNDP assumes overall management responsibility and accountability for project implementation, while as a funding agency UNDP is accountable to the Executive Board for all aspects of its operations. UNDP must follow all policies and procedures established for UNDP operations.

UNDP may identify a Responsible Party to carry out activities within a DEX/DIM project. This party may be the government, an NGO, or an Agency of the UN System. In the case of NGOs and Agencies of the UN System, their own financial rules apply for the activities carried out by them. In case the government implements part of a DEX/DIM project, the government's own rules may be applied or, alternatively, procedures agreed with UNDP can be established (the ones detailed in the [NEX Finances section](#) of the Policies and Procedures may be used as an example).

#### Main requirements for Direct Execution and Direct Implementation

- The need to identify partners and define their roles and responsibilities in the project, ensuring broad participation by stakeholders
- The need to adapt the country office structure and to assign the technical, managerial and administrative tasks to carry out DEX/DIM projects
- The need to establish administrative procedures and operational systems to ensure the management of project inputs in an effective, efficient and transparent manner.

#### 1.1 Procedures:

#### Responsibilities, immunities and privileges of UNDP

Further to the indications of the technical cooperation amongst the Government entity and the official channel in the Government entitled to convey issues related to UNDP, it is necessary to include in the Project Document clear reference to the application of the norms of article 105 of the Letter of the United Nations and the ones contained in the Convention of the Privileges and Immunities of the United Nations as well as reference to the SBAA (or to the Standard Annex, for non-SBAA countries).

## Project Document

A Project Document must be formulated and approved by all parties involved (see [Results Management Policies and Procedures](#)). This Project Document constitutes the legal framework for the project

## Non-Harmonized and Harmonized Programmes

At the country level, DEX can only apply in non-harmonized countries or to projects outside a signed CPAP in harmonized countries. For projects under a signed CPAP, direct implementation (DIM) replaces DEX terminology

### a) Non Harmonized Programmes

In the Non Harmonized Programmes, within the agreed Country Programme/CCF, each Project Document is negotiated separately with the different national entities and the Government Coordinating Authority. In the project formulation process, it is decided which execution modality (NEX, DEX, Agency Execution, NGO execution) will be used for the particular Project.

Following that decision, the designated **Executing Agent** is the responsible party for all inputs and outputs in the project.

It is possible to designate **Implementing Agent(s)** (different from the Executing Agent) to carry out specific actions within the project. Implementing Agents are requested to implement some inputs to achieve some outputs within the Project, but the whole responsibility for the results of the Project rests with the Executing Agent).

### b) Harmonized Programmes

According to the new Programming Guidelines for UNDP programme activities carried out under the harmonized operational modalities,

- The term '**execution**' is redefined as the overall ownership and responsibility for UNDP programme activities at the country level. The Government, through the Government Coordinating Authority, exercises its ownership and responsibility for UNDP programme activities by approving and signing the Country Programme Action Plan (CPAP) with UNDP. **All activities falling within the CPAP are, therefore, nationally-executed.**

- The term '**implementation**' is also redefined as the management and delivery of programme activities to achieve specified results including the procurement and delivery of UNDP programme activity inputs and their use in producing outputs, as set forth in a signed document, the Annual Work Plan (AWP), between UNDP and the Implementing Partner (IP). Therefore, the reference "Executing Agencies" as used in the SBAA shall include responsibilities of the implementing partner in the AWP and executing partner in CPAP. Therefore, in a DEX project, UNDP acts as the Implementing Partner.

**Annual Work Plans** (AWPs) are attached by reference to the CPAP. In the case of DEX projects, AWP are signed by UNDP and the Government Coordinating Authority. The CPAP and AWP combined constitute the minimum requirements for a Project Document. Therefore, implementation responsibilities (*i.e., the achievement of specific results*) that were in the past linked to executing entities of programme initiatives/projects, have been separated from execution responsibilities (*i.e. ownership of the programme*) and placed under the responsibility of Implementing Partners (UNDP in DEX projects), who sign Annual Work Plans (AWPs) and are responsible for the management and delivery of programme activities to achieve results as specified in the AWP. Projects are no longer 'executed' separately by executing agencies on a project by project basis. Rather, AWP, which are an integral part of the CPAP, are implemented by Implementing Partners.

Refer to the [Results Management Policies and Procedures - Selection of Implementing Partners](#) for further details.

## Project Management

UNDP country offices should make full use of existing mechanisms for project management and accountability. Project management responsibilities should be distributed according to the following division of work: Project Board, Project Assurance, Project Manager, and Administrative Support Services. Refer to the [Results Management Policies and Procedures Selection of Implementing Partners](#) for further information on Project Management Arrangements under DEX/DIM projects.

Specific references to the financial management aspect of above-mentioned roles are described in the [Internal Control Framework](#)

## Origin of the funds

The policies and procedures covered in this section apply irrespectively of the origin of the funds to implement the project. Funds may be corporate (i.e. TRAC), Agencies' funds, Trust funds, Cost Sharing from the Government, International

Financial Institutions, Bilateral Donors, etc. All these funds will be recorded in Atlas according to the established rules for Receivables. Refer to the section of the Policies and Procedures on [Receivables, Receipts and Income](#) for detailed information on how to record income for the projects.

### Financial Management

Project financial management is an essential function that supports accountability for the use of UNDP resources. The major challenge for the country office is to:

- adapt its structure and functions in order to manage the project's resources to achieve expected results and to plan financial disbursements in accordance with the work plan and project document;
- define the levels of the project's financial authority;
- assume the responsibility and accountability over project funds;
- establish a system for the project's financial and accounting records and reporting.

The key issues/requirements in financial management of DEX/DIM projects are:

- All expenditures must be registered in the Combined Delivery Report (CDR). Note: A special format for financial reporting to headquarters is not available for DIM.
- A project accounting system is essential to keep track of the current financial status at all times.
- Mechanisms for expenditure control and segregation of duties.
- A system for handling outstanding obligations.
- Procedures for making payments and monitoring the performance of contractors.
- The UNDP Financial Rules and Regulations and Policies and Procedures are fully applicable to DIM projects
- Project approval and budgetary procedures for DEX/DIM are the same as for other projects.

The strict implementation of the [Internal Control Framework](#) policy is very important for the successful financial control of DEX/DIM projects.

### Financial Reporting

Financial reporting and control mechanisms that are used to monitor DEX/DIM finances are:

- The **Combined Delivery Report (CDR)** is mandatory and should be issued quarterly. The CDR reflects all disbursements made by the project in a certain period. The final CDR at the end of the year must be signed by the designated Project Manager within the UNDP Office and certified by the Resident Representative in the CO (or by the designated Project Manager in case of regional projects).

The CDR constitutes the official report of expenditures/obligations of the project for the period. Therefore, the CDR issued at the end of the year will contain all valid transactions of the project for the closed year. The expenditures/obligations there reflected are considered as final for that year, and consequently the re-phasing of the remaining budget to the following year(s) of the project will be done based on this information. Once the CDR is "closed", no further adjustments can be made for that period. Therefore, once the annual CDR has been issued, any adjustment to be made in the project's accounting must be recorded in the following year.

- The **Expenditures** detail must also be used to monitor the correctness of the recorded expenditures, and to provide detailed financial information to the projects.
- The **Project Budget Balance** is another important tool for financial management to monitor the project's budget, expenditures, commitments and budget balance.
- **Commitment Control** must be checked regularly in order to verify funds availability for project activities
- If Cost Sharing (CS) funds apply, the **CS Apportionment report** must be issued regularly.

Country offices should maintain records locally to reflect accumulated expenditures per budget line, budget balances and outstanding obligations. These records serve to monitor the project's financial situation and to share financial information with other stakeholders. Under direct implementation, project budgets and expenditures should be managed using ATLAS just as in other UNDP projects. The country office should use ATLAS to keep track of the financial status of the project at all times, to control expenditure, to handle outstanding obligations, to make payments and to monitor the performance of contractors. ATLAS provides information on the availability of funds, electronically transfers authorized payments and generates the proper payment instructions, and produces the Combined Delivery Report (CDR).

The country office prepares combined delivery reports (CDR) using ATLAS on the basis of payments directly made by the country office, UNDP Headquarters and other country offices, as well as expenditures reported by UN Agencies in the Project Delivery Report (PDR).

There is no required format for a DEX/DIM Financial Report. However, existing UNDP forms and formats for financial reporting and use at the country office level may be adapted to DIM projects, or similar reports may be created. The report should, at a minimum, provide quarterly information on expenditures made by budget line against approved budgets and allotments and should also show available balances.

The project manager should coordinate the preparation of financial reports with the finance section of the country office since this section administers the main sources of information, such as the monthly IOVs/DVs and the obligation records.

In DEX/DIM projects the Resident Representative is responsible for certifying the CDRs or the designated Project Manager in case of regional projects.

The audit of DEX/DIM projects is made through the UNDP's Office of Audit and Performance Review - OAPR). Resident Representatives may request OAPR to exceptionally undertake audits of DEX/DIM projects. DEX/DIM projects audit reports should not be shared with donors unless explicitly approved by OAPR. Refer to the [OAPR site](#) for further information.

At the finalization of a project, if funds utilized were not UNDP regular funds, the remaining balance of funds deposited in the UNDP accounts for the project activities must be reimbursed to the same Donor that initially provided the funds, or may be re-programmed if so agreed with the Donor.

### **Accounting systems**

In the context of DEX/DIM, ATLAS provides the management information system to ensure accuracy and transparency of financial information.

### **Mechanisms for expenditure control**

Under other implementation modalities, expenditure controls for country office spending include authorizations received from headquarters or from the designated institution for the project (from UN Agencies through an MOD, from an NGO or Government institutions through a request for Direct Payment or a request for advance of funds).

In the case of DEX/DIM, country offices do not receive authorizations to incur expenditures for specific budget lines or amounts. Therefore, country offices have to set up their own internal control mechanisms to make sure that budgets are not over or under spent and that expenditures are made properly, meaning that they correspond with the activities and the work plan. Detailed work plans should be kept updated so that staff members can perform the management and monitoring responsibilities assigned in DEX/DIM projects, and can ensure an appropriate flow of expenditures.

### **Outstanding obligations recording systems**

The country office should establish a system to follow up and monitor outstanding obligations. Obligations in DIM originate when a contract is signed with a contractor or provider of goods or services, or when a person is recruited to work in a project. An obligation also originates when purchase orders are placed and when travel advances are made. All obligations should be recorded since they will become expenditures.

The project manager should coordinate with the administrative units of the country office on the follow up of disbursements against obligations. Country office administrative units or sections that are managing recruitment, contracting and procurement for DEX/DIM projects may follow up and update outstanding obligations records.

### **Monitoring of payments and performance of contractors**

General accounting principles provide that contracts should be paid after work is satisfactorily completed and, in the case of procurement, once the goods are received in the specified place and condition. Payment of outstanding obligations against large contracts should be made in installments and subject to compliance with the contractual requirements. These requirements are, for example, payments linked to performance and progress of works or other quality control criteria that the country office establishes and includes in the respective contracts. In the case of project consultants, the payment of their honoraria may, for example, be linked to the submission of progress reports and the acceptance of their final report to ensure the quality of the product.

The project manager should monitor contracts signed with UN Agencies, NGOs and the private sector from both substantive and financial perspectives. Substantive monitoring in DIM consists of a technical assessment of the quality and relevance of the output. Since this requires expertise and sound judgment, the assistance of other stakeholders or United Nations agencies should be sought to better perform this function. For instance, the draft final report prepared by a contractor or consultant can be sent to stakeholders for comments before making the final payment. Financial monitoring and substantive monitoring should be linked to ensure efficiency.

The substantive follow up of contracts is done according to the contract. The following are examples of how to include

substantive monitoring in contracts:

- In contracts with NGOs or private companies, the Terms of Reference or Description of Services should include performance indicators such as deadlines, quantity and quality of outputs, major benchmarks in progress, etc. The project manager should confirm compliance with the indicators when forwarding the request for payment. The final payment should be made upon receipt of the final report or satisfactory final delivery of the agreed goods or services.
- UN Agencies are paid by Headquarters through their statements of expenditures. Country offices should review those statements to verify that the amounts reported as expenditures correspond to the description of services included in the Letter of Agreement. The progress of works and the quality of the outputs should correspond to the amount spent for the reporting period.

The Administrative Unit, through the review of the contractor's accounting records, requests and reports should do the financial follow up. In the case of UN Agencies, the project manager reviews their statements of expenditures.

#### Recording a DEX project in Atlas

The following are some relevant aspects to take into account when recording a project in Atlas:

- CPAP - Signed with the Government - outside Atlas
- AWP - Recorded in Atlas including different Activities and Inputs. It is important to remember that the term "Project" in UNDP policy represents an "Award" in Atlas. And the term "Output" is represented by a "Project" in Atlas (the budget is at the level of the Output). Therefore, there may exist one Project ("Award" in Atlas) with different Outputs ("Projects" in Atlas). This must be taken into account when deciding how to reflect the Project's structure in Atlas, since **the financial control in Atlas is at the Project level (where the budget is), and NOT at the Award level. Therefore, income, expenditures, advances, etc. will be controlled at the "Project" level in Atlas.**
- "Executing Agent" – For harmonized programmes, this is the institution which signs the CPAP. This is not entered into Atlas.
- Implementing Partner – It is UNDP for DEX projects. Reflected in Atlas when creating the Proposal, Award, and Project, in the "Institution ID" (Institution ID - Atlas code: 03315). UNDP should also be reflected in the Implementing Agent field (Impl. Agent - Atlas code: 001981)
- Responsible Party – Defined as partners that have been engaged by the Implementing Partner to carry out activities within a project. Responsible Parties must be reflected in Atlas in the Chartfields at the budget level, in the field "Implementing Agent" (for non-harmonized programmes, here should be reflected the Implementing Agency). The Implementing Partner (Institution ID) may be the same as reflected in "Implementing Agent" at the Chartfield level in most cases. However, for some activities or for the management of some inputs, another party ("Responsible Party") may be designated. This party may be the government, an NGO, or an Agency of the UN System.

Refer to [Atlas OnDemand](#) for further guidance on recording a project in Atlas.

Refer to the [Results Management Policies and Procedures](#) for more details on projects and programmes.

ATLAS must be used to manage programme information, budgets and expenditures. Regardless of execution modality, country offices and Headquarters' units are required to use the standard operational systems and tools developed by UNDP to manage income, budgets and expenditures.

#### Petty Cash and Imprest Level Management

##### Scenario 1 - UNDP is the cash custodian

All UNDP offices are authorized to maintain an office petty cash not exceeding \$500. The limit applies to the country office. If several petty cash balances are created, each with their own custodian, then the sum must not exceed \$500 unless authorized by Treasury. This includes petty cash balances for sub-office and project offices.

The purpose of the office petty cash is to facilitate small payments (not more than \$100 per payment) that would otherwise require creating a payment voucher in Atlas.

Following these guidelines, the RR must assign a petty cash custodian (typically a staff member within the finance unit) who is responsible for safeguarding the petty cash and for complying with the guidelines.

Following these guidelines, the account code use to record the office petty cash is:

Account	OU	Fund	Dept. ID	Project	Impl Agy	Donor
11015	Yours	00001	YOURS	blank	blank	blank

Any gains/losses on revaluation are automatically charged/credited to the central FX gain/loss account when HQ runs the revaluation process.

The balance in 11015, for an OU should never exceed \$500 unless approval has been received from Treasury.

Where an office needs more than one petty cash account, perhaps due to the presence of sub-offices, the above procedures apply except that each petty cash will have a separate custodian. If the combined total exceeds \$500 then approval is required.

Where an office (or sub-office) maintains large cash balances due to inadequate banking facilities this arrangement must be approved by Treasury. Depending on the size of the cash balance, Treasury may decide to create an "internal" bank account in Atlas to record the cash transactions in Atlas.

At the end of the year, every office must submit a report that shows the name of the petty cash custodian and a certification of the cash count as at 31 December.

### **Scenario 2 - Cash advance to UNDP (DEX) project bank account**

DEX/DIM project activities should be funded from the regular country office bank accounts. However, where the project activities are in a remote location, opening a dedicated bank account for the DEX/DIM project may be the best solution. Please note that a DEX/DIM project bank account is a UNDP bank account and, therefore, can only be opened by the UNDP Treasurer and the signatories can only be UNDP staff members. So if you need to create a DEX/DIM project bank account, first consult with the Treasurer. If the Treasurer agrees to open a DEX/DIM project bank account, a corresponding bank account will be created in Atlas.

Where project staff members do not have access to Atlas, the Treasurer will, on an exceptional basis, give the country office permission to use the "cash advance" modality. Using this modality, the country office will periodically transfer cash to the project bank account (typically once every two weeks). Before a new replenishment takes place, the project staff members are required to provide a full accounting of the previous replenishment.

The Atlas prepaid voucher modality must be used to facilitate tracking of the advances. The prepaid voucher is configured to charge account 16065 UNDP/UNCDF project cash advances: prepaid voucher modality.

Note that, unlike the NEX advance account (16005), advances charged to the Project Cash Advance account (16065) are not budget-checked. The prepaid voucher is liquidated by preparing a regular voucher, which then budget-checks and records expenditure.

### **Scenario 3 - Cash advance to DEX/DIM project staff**

The regular office petty cash should be used for small project-related payments. However, where the request exceeds the petty cash balance, then the office should issue a cheque to the project staff using the prepaid voucher modality. The procedures are the same as those described above for Scenario 2.

**IMPORTANT:** To minimize the risk of financial loss UNDP offices must keep cash advances to a minimum. Advances should only be issued where there is no possibility of issuing a cheque/bank transfer directly to the vendor. Any questions as to whether a cash advance is justified requires contacting the UNDP Treasurer for advice.

### **Cost Recovery**

The present cost recovery policy applies for DEX/DIM projects. GMS should be charged if funds other than core are budgeted in a DEX/DIM project. ISS is charged for all services provided. Refer to [UNDP Cost Recovery Policy](#) and [Cost Recovery Section of the Policies and Procedures](#).

### **Management of Assets**

All assets acquired within DEX/DIM project should remain the assets of the project and not of the UNDP office. Equipment purchased with the project's funds should be utilized for the project's activities. DEX/DIM projects' equipment must be reflected in separate inventories, and not in the UNDP office equipment inventory.

#### **1.2 Inputs**

The following inputs are needed to implement a DEX/DIM project and proceed with expenditures:

- Signed Project Document/AWP (planning of expenditures agreed)
- Project Manager designated in the UNDP Office

- Proper structure to carry out project activities installed in the UNDP CO
- Funds available

Regional Bureaux and Country Offices must make sure that approval is granted for direct execution before the initiation of project/programme activities. Refer to the [Results Management Policies and Procedures](#) - Selection of Implementing Partners for more details.

### 1.3 Deliverables

The following are the key deliverables:

- Expenditures cleared and recorded in Atlas
- Results achieved as detailed in the AWP

#### RELEVANT POLICIES

- All UNDP Financial Regulations and Rules apply.
- [Internal Control Framework](#)
- All Policies and Procedures applicable to UNDP operations (i.e. procurement of goods and services, recruitment of project personnel - SSAs and Service Contracts, training activities, etc.) - See [Policies and Procedures](#)

### Legal Context, Roles and Responsibilities

The responsibility for the execution of the DEX/DIM projects is with UNDP. This role in some projects is reflected in the Standard Basic Assistance Agreement (SBAA) signed by UNDP with the Government (or other document of agreement with the host Government).

In **non-harmonized** programmes, UNDP can act as Executing Agent, as designated in the Project Document.

In **harmonized** programmes, UNDP can act as the Implementing Partner, according to what has been agreed in the Country Programme Action Plan (CPAP) and in the respective Annual Work Plan (AWP). Note that under the new harmonized procedures, both CPAP and AWP constitute the Project Document.