

Office of Internal Oversight Services  
Internal Audit Division II

MEMORANDUM

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30 June 2006

TO: Mr. Supachai Panitchpakdi  
Secretary-General, UNCTAD

FROM: Corazón Chávez, Acting Director  
Internal Audit Division II,  
Office of Internal Oversight Services

SUBJECT: **OIOS Audit of UNCTAD Division on Investment, Technology and Enterprise Development (AE2006/341/01)**

1. I am pleased to submit the final report on the audit of UNCTAD Division on Investment, Technology and Enterprise Development, which was conducted from January to April 2006 by Anita Hirsch and Sophie Deflorin.
2. A draft of the report was shared with the Deputy Secretary-General of UNCTAD on 22 May 2006, whose comments, which were received in June 2006, are reflected in this final report.
3. I am pleased to note that all of the audit recommendations contained in the final Audit Report have been accepted and that UNCTAD has initiated their implementation. I wish to draw your attention to recommendations 01, 03, 04, 07, 08, 10, 11, and 15, which OIOS considers to be of critical importance.
4. I would appreciate if you could provide me with an update on the status of implementation of the audit recommendations not later than 30 November 2006. This will facilitate the preparation of the twice yearly report to the Secretary-General on the implementation of recommendations, required by General Assembly resolution 48/218B.
5. Please note that OIOS is assessing the overall quality of its audit process. I therefore kindly request that you consult with your managers who dealt directly with the auditors, complete the attached client satisfaction survey form and return it to me under confidential cover.
6. Thank you for your cooperation.

Attachment: Client Satisfaction Survey Form

cc: Mr. J. Childerley, Chief, Oversight Support Unit, Department of Management, United Nations (by e-mail)  
Mr. S. Goolsarran, Executive Secretary, UN Board of Auditors (by e-mail)  
Mr. T. Rajaobelina, Deputy Director of External Audit (by e-mail)  
Mr. D. Bruinsma, Deputy Secretary-General, UNCTAD (by e-mail)  
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**United Nations  
Office of Internal Oversight Services  
Internal Audit Division II**

# **Audit Report**

**Audit of UNCTAD Division on Investment, Technology and Enterprise  
Development  
(AE2006/341/01)  
Report No. E06/R06**

- **Report date: 30 June 2006**
- **Auditor(s): Anita Hirsch  
Sophie Deflorin**



Office of Internal Oversight Services  
Internal Audit Division II

**AUDIT OF UNCTAD DIVISION ON INVESTMENT, TECHNOLOGY AND ENTERPRISE  
DEVELOPMENT (AE2006/341/01)**

**EXECUTIVE SUMMARY**

From February to April 2006, OIOS conducted an audit of the UNCTAD Division on Investment, Technology and Enterprise Development (DITE). The audit focused on DITE's strategy, structure, funding arrangements, programme and project management and various administrative arrangements. OIOS interviewed Heads of Branches, Chief of Sections, various stakeholders including Government representatives. OIOS also reviewed documentation, annual reports, publications and personnel files.

OIOS found DITE's structure consistent with its mandate. Government representatives expressed general satisfaction with the DITE's work and regarded DITE as a professional organization that remained focused, up-to-date and provided good expertise. The Government representatives cited the World Investment Report as a cross-cutting reference and one of UNCTAD's best flagship reports. *UNCTAD agreed to implement OIOS' recommendations aimed to further improve the effectiveness, efficiency and sustainability of their programmes and projects, and to review their fundraising strategy and technical cooperation procedures.*

Mission, strategy and structure

- The Science and Technology Section, which services its own Commission and has activities not clearly related to the rest of DITE, appears a stand-alone component. The Secretary-General has taken the decision to consolidate Science and Technology and all Information and Communication and Technology-related activities into one Branch.
- Government representatives stated that DITE needed to prioritise and revisit its activities. Although high level priorities, budget and indicators exist through the general UN strategic framework and programme budget, the Division should further clarify its priorities at the working level and adapt its structure to adequately reflect its strategy.
- DITE needs to further develop workload indicators to support current allocation of resources and use them to justify reallocation, reduction or increase of resources.
- The Secretary General's Bulletin linked to the Organization of the UNCTAD Secretariat needs to be updated to reflect the current activities of the various Branches of DITE. *UNCTAD indicated that an updated version would be prepared before the end of 2006.*

Coordination and promoting capacity

- DITE's technical cooperation activities call for better coordination with other International Organizations involved in investment. Donors expressed concerns on aid effectiveness and conflicting prescriptions to the beneficiaries. *UNCTAD confirmed that its coordination with other International Organizations will be improved by the end of 2006.*
- Donors also had concerns over the overlap of some of DITE's products, namely Investment Policy Reviews (IPRs) and Investment Guides, as noted in a recent evaluation report. To help promote its capacity, OIOS recommended, and UNCTAD agreed, that consolidating similar products be considered.

### Support to Commissions and inter-sessional work

- Government Representatives raised questions on the effectiveness of the intergovernmental machinery, as well as on ad hoc expert groups. Although there had been an effort to improve expert meetings' efficiency, the cost for ad hoc expert groups more than doubled over one biennium, with their numbers remaining stable. OIOS believes that there is further room for improvement of the effectiveness and efficiency of the intergovernmental machinery and that UNCTAD should initiate a critical review. *UNCTAD indicated that the recommendation should be addressed to Member States since the effectiveness of intergovernmental machinery is beyond its direct authority.*

### Technical cooperation

- Despite initiatives to coordinate fundraising, there was still a lack of clarity as to who was ultimately responsible for it. To guide DITE and other Divisions in their fundraising, *UNCTAD agreed to review fundraising processes and structures so that responsibilities are clear and activities are coordinated.*
- No formal or documented process exists for prioritising the various technical cooperation requests. UNCTAD should develop criteria to assess its projects and clarify the project review process. *UNCTAD agreed to formalize its process and develop criteria to assess projects by mid-2007.*
- The lack of an adequate project management system was noted, impacting on the planning, monitoring and reporting of technical cooperation activities. *UNCTAD indicated that the implementation of the ITC portal, a substantive and financial management system, by the end of 2006 will address the issue.*
- The separate reporting of substantive and financial issues to donors makes it difficult to assess the progress and efficiency of technical cooperation projects. OIOS was of the opinion that too much emphasis was put on activities and outputs rather than results and impact. The UNCTAD report on technical cooperation activities should be restructured to disclose useful, analytical and transparent information. *UNCTAD agreed and confirmed such changes will be reflected in the 2007 report.*
- Following the decentralization of project management functions, there was an absence of training and procedures to guide staff. Consequently, the quality of project management was left to the individual. UNCTAD should strengthen its project design, planning, monitoring and evaluation. *UNCTAD agreed to develop guidelines, ensuring minimum quality standards by mid-2007.*

### Performance assessment

- Government representatives, beneficiaries or external evaluators, generally assessed DITE's activities as relevant and effective. DITE's systematic approach to evaluating its performance is noteworthy. Further efforts are necessary to assess the results, impacts, as well as the efficiency of its activities. *UNCTAD indicated that a results-based management approach will be progressively extended to UNCTAD's extrabudgetary activities throughout the 2006-2007 biennium*
- OIOS noted that, for DITE extra budgetary activities, insufficient consideration was given for their sustainability and "exit strategy". In the case of IPRs, several beneficiaries lacked the funds to implement the recommendations and a recent evaluation suggested that 30 per cent of the IPR budget be allocated for implementing them. *UNCTAD accepted OIOS' recommendation to strengthen requirements with regard to sustainability of projects and activities by mid-2007.*

### Administration

- OIOS noted numerous instances of non-compliance with the applicable instruction on Consultants and Individual Contractors. DITE should introduce improvements to ensure that the selection process is competitive and documented, and that consultants selected are the “most competent”, meet the criteria set in the terms of reference and are issued contracts prior to commencement of work. *UNCTAD indicated that the recommendation would be implemented with immediate effect.*

### The World Association of Investment Promotion Agency (WAIPA)

- Starting 2006, WAIPA, an NGO which used to have its secretariat on UNCTAD premises, was relocated outside the UN premises. WAIPA’s secretariat staff, at one time employed under UN contracts, was separated from UNCTAD.
- In reviewing the procedures in place to run the WAIPA Secretariat from UNCTAD, OIOS noted that operations were run without adequate internal controls. OIOS also noted instances where the line between the NGO and UNCTAD was not clear and led to conflict of interest.

June 2006

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## I. INTRODUCTION

1. From February to April 2006, OIOS conducted an audit of UNCTAD Division on Investment, Technology and Enterprise Development (DITE). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The United Nations Conference on Trade and Development was established by General Assembly Resolution 1995 of 30 December 1964 as a permanent intergovernmental body and a principal organ of the General Assembly on Trade and Development, with a permanent secretariat in Geneva, with a view to accelerating economic growth and development, particularly that of developing countries. The role of UNCTAD, based on GA Resolution 51/167 of 16 December 1996, is to be the UN focal point for the integrated treatment of development and interrelated issues in the areas of trade, finance, technology, investment and sustainable development.

3. DITE is one of UNCTAD's four substantive divisions. Quoting the 2004 DITE Activities Report, DITE has "three objectives: to increase the understanding of the role of foreign direct investment, technology and enterprise activities in development; to help devise adequate frameworks to attract investment and benefit from it and to stimulate technology transfer and technical innovation; and to build consensus on matters related to foreign direct investment, technology and enterprise competitiveness."

4. Regular budget expenditures for the 2004-2005 biennium totaled US\$ 22.1 million, while extra budgetary expenditures amounted to US\$7.6 million. A total of US\$ 21.1 million which represents 95 per cent of the regular budget was allocated for staff costs. Currently, 53 of the 85 posts at DITE are professional posts.

5. The findings and recommendations contained in this report have been discussed during the Exit Conference held on 19 April 2006 with the Officer-in-charge, DITE. A draft of this report was shared with the Deputy Secretary-General of UNCTAD on 22 May 2006, whose comments have been reflected in the report in italics. *UNCTAD has accepted all recommendations and is in the process of implementing them.*

## II. AUDIT OBJECTIVES

6. The main objectives of the audit were to:

- Assess the relevance of the structure of DITE in view of its mandate and objectives;
- Review the current financial and funding situation of DITE;
- Evaluate the effectiveness of management practices to achieve DITE's programmes/projects' objectives; and
- Determine the effectiveness of internal controls to ensure economic and efficient use of financial and human resources, and their compliance to UN Regulations and Rules, especially relating to technical cooperation trust funds.



### III. AUDIT SCOPE AND METHODOLOGY

7. The audit reviewed DITE's strategy, structure, funding arrangements, programme and project management and various administrative arrangements as well as its relationship with the World Association of Investment Promotion Agency (WAIPA). The audit covered activities for the biennium 2004 to 2005. To obtain an understanding of DITE's functions, OIOS interviewed all Heads of Branches, Chiefs of Sections, senior management, staff support services and government representatives who are either donors or beneficiaries of DITE. OIOS also conducted an in depth review of a sample of technical cooperation projects. The audit reviewed annual reports, publications, financial reports, funding arrangements and personnel files including those for consultants. OIOS also attended the meetings held during the Commission on Investment in March 2006.

### IV. AUDIT FINDINGS AND RECOMMENDATIONS

#### A. DITE's Missions, Strategy and Structure

##### (a) DITE's missions and structure

8. DITE's broad mandate derives from General Assembly Resolution 1995 of 30 December 1964 and Resolution 51/167 of 16 December 1996. DITE's activities fall under the three pillars of UNCTAD: consensus building, research and analysis and technical assistance. DITE's structure adequately reflects its missions and activities.

9. The Policies and Capacity Building Branch of DITE covers Science and Technology related activities. Although the name of the Branch does not mention Science or Technology, one Section, out of the four, is entirely dedicated to such topic. The rationale for having merged Science and Technology activities into DITE in 1996 was to consolidate various technology activities, creating a critical mass. Ten years later, the Section still appears a stand-alone component, servicing its own Commission, undertaking activities that have no clear link to the rest of DITE. The recent emphasis the Bangkok Plan of Action put on Technology, confirmed by the Sao Paulo consensus, advocates more visibility on Science and Technology in the structure of DITE and UNCTAD. The Secretary-General of UNCTAD circulated a Memorandum on 23 March 2006, advising that Science and Technology and Information and Communication Technology (ICT) related activities be consolidated into one Branch. OIOS believes that such an initiative would not only enhance the effectiveness and coordination of UNCTAD's activities in this field, but also improve the homogeneity of DITE's structure.

##### (b) DITE's strategy and activities

10. Both the UNCTAD quadrennial Conferences and the ECOSOC Commissions on Investment and Science and Technology further detail the priorities of DITE. These directions remain very broad and high level, allowing the Secretariat significant latitude for its own strategy. Nonetheless, OIOS did not find a documented comprehensive strategy for DITE. The decision-making process to initiate activities, from the regular budget or extra budgetary sources, allocate resources, arbitrate if necessary, and monitor the progress

remains unclear. *DITE explained that the decision-making process to initiate activities, allocate resources, arbitrate if necessary, and monitor the progress follows the procedures and methodology of the Programme Planning and Budget Division at Headquarters.* OIOS is of the opinion however that the weaknesses identified in the decision-making and prioritizing process relates to managerial procedures rather than the formal process of allocating and authorizing funds.

11. Certain Government representatives interviewed by OIOS also mentioned that DITE lacked the capacity to prioritize, build on effective activities, and revisit or discard those, which were not effective. This lack of prioritizing the large number of topics that require regular budget resources might result in less efficiency, or gaps in DITE's coverage. *DITE has already initiated a comprehensive review of its mandates.* OIOS believes such exercise should become more systematic, be it at the programme, project or activity level.

12. OIOS also noted an imbalance between DITE's resources and country requests for capacity building. For example in March 2006, a total of 23 country requests for Investment Policy Reviews (IPRs) were in the pipeline. Although DITE mentioned that a high number of request is an indication of the quality and usefulness of DITE's products, the feasibility of all requested project should be considered, and alternative solutions suggested when necessary, For example, with the implementation of an average of four IPRs a year, DITE would need more than five years to complete all pipeline reviews, let alone any new request.

13. Furthermore, the implementation of technical cooperation projects has largely been decentralized in UNCTAD. Technical cooperation projects appear in all of DITE's job descriptions from the P-1/P-2 to the P-5 level. In 2006, depending on the figures used, a P-3/ P-4 regular budget post in DITE managed an average of 1.6 to 2.4 projects. Following a recommendation from the Advisory Committee on Administrative and Budgetary Questions (A/50/7), endorsed by the General Assembly, that regular budget activities do not subsidize extrabudgetary budget activities, OIOS is of the opinion that extra budgetary activities should not considerably weigh in on regular budget resources.

14. DITE would first need to go through an exercise to formulate clearly its medium-term strategy and identify its priorities. Second, the resulting strategy and priorities would need to be compared to available resources, assessing DITE's capacity within existing resources. The structure would need to show the necessary flexibility, reallocating resources to adapt to changing priorities.

15. OIOS tried to identify possible workload indicators in recent DITE Activities Reports for 2004 and 2005. Management accountability not only means monitoring and reporting outputs and impacts but also being held accountable, i.e. monitor and report on the management of resources. Thus, OIOS believes that key workload indicators should be developed to monitor the use of resources and facilitate decision-making in identifying potential reallocation.

#### **Recommendations:**

- DITE should develop a formal medium-term strategy, as well as clarify and disclose related priorities for its regular budget and extra budgetary activities (Rec. 01).

- DITE should determine a threshold for its support to extra budgetary activities from regular budget resources, and closely monitor the weight one has on the other, ensuring it remains at a reasonable level (Rec. 02).
- Based on its strategy and priorities, DITE should develop workload indicators to document its current allocation of resources and justify its needs to reallocate, or increase, or reduce existing resources (Rec. 03).

16. *UNCTAD accepted recommendation 01 and 03 and indicated that the medium-term strategy, alignment and allocation of resources, as well as indicators of achievement, were already in place in the UN Secretary-General's strategic framework report and the proposed programme budget documents.* OIOS believes however that there is a need for a working strategy and allocation of resources more detailed than exists presently. Indicators for achievement could also be developed to help assess overall efficiency. OIOS will close these recommendations upon receipt of a copy of a further detailed medium-term strategy, with clearly articulated policies and workload indicators.

17. *UNCTAD accepted to ensure the appropriate use of regular and extrabudgetary resources, although without determining a threshold for its support to extrabudgetary activities from regular budget resources. UNCTAD will also refer the policy matter of support to extra budgetary activities to the Programme Planning and Budget Division at UN headquarters.* OIOS will close this recommendation upon receipt of results of its query to the Programme Planning and Budget Division and decision on the threshold for its use of regular budget resources for extrabudgetary activities.

18. OIOS also noted that the distribution of functions among DITE Branches, as provided in ST/SGB/1998/1 on the Organization of the Secretariat of UNCTAD, does not reflect the actual breakdown of functions, especially for Trade Related Aspects of Intellectual Property Rights (TRIPS) and Investment Guides.

**Recommendation:**

- UNCTAD should review and suggest an update of the Secretary-General's Bulletin on the Organization of the Secretariat of UNCTAD to reflect recent changes in the functions of the various DITE Branches (Rec. 04).

19. *UNCTAD accepted the recommendation and confirmed a new Secretary-General's Bulletin on the Organization of UNCTAD Secretariat would be prepared before the end of 2006.* OIOS will close this recommendation upon receipt of a copy of the approved ST/SGB.

B. Coordination and promoting capacity

(a) Coordinating with other organizations

20. Several international organizations, such as the Foreign Investment Advisory Service, the Multilateral Investment Guarantee Agency from the World Bank Group, the

Organization for Economic Cooperation and Development in Europe (OECD), and the United Nations Industrial Development Organization (UNIDO), have developed their own ‘products’ for Investment. While overlap with OECD is limited for geographical reasons, the coverage as well as the activities of the above mentioned organizations appear very similar to those of DITE. DITE explained that the mandates and focus of the different organizations were specific and that there was an exchange of information to avoid duplication. DITE tried to identify areas of technical assistance where it could carry out activities which are unique. *DITE emphasized that a special session of the Commission on Investment, technology and related Financial Issues provided a forum for all these organizations and for interactive debate between them.* Attending the 2006 session, OIOS noted however that the debates were limited and little was discussed in the session on coordination.

21. Government representatives interviewed by OIOS, whether on the donor or beneficiary side, raised the issue of coordination with other International Organizations on several occasions, some mentioning their “tiredness of consultants”. Although donors acknowledged that the situation was simpler in the area of investment, the issue of aid effectiveness and negative impact of conflicting reviews and recommendations remains a concern.

22. Coordination did not appear sufficient enough. For example, some beneficiary countries would still ‘shop’ for technical assistance, having a similar exercise carried out by several organizations. Avoiding duplication not only with enhanced coordination, but also further differentiating products or working on niches, would promote stakeholder capacity to promote investment and development.

**Recommendation:**

- DITE should further coordinate with other International Organizations involved in the area of investment, to avoid overlap and duplication of efforts (Rec. 05).

23. *UNCTAD accepted the recommendation to improve coordination during the 2006-2007 biennium.* OIOS will close this recommendation upon receipt of specific actions taken to improve coordination with other International Organizations.

b) Integrating products

24. In 2005, the German Development Institute conducted a study on how to strengthen the development impact of UNCTAD’s IPR. It pointed out that “on the whole, it therefore seems that the two products [of IPRs and Investment Guides] have significant overlap and that this overlap should be considered not as a problem but as a result of efforts to make IPRs more relevant for investment practice”. OIOS came across project descriptions of the “Blue Book”, another product from DITE, which aimed to address the same issues as in the IPR. Another suggestion of the German development Institute was to develop the benchmarking component of IPRs, using the complementary Investment Compass tool of DITE. All of the above indicate a potential for synergy between DITE’s different products and approaches.

25. DITE should also liaise with other Divisions in UNCTAD to develop a more

systematic joint programming exercise at the country level. In that context, adequate monitoring tools, providing a consolidated view of activities at the country level, should be developed.

**Recommendation:**

- DITE should consider integrating its approach, and complementary products, as well as coordinating activities at the country level with other Divisions, to gain relevance, develop synergies and increase its capacity (Rec. 06).

26. *UNCTAD accepted the recommendation and further integration and coordination internally will be considered by the end of 2006.* OIOS will close this recommendation upon receipt of results of its initiative to integrate and/or further coordinate activities.

C. Support to Commissions and inter-sessional work

27. The contribution of DITE to the planning of meetings and servicing during the Commissions was perceived as satisfactory. Government representatives stated that attendance to meetings and to the Commission on Investment, although one of the best attended, was still a concern. The question of the efficiency of the intergovernmental machinery was also generally mentioned. Suggestions for improvement were to include more prospective thinking, as opposed to retrospective/ introspective, into the Commission, or to shorten the duration of Commissions.

28. The budget of DITE provides for experts' travel costs. OIOS noted that they more than doubled over one biennium, although the number of meetings remained stable. *UNCTAD indicated that this was the result of an effort to improve the effectiveness of expert meetings, which much depends on the quality of the participants and experts.*

29. OIOS believes that the mixed assessment obtained from Government Representatives reflects another facet of the intergovernmental machinery and calls for further critical review to further improve the effectiveness and efficiency.

D. Technical cooperation projects

(a) Funding analysis

30. DITE's extra budgetary funding fluctuated, with US\$ 1.5 million in 1995, a peak at US\$ 6.9 million in 2002, and US\$ 3.3 million in 2005.

31. The source of income was balanced and stable: with Member States providing 60 to 70 per cent, and IGO/NGOs 30 to 40 per cent. While Nordic countries are stable contributors to DITE, representing at least 20 per cent of technical cooperation income since 2001, the source of income has diversified. In 1995, seven countries were contributing; in 2005, they were seventeen. The share of UNDP funds dropped from 40 per cent of extra budgetary income in 1995 to 20 percent in 2005.

32. An amount of US\$ 7.1 million extrabudgetary resources were anticipated in the proposed programme budget for 2004-2005, later recosted at US\$ 9.7 million. Total received contributions over the period amounted to US\$ 7.6 million.

## (b) Fundraising process

33. Fundraising efforts at UNCTAD have been largely decentralized to the Divisions and to the project managers. OIOS noted a general lack of coordination of fundraising efforts by DITE project managers. Project managers used their own networks to raise funds for projects falling under their responsibility. Despite initiatives to coordinate funds, there was a lack of clarity as to who was responsible for coordinating and raising funds for the various projects and activities.

34. Government representatives were very critical and strongly advocated for a structured and coordinated fundraising strategy, some of them setting it as a condition for future contributions. OIOS also noted that the current decentralized approach not only undermined attempts for a divisional strategy but also did not allow for sufficient oversight. UNCTAD needs to review its fund raising processes and could exchange experiences with other UN organizations with small size technical funds, for best practices in the area of fundraising

**Recommendations:**

- UNCTAD should review its fundraising processes, consider coordinating or centralizing its fundraising activities, for a more rational and coherent strategy, as well as increased oversight (Rec. 07).

35. *UNCTAD accepted the recommendation and will review its fundraising process by mid-2007.* OIOS will close this recommendation upon receipt of the results of the review of the fundraising process.

## (c) Reporting to donors

36. In reviewing funding agreements and how DITE complied with specific donors requirements, OIOS observed general compliance. However, financial and substantive issues being reported upon separately made it difficult to assess the overall progress and efficiency of projects.

37. Since the inception trust funds, and until 2005, financial reporting was done with cumulative figures. OIOS felt this was not transparent enough, especially when successive phases to a project were merged together. *Effective 2006 (for the 2005 Financial Year) UNCTAD's financial statements have been brought in line with those of the United Nations.*

38. In OIOS' opinion, often shared by donors, the substantive reporting on the project also put too much emphasis on the activities of the project rather than on results and impact.

39. Information provided in UNCTAD's annual report on technical cooperation activities is very general and the various tables and annexes would need to be further improved for transparent and useful disclosure to the Member States.

**Recommendation:**

- UNCTAD should review its reporting on projects, and

consider merging substantive and financial reporting, in order to relate expenditure and operational output. UNCTAD should revisit the reports' content to focus on the overall status of project implementation, as compared to the work plan, its results or impacts (Rec. 08).

40. *UNCTAD accepted the recommendation and will combine substantive and financial reports, also improving the content of reports, for the 2006 financial year.* OIOS will close this recommendation upon receipt of a copy of combined substantive and financial reports, as well as the UNCTAD report on technical cooperation activities for 2007.

(d) Management of technical cooperation projects

41. OIOS could not gain a clear understanding on how new activities or projects were initiated, under whose authority, and following what integrated strategy. At DITE, the general understanding of technical assistance is that it is demand-driven and relies on specific requests by Governments. Those requests are however made within the framework of existing products developed by the various divisions and project managers. Activities and projects are monitored at the Section/Branch level, through meetings or on a more informal basis.

42. In the absence of a Project Committee at the Divisional level, no formal or documented process existed for prioritizing the various technical cooperation activities or allocating un-earmarked or soft-earmarked voluntary contributions. In the case of IPRs, the necessity to address pipeline projects and allocate the adequate level of resources was raised during the Commission on Investment held in March 2006.

**Recommendations:**

- UNCTAD should formalize its decision-making process for initiating, reviewing and prioritising projects. It should develop criteria to assess projects, as well as other research and analysis activity (Rec. 09).

43. *UNCTAD accepted the recommendation and would formalize its decision-making process for initiating, reviewing and prioritizing projects, as well as develop criteria to assess projects, by mid-2007.* OIOS will close this recommendation upon receipt of UNCTAD's new procedures for initiating, reviewing and prioritizing projects and the set of criteria developed for assessing projects.

44. Training and guidance are generally accepted success factors for decentralization and delegation of authority. In DITE, no specific training was associated to the responsibility of project management. No specific guidelines were available either on how to initiate, manage/administer, monitor, report on and close a project. As a result, OIOS noted that:

- Project files were of varying quality;
- Project Documents were also not standard and some lacked provisions for indicators and evaluation;
- Information available on the recruitment of consultants (70 per cent of the expenditure on our sample of projects) was not sufficient to ensure that selection was on a

competitive basis;

- Monitoring tools existed in the different branches or sections, but were not consolidated at the divisional level to report on the status of technical cooperation activities;
- *UNCTAD made efforts to close inactive projects, closing 192 inactive projects in 2005 compared to 56 in 2004. Yet out of a total of 73 open projects/trust funds at the end of 2005, 19 were still open although they showed no expenditure for the biennium 2004-2005;*
- In one instance, the authorization to use the balance of funds on other activities was not valid;
- The use of one trust fund for several consecutive projects or phases did not allow for sufficient transparency on budgets and expenditures. In one instance, OIOS could not reconcile the budget in the initial project document with expenditures reported to the donors, due to reporting on a cumulative basis, which included activities prior to the project. Such cumulative reporting was discontinued in 2006;
- Gaps in the evaluation coverage were observed. Large-scale projects or programmes were well covered, while smaller ones were not. For smaller projects, introducing quantitative targets would allow for a cost-effective evaluation not only on their effectiveness but also on their efficiency.

45. OIOS notes the need for senior management of UNCTAD to take immediate steps to strengthen project planning and management, ensure compliance with existing rules and regulations, and enhance the resources dedicated to evaluation.

**Recommendation:**

- UNCTAD should develop guidelines (desk procedures) for project managers to ensure rules related to project management are widely communicated and complied with, as well as to provide guidance and ensure minimum quality standards (Rec. 10).
- UNCTAD should develop a project system that allows, monitoring of both inputs and outputs at the project level and consolidated at the division and organizational levels (Rec. 11).

46. *UNCTAD agreed with both recommendations, which should be implemented by mid-2007.* OIOS will close these recommendations upon receipt of a copy of the guidelines and documentation of the project system.



E. DITE’ activities – Relevance, effectiveness, efficiency and sustainability

47. Based on existing documentation and recent evaluations or reviews conducted on specific programmes, the following approach was taken on a sample of representative activities.

Investment Issues Analysis Branch		<i>World Investment Report</i>	Interviews	Reader survey, published/ downloaded statistics, Press coverage	
	Investment Trends Section	<i>FDI Database</i> Technical assistance		Data disputed, amount of ad hoc requests	
	Development Issues Section	Monographies, reports		Improved data (quality, availability), Development of TC	
	Policy Issues Section	LDC Guides projects		Reader survey, press coverage	
Policies and capacity-Building Branch	International Arrangements Section	International investment arrangements Training		Interviews Government representatives: Colombia, Egypt, Germany, Ghana, Indonesia, Italy, Japan, Netherlands, Norway, Sweden, United States	Project review Investment guides
	Policy Reviews Section	<i>Investment Policy Reviews</i>			Final in depth evaluation report, Project review Integrating IPR policies in sustainable development strategies.
	Science and Technology Section	<i>South-South Network of Centres of Excellence</i> Conferences <i>STIP Reviews</i>			Training number, results, user satisfaction
	Investment Promotion Section	<i>Investment Gateway</i> Investment promotion			Project review IPR in 5 LDCs, German evaluation
					Project review Vision for the future of science and technology for development, Attendance to conferences, workshops
Investment and Enterprise Competitiveness Branch	Corporate governance, Transparency and Insurance Section	Conferences Workshops		Interview Chairman ASAR	Training/workshops evaluations Project review Blue book on best practices in investment promotion and Strengthening Investment Promotion in Bolivia
	Enterprise Competitiveness Policies Section	Training			Workshop evaluation, attendance to conferences, expert groups
	Capacity building Section	<i>EMPRETEC</i> Business linkages			Training evaluation
			Project Review Business Linkages, Empretec in Romania		

48. OIOS found that Government representatives were generally satisfied with DITE’s work, which they found “useful”, “very professional” and of high quality. The expertise provided by DITE was perceived as very good. Investment was a topic high on several donors’ agenda, especially related to International Investment agreements (IIA), IPRs or Science and Technology.

(a) Relevance and effectiveness

49. UNCTAD DITE has developed a strong culture of evaluation to report on its performance through various channels:

- Publications systematically included reader surveys, press reviews were conducted and peer reviews consolidated;
- Downloads of reports were analysed, and more detail would allow for more anticipation and planning (needs in the various languages, monthly downloads, etc.);
- Workshops and trainings also were evaluated by participants, and the results analysed by a third person;
- Reports were prepared by DITE staff members for experts meetings and workshops;

- Evaluation reports were available for the multiyear/multi-donors trust funds.
50. The review of available data confirmed DITE's effectiveness in its various activities.
51. Publications were well perceived – IPRs or the Pink Series on IIA were especially mentioned. The World Investment Report was very often quoted, as a cross-cutting reference, or the best of UNCTAD's flagship reports. Government representatives showed more reservation when it came to the accuracy of figures and mentioned that sometimes Member States should be consulted to ensure that the local context is properly captured.
52. For certain Government representatives met by OIOS, DITE's preparation for the World Trade Organisation's negotiations was useful to understand what was expected. Participants to training sessions for negotiators generally found them very relevant, and useful to very useful. The distance-learning module was well perceived, although participants would have preferred more face-to-face interaction.
53. OIOS reviewed two evaluations reports of the IIA programme. Training courses' respondents evaluated the UNCTAD programme in questionnaires with high ratings concerning usefulness and training efficiency, as well as competence and effectiveness of the resource persons and training material. They appreciated learning about the complexity of bargaining and trade-offs for mutual benefit. The respondents also mentioned that they had already used the acquired knowledge in negotiations and investment treaties at the bilateral and regional level. All respondents considered national seminars to have had a positive impact on their country's negotiation teams relating to IIAs. The programme was also evaluated as cost-effective.
54. Funding instability was mentioned to have impacted on the programme and it was recommended that regular budget personnel resources be expanded, as well as in-house knowledge of the programme be improved with, both recommendations having been addressed by the Division. Weaknesses in outreach (translating the IIA Series, updating the website, wide dissemination of the material) were also mentioned.
55. Government representatives identified the IPR as one of DITE's most valuable contribution. It was very appreciated both by the beneficiaries and donors, especially for the seminars and the sense of partnership gained throughout the exercise. In the Commission on Investment, the peer review and exchange of experiences were seen as a unique value-adding exercise. Useful suggestions were made to expand the scope of the reviews to include local investors, as well as wider policy coherence reviews. The follow-up reviews were seen as a useful way to ensure faster implementation and increase accountability.
56. A mid-term evaluation report on Good Governance in Investment Promotion Programme (GGIP), issued in December 2003, was also very positive on the effectiveness of the programme. However the sustainability and the commitment of participating Least Developed Countries and Investment Promotion Agencies was the "prime area for possible concern".
57. DITE's systematic approach to evaluating its performance is commendable and highly valuable and calls for a complementary approach to be developed to evaluate the results and impact of activities.

58. Another recommendation, from the mid-term evaluation of the Good Governance in Investment Promotion Programme (GGIP), could be interesting in this regard and applied widely to DITE's projects. It suggested that "programme performance measurement and evaluation [...] be built into the individual country [...] activities and requirements".

**Recommendations:**

- DITE should develop representative indicators to assess the result and impact of its activities, at the design stage, and ensure that they are systematically monitored (Rec. 12).

59. *UNCTAD accepted the recommendation and indicated that a results-based management approach would be progressively extended to UNCTAD's extrabudgetary activities throughout the 2006-2007 biennium.* OIOS will close this recommendation upon receipt of a copy of representative indicators and documentation of their systematic monitoring by DITE.

(b) Efficiency

60. Two evaluation reports, one on IIAs and one on GGIP, address efficiency of DITE's activities. In both instances, the assessment is positive. However DITE's performance with regard to efficiency appears to be more of a mixed one in the eyes of donors and OIOS found problems in project management, such as unrealistic timeframes or delays in implementation, and capacity constraints in terms of finance or staffing, which could directly have had an impact on activities.

61. Data management in UNCTAD with regard to projects went so far in disconnecting the input or expenditure from the output such that efficiency proved difficult to assess. The project accounting, using trust funds for various projects or phases, the separate reporting for finance and substantive issues, as well as the lack of a structured approach, comparing planned and actual input/output, should be reviewed to simplify the monitoring of efficiency.

**Recommendations:**

- UNCTAD should amend its project monitoring, introducing comparative tables of planned and actual expenditure on a specific project (Rec. 13).

62. *UNCTAD accepted the recommendation and indicated that the implementation of the ITC portal, a substantive and financial management system, by the end of 2006 will address the issue.* OIOS will close this recommendation upon receipt of documentation on the implementation of the system.

(c) Sustainability

63. OIOS noted that the sustainability of some of DITE's project was weak. Many beneficiaries of IPRs mentioned the difficulty to secure funds for the implementation of recommendations. Others still mentioned the need to develop an action plan. Parallel to the proposal of the German Development Institute to allocate 30 per cent of the IPR's budget to implementing measures, OIOS believes that countries would benefit from a

formalized action plan, drawing on IPRs' recommendations, developed at the outset of the review. *UNCTAD stated that there needs to be flexibility to respond to needs which often differ by country, both from the IPR perspective and in having some omnibus to respond to requests.*

64. OIOS also noted that activities were initiated for a very limited period of time, due to funding constraints, with no consideration for the sustainability of the results, should further funding not materialize. DITE should review such projects to identify stand-alone activities, which can be launched without running the risk of longer-term objectives not being fully realized, or to limit the scope of its projects until further funds allow expanding it again.

65. Last, DITE should consider an "exit strategy" at the design phase of the project, time-binding its commitment of resources and planning the necessary steps for the activities to deliver results and be self-sustaining, and the phasing out of UNCTAD's support.

**Recommendation:**

- DITE should strengthen its requirements to ensure sustainability of projects and activities before launching them. (Rec. 14).

66. *UNCTAD accepted the recommendation, which will be implemented progressively throughout the 2006-2007 biennium.* OIOS will close this recommendation upon receipt of documentation on measures to ensure sustainability of its projects and activities.

F. Administration

(a) Budget monitoring

67. Limited financial authority has been delegated to DITE. Certifying authority rests with the UNCTAD Administrative Services and three budget lines are monitored in DITE, amounting to US\$ 0.9 million, of which one-third are consultants' fees.

68. DITE monitors its budget and expenditure with an Excel spreadsheet, based on data collected through its limited read-only access to the Information Management Integrated System (IMIS) and reports provided on a regular basis by the Budget and Project Finance Section of UNCTAD. OIOS noted that DITE did not have access to some of the standard financial reports on budget performance and believes such information should be available in the substantive offices, regardless of the delegation of authority.

**Recommendation:**

- UNCTAD should grant DITE with access to standard financial reports on the Division's budget and expenditure (Rec. 15).

69. *UNCTAD indicated that the recommendation would be implemented to the extent that it is within its power, since IMIS access is controlled by UNOG. The ITC portal would also address these requirements.* OIOS will close this recommendation upon receipt of confirmation that DITE has been granted access to standard financial reports.

## (b) Consultancy

70. For the biennium 2004-2005, consultants' costs represented 41 per cent of DITE's non-posts regular budget expenditure. For the sample of the technical cooperation projects reviewed by OIOS, the share of consultants' costs reached 70 per cent of total expenditure.

71. In reviewing DITE's consultant files, focusing on the steps under the responsibility of the Division, OIOS noted numerous shortfalls.

- In the request for consultants, the list of candidates was left blank with few exceptions, not allowing sufficient control over the selection process. Upon our request, DITE did provide background information for OIOS' sample of consultants. The background notes were prepared ex-post and on an ad hoc basis for most cases, confirming that the process is not systematically documented. OIOS could not ensure that the best candidate was selected through competitive recruitment.
- Consultant rosters provided were a mere list of contacts. Only two sections did provide tables with indications of the education background and language skills (the Investment Issues Analysis Branch on potential candidates and the Policy Review Section). In all cases information on the performance of the consultant in previous contracts was not available in the rosters.
- Some requests were made late or even after work of the consultant/contractor had started.
- The Terms of References (ToRs) were often not detailed enough, with no indication of a measurable output, and/or inaccurate. OIOS noted two cases in which the selected candidate did not meet the criteria of the ToRs. In view of the numerous requests to extend consultants without fee, delivery dates were not always realistic.
- There were instances when ToRs were amended to fit the candidates' profile rather than the reverse. In several cases – the same was noted for the selection of project staff.
- The recruitment of interns to "provide expertise, skills or knowledge", as provided for under ST/AI/1999/7, was also questionable in view of their lack of professional experience.
- The increase in consultant fees over a short period of time appears to be quite high in certain cases, yet higher than any salary increase for UN Staff members.
- The evaluations rarely included useful comments or details.

**Recommendation:**

- DITE should comply with ST/AI/1999/7 on Consultants and Individual Contractors, especially ensuring that a) the selection process is competitive and documented; b) requests and contracts are issued prior to commencement of work; c) terms of reference are detailed enough to provide clear and detailed indications on the profile of the consultant and the outputs; d) consultants selected are the "most competent for

the work” and meet the criteria set in the initial ToRs; e) increase in the fees is reasonable; and f) evaluations provide useful information for future reference (Rec. 16).

72. *UNCTAD accepted the recommendation and will implement it by the end of 2006.* OIOS will close this recommendation upon receipt of documentation that adequately addresses the issues on consultants and the individual contractor selection process, TOR, and references.

(c) Performance Appraisal

73. For 2004-2005, 24 per cent of the 100 Series staff was appraised. The rate for professional staff was even lower with less than 20 per cent. OIOS was told that the E-PAS was only systematic for staff members having their contract renewed or applying for promotion. With this practice, parts of the E-PAS objectives as per ST/AI/2002/3 were defeated. Starting 2006, OIOS was told that UNCTAD would implement other procedures to ensure compliance and consistency throughout UNCTAD.

**Recommendation:**

- DITE should comply with applicable instruction on staff performance appraisal, to provide systematic regular guidance and direction to staff (Rec. 17).

74. *UNCTAD accepted the recommendation and would implement it by the end of 2006.* OIOS will close this recommendation upon receipt of PAS compliance statistics for the period April 2006 – March 2007.

G. The World Association of International Promotion Agencies

75. The World Association of Investment Promotion Agencies (WAIPA), established in 1996, was located in UNCTAD and benefited from the support of UNCTAD staff until the end of 2005. Starting 2006, the NGO moved to its own premises and its staff, after separating from UNCTAD, was rehired directly by WAIPA.

76. OIOS looked at the way the operations were run and the controls that were put in place, as a management responsibility. Background documents on the decision that UNCTAD support WAIPA or practical arrangements set up to run the NGO could not be provided.

77. OIOS noted that proposals were made by some countries, members of WAIPA, to host the NGO, but was informed that members voted against moving the Secretariat since everyone agreed that housing it on UN premises in Geneva was the most practical arrangement. OIOS would stress that decision on the use of UNCTAD premises should not rest outside the United Nations.

78. UNCTAD extended its support to WAIPA based on the understanding that the NGO was not self-sustaining. In 1998, an amendment to the WAIPA Statute was adopted, introducing a membership fee of US\$ 2,000 per year. In light of this, in 1999, WAIPA was

in principle in a position to cover rental costs for an office in Geneva. It is also not sure why, advocating limited resources, WAIPA opted for a UN international project officer post, with all UN entitlements (a Swiss private contract would have been more economical), upgraded from L-2 to L-3 in 2004 “in view of the recruit’s curriculum vitae”.

79. UNCTAD established a trust fund to support WAIPA, funded exclusively with contributions from the NGO. While staff costs for the WAIPA Secretariat represented 85 per cent of the trust fund’s expenditure from 2001 to 2005, official documents never clearly mentioned the daily secretariat duties, delegated to UNCTAD.

80. Various shortfalls were observed in the management of WAIPA, as performed by the DITE staff members involved, which resulted in an absence of internal controls. Although OIOS did not come across any clear indication of fraud, WAIPA was run with no clear rules or regulations governing the budgetary and financial decisions of its secretariat, as well as no accounting system other than additions of transactions on a piece of paper at the end of the year. No financial statements were prepared and disclosed before 2001.

81. In the absence of a proper accounting system, we could not ensure that the revenue accounted for was complete. Also on the expenditure side, certain expenditures were not sufficiently documented, the use of the same contract to support two payments was noted and the accounting regarding the use of cash was in two cases incomplete (amounting to US\$ 17,000).

82. Two staff members were at times paid by UNCTAD, or WAIPA, and the UN 6-month break in contract rule was once circumvented, by reverting to contracts directly issued by WAIPA for the same services in the same location.

83. Last, but not least, OIOS noted instances where the line between WAIPA and UNCTAD became blurred resulting in an unsound context for operations. In 2000, the WAIPA coordinator, under an UNCTAD consultancy contract, authorized that UNCTAD use interests earned on the trust fund.

84. OIOS suggested, and UNCTAD agreed, that lessons be drawn from the WAIPA incident and sufficient control is in place over operations and transactions carried out by staff.

## V. FURTHER ACTIONS REQUIRED ON RECOMMENDATIONS

85. OIOS monitors the implementation of its audit recommendations for reporting to the Secretary-General and to the General Assembly. The responses received on the audit recommendations contained in the draft report have been recorded in our recommendations database. In order to record full implementation, the actions described in the following table are required:

Rec. no.	Action/document required to close the recommendation
1*	Copy of a further detailed medium-term strategy, with clearly articulated policies and workload indicators.

2	Copy of results of its query to the Programme Planning and Budget Division and decision on the threshold for its use of regular budget resources for extrabudgetary activities.
3*	Copy of a further detailed medium-term strategy, with clearly articulated policies and workload indicators.
4*	Copy of the approved ST/SGB on the Organization of UNCTAD Secretariat
5	Copy of documentation confirming specific actions taken to improve coordination with other International Organizations.
6	Copy of the results of its initiative to integrate and/or further coordinate activities.
7*	Copy of the results of the review of the fundraising process.
8*	Copy of combined substantive and financial reports, as well as the UNCTAD report on technical cooperation activities for 2007.
9	Copy of UNCTAD's new procedures for initiating, reviewing and prioritizing projects and the set of criteria developed for assessing projects.
10*	Copy of the guidelines for project managers.
11*	Copy of the documentation of the project system.
12	Copy of representative indicators and documentation of their systematic monitoring by DITE.
13	Copy of documentation on the implementation of the system.
14	Copy of documentation on measures to ensure sustainability of its projects and activities.
15*	Copy of a document confirming that DITE has been granted access to standard financial reports.
16	Copy of documentation that adequately addresses the issues on consultants and the individual contractor selection process, TOR, and references.
17	Copy of PAS compliance statistics for the period April 2006 – March 2007.

\* Critical recommendations



## **VI. ACKNOWLEDGEMENT**

86. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff of the Division on Investment, Technology and Enterprise Development, staff from other Services in UNCTAD and the Government Representatives, whom the audit team met.

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