

**TASK FORCE ON COMMON PREMISES/ WORKING GROUP ON JOINT
FUNDING MECHANISMS, FINANCIAL AND AUDIT ISSUES**
COMMON PREMISES (ONE OFFICE)
FUNDING POSITION PAPER

15 January 2009

With the current focus on the ‘One Office’ component of the ‘Delivering As One’ initiative, the UNDG Task Team on Common Premises is submitting a Funding Position Paper for consideration and review by the Working Group on Joint Funding Mechanisms, Financial and Audit Issues. It is necessary to weigh the experiences and constraints of establishing common premises, current financing modalities in use and to offer additional recommendations on formulating strategic financial methodologies to close the funding gaps that would allow the UN to promote, implement and increase the number of Common Premises/UN Houses to achieve ‘One Office’.

BACKGROUND

Traditional Motivation: Over an extended period of time, UN Agencies at country level have sought common premises arrangements to promote and facilitate closer ties among UN staff, demonstrate a unified presence in country and provide the framework for more cost effective, high quality and timely common services.

In 1996, UNDG introduced the ‘UN House’ concept which was defined as common premises housing the main country offices of all the UNDG Executive Committee Agencies (UNDP, UNFPA, UNICEF and WFP) working in the country. Today, a total of sixty (60) common premises have been designated UN Houses.

Coherence Motivation: We are currently experiencing an increased UN and host country focus on UN coherence at country level, as illustrated by the ‘Delivering As One’ pilot activities in eight formal pilot countries and by the more informal “self-starters”. Common for the eight pilot countries is a determination that the usage of ‘One Office’ will contribute largely to the overall coherence efforts.

Security Motivation: The changed global security and safety environment in individual countries has led to the development and implementation of the Minimum Operating Security Standards (MOSS).

- If already in common premises, a MOSS-induced need for office relocation will include all agencies in the common premises and should call for unified relocation decisions.
- If not in common premises and if one or more agencies face a MOSS-induced need for office relocation, this presents an opportunity to consider moving into common premises.

ESTABLISHING COMMON PREMISES/UN HOUSES TO ACHIEVE “ONE OFFICE”

Most Cooperation Agreements between UN Agencies and Host Governments clearly identify host country obligations to either fully provide or to contribute towards meeting costs related to maintaining local office premises. As a consequence, country office budgets are based on the premise of substantial government contribution.

Various scenarios are possible for the establishment of Common Premises, ranging from government-provided premises to commercial leasing of an existing building or the construction of a new building either by the UN or by a developer. In each scenario there is invariably renovation or construction requirements in order to ensure acceptable safety and quality standards and provide adequate space configurations that meet the UN’s requirements. There may be multiple capital funding sources in these scenarios – the UN, governments, commercial entities and, more recently donors.

Buildings for Common Premises can be realized under different scenarios as noted below, where the major variable is the level of practical and financial support provided by the Host Government.

1. Land and Building provided by the Host Government (either new construction or renovation) with no capital investment required by the UN.
2. Land/Building provided by the Host Government (either new construction or renovation) with capital investment required by the UN.
3. Commercial lease of an existing building with some capital investment required by the UN.
4. Design, Build, Operate (DBO) or Design, Build, Operate and Transfer (DBOT) – a developer provides the majority of capital investment costs and constructs on privately owned land. Some capital investment is required by the UN.

LESSONS LEARNED/CONSTRAINTS

Land/Building provided by Host Government

1. Execution of projects through Host Governments limits the risk to the UN. However, there must also be assurances regarding the capacity and the quality of works of these entities. Additionally, it is vital that the UN work in close collaboration with the Government to ensure that the UN’s requirements are appropriately reflected in building design and operation.
2. One must recognize that construction is not a core business function of the UN. As such there is limited in-house expertise and capacity to manage and monitor construction/renovation projects. Where the UN may decide to engage directly in construction, proper planning and oversight is key to successful implementation within budget and deadlines. Consequently, the methodology for conducting any construction or renovation projects needs to be chosen with care. Capacity development remains a critical issue for the UN.

3. Obligations for Host Governments to provide office premises vary by country and by agency. In Common Premises arrangement, securing Host Government agreement to treat all agencies within the UN system on par requires negotiation and often takes time.
4. Limited or no capital funding capacity of Agencies, the Funds and Programmes in the UN system and of Government has proven an obstacle to achieving common premises.

Building provided by Landlord/Developer for Lease to UN:

1. Leasing existing commercial buildings works well in countries with a small UN presence. However, in many countries, there remain challenges to identify commercial buildings large enough to accommodate the UN system and comply with country-specific MOSS.
2. Securing buy-in of UN system staff to Common Premises arrangements in areas targeted for urban development or revitalization by Government usually takes time.
3. Under the design-build-operate modality, long-term lease commitment remains an obstacle, as UN agencies cannot commit to more than a 5 year lease term, making rents unaffordable.
4. Limited financial capacity of Agencies, Funds and Programmes within the UN system to absorb fit-out costs that must be borne by UN.

The cost of UN operations/maintaining presence in country in order to support critical programmes is taking an increasingly large share of the UN's core resources. Whilst inter-agency coordination efforts have improved over the years, financial resources for operational activities have dwindled. Inflation, exorbitant rental costs exacerbated by ever increasing security requirements are contributory factors. All of this is underpinned, however by the fact that Governments are simply not honouring the "substantial government contributions" as defined in the Host Country Agreements with the UN.

FUNDING OPTIONS

Capital funding for Common Premises initiatives has increasingly become the single most challenging issue for the successful implementation of these projects. The four Ex-Com agencies have limited capital asset funds available at Headquarters level, while the non Ex-Com agencies are normally faced with even greater constraints in funding capital investments. The constraints result in prolonged efforts to identify funding, lack of or postponed agency participation and ill-conceived formulas of inter-agency subsidies. The Financial Regulations and Rules do not allow the UN system to secure credit/loans.

Funding Options: The UNCT should promote and market joint efforts with receptive governments, interested donors and supportive foundations. While funding constraints are significant, the UNCT should investigate creative and non-traditional sources of potential funding. They include:

- Government: Work in close partnership with the appropriate Ministries of the Host Government to establish Common Premises in order to fully realize ‘One Office’.
- Donors: The UN is committed to sustainable development - an underpinning philosophy in all its work. The commitment will provide a better, healthier, safer and more team-friendly work environment for staff – creating conditions that enhance productivity. The inclusion of green building technologies in Common Premises initiatives, to the greatest extent possible, would align this effort with the greater UN Carbon-Neutral initiative, allow these facilities to act as a concrete example of sustainable construction in developing countries, and attract donor funding.
- Security: For most countries, for agencies to achieve MOSS compliance requires significant financial investment. Whether it is a MOSS-induced need for office relocation or remedial improvements, it is a critical juncture to determine if a unified common premises solution is desirable. Significant security-related capital improvements budgets have been allotted for achieving MOSS.
- UN Agencies’ Capital Budgets: Individual agencies with capital budgets can plan ahead and make provision to fund capital costs related to the “One Office” component of ‘Delivering As One’.
- Public PF (Provident Fund or National Insurance): On occasion, host countries working through their Ministry of Finance, may be interested in partnering and providing financing for development of sites targeted by governments for further development. The UN is a reliable partner and a safe investment for government consideration.
- Design-Build-Operate-Transfer and Design-Build-Operate: Of these two, the Design-Build-Operate-Transfer option is the more desirable. However, in practice, such an option is difficult to realize as the UN is unable to commit to a sufficiently long pay-back period of possibly twenty-year duration. A pay-back period of seven to ten years is usually insufficient for a developer to recoup his/her investment at normal rental rates. While partnering with Host Governments may not always be possible, engaging private developers is a likely alternative. To the extent the Build-Operate-Transfer arrangement with private property developers is the way forward, the possibility should be considered and assessed of ensuring from a corporate level that internationally best priced finance packages are available to the developers, anchored to long-term lease agreements with the UNCT. However, if the finance package is directly tied in with the long-term lease arrangements, it could be argued that the financing may just as well be provided directly to the UN or to the Host Government – the servicing of loans will in any case be taken care of by the UN, directly or indirectly and the premises will be for UN use only, as long as there is a UN presence in the country.
- Financial Lending Institutions: A global tie-in with financial institutions could have the added advantage that such institutions would be able to deploy the necessary technical capacity to assess and oversee complicated construction projects, capacities not readily available to UN Agencies. Such institutions may even be interested in taking on the role

of overall property developers in at least some countries. Of course, given the current financial crisis, this option may be more difficult to realize in the short term.

METHODOLOGY

Advertise Internationally: Advertisements can be placed in such publications as the Economist inviting expressions of interest from various parties such as those listed above or other financial bodies.

RECOMMENDATION

Unless the UNCTs are given support to secure sufficient capital funding for these projects, the success rate of Common Premises initiatives to realize 'One Office' will continue to be very low. The availability of sufficient capital funding for these projects would: (1) empower the UN Country Teams to achieve their goals; (2) ensure wider participation from the agencies in country; and (3) make the 'One Office' component of 'Delivering As One' a greater reality. UNCTs wishing to establish Common Premises/UN House arrangements should seriously consider all of the above recommended options.

It is recommended that the Working Group on Country Office Business Operations, in liaison with DOCO and the Working Group on Joint Funding Mechanisms, Financial and Audit Issues, commence a dialogue with financial institutions to further evaluate the funding options in order to establish capital funding for Common Premises projects. The repayment of this funding would be through lease payments to the party obtaining the financing, thereby allowing the UN agencies to amortize these costs in operational budgets.
