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Medium-term strategic plan for the period 2002-2005: financial plan and related recommendation**

Summary

By its decision 2000/3 (E/ICEF/2000/8 (Part I)), the Executive Board changed the medium-term strategic plan (MTSP) from a four-year rolling plan, updated every two years, to a four-year fixed period, commencing with the plan for the period 2002-2005 (E/ICEF/2001/13 and Corr.1). The financial medium-term plan is contained in each MTSP, but is updated each year. Thus, the present document contains financial information for the period 2002-2005.

The plan is intended to enable the Executive Board to review the previous year's financial plan as well as the updated income projections. The plan also provides the Board with a basis for determining the level of programme submissions that should be prepared in its 2003 sessions.

The Executive Director *recommends* that the Executive Board approve the medium-term financial plan as a framework of projections for 2002-2005, including the preparation of up to $253 million in programme expenditures from regular resources to be submitted to the Executive Board in 2003. This amount is subject to the availability of resources and to the condition that estimates of income and expenditure made in the present plan continue to be valid.

* E/ICEF/2002/11.

** Submission of this document was delayed pending receipt of final financial data.

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I. Funding targets for 2002-2005

1. In its decision 1998/22 (E/ICEF/1998/6/Rev.1), the Executive Board requested the Executive Director “to report on the funding targets necessary to achieve the goals of the medium-term plan (MTP) in the context of the resource mobilization strategy adopted by the Board in January 1999”.

2. By its decision 1999/8 (E/ICEF/1999/7/Rev.1), the Executive Board endorsed the funding target of annual growth in income of 7 per cent, to reach $1.5 billion by 2005, as a challenge for the mobilization of regular and other resources from Governments, the private sector and all other donors. This challenge has been retained in the framework of the medium-term strategic plan (MTSP) for the period 2002-2005 (E/ICEF/2001/13 and Corr.1).

3. Table 1 updates the funding target based on actual results for 2001 (for both regular and other resources), which implies an annual growth rate in income of about 5 per cent to reach the funding target of $1.5 billion by 2005. Compared with the projected income level, and notwithstanding the improvement in regular resources income in 2002 (due primarily to a one-time private sector legacy of $55 million), there is a gap during the period of 2004-2005 of $141 million. This gap originates fundamentally from the non-realization of funding targets for regular resources as illustrated in table 1 below.

Table 1
UNICEF funding target and revised income projections, 2002-2005
(In millions of United States dollars)

Year	*RR target*	*OR target*	*Total funding target*	*Targeted annual increase*	*Projected RR*	*Projected OR*	*Total projected income*	*Projected annual increase*	*Annual gaps between targeted and projected income*
2002	588	647	1 235	75	625*	729	1 354	129	+ 119
2003	629	692	1 321	86	582	751	1 333	- 21	+ 12
2004	673	741	1 414	93	595	773	1 368	35	- 46
2005	720	780	1 500	86	608	797	1 405	37	- 95

*RR = regular resources; OR = other resources; * includes $55 million one-time legacy.*

II. Medium-term financial plan for 2002-2005

A. The financial plan process

4. In accordance with the specific financial requirements of UNICEF, the financial plan is a framework of projections used to:

(a) estimate future regular and other resources income, based on the most current information;

(b) plan affordable levels of regular resources programme expenditures;

(c) determine the budgetary estimates necessary to support programme expenditures;

(d) maintain the liquidity requirement.

5. The financial plan projects income based on pledges and indications received during the pledging event, recent trends in contributions, the fund-raising objectives of the Programme Funding Office and the work plan of the Private Sector Division (PSD). Expenditures are based on the outstanding amounts of approved programmes plus estimated expenditures on future programmes. Programme and budget plans, implementation experience and available resources provide the basis for the yearly phasing of expenditures.

6. The Executive Board approves budgets for country programme cooperation and the support budget for financing from regular resources. UNICEF has a biennial support budget cycle, which is reviewed by the Executive Board every two years. UNICEF prepares estimates of country programme cooperation to cover a longer period, four to five years, according to the national planning cycles of the countries involved and in harmony with the members of the United Nations Development Group.

7. Total programme expenditures out of regular resources, projected in the present plan, are based on forecasts of future regular resources income. Also, future country programme expenditures from regular resources are based on planning levels established on the basis of the modified system for allocation of regular resources for programmes approved by the Executive Board in 1997 (E/ICEF/1997/12/Rev.1, decision 1997/18).

8. Except in specific circumstances approved by the Executive Board, spending from other resources begins upon receipt of pledges for other resources programmes previously approved by the Executive Board or, in the case of emergencies, as part of the Consolidated Appeal Process.

9. Actual amounts of income and expenditures can differ from the plan because:

(a) income depends upon voluntary contributions;

(b) the rate of expenditure depends upon on a host of factors, some of which are beyond the control of UNICEF;

(c) fluctuations of rates of exchange add significant uncertainty to income and expenditure projections.

10. UNICEF does not have credit facilities to cover potential differences from planned income and expenditures. If regular resources income is lower than estimated, the main regulators of expenditures are:

(a) adjustment of the amounts of new programmes submitted to the Executive Board for approval;

(b) reduction of the existing support budget;

(c) adjustment of spending on already approved programmes.

11. Since the effect of these regulators operates with a time lag, UNICEF must maintain a certain amount of cash as a liquidity provision. In addition to providing a cushion for planning contingencies, the liquidity provision covers the cash flow

imbalance that normally occurs in the first part of the year when disbursements typically exceed receipts, especially for regular resources. To meet this requirement, the UNICEF liquidity policy recommends a minimum year-end regular resource convertible cash balance equal to 10 per cent of projected regular resources income for the following year. This financial plan sets planned regular resources expenditure at a level that guarantees compliance with this target. The liquidity policy will be reviewed in future as predictability of available resources is assured through firm and indicative pledges and early payments by Governments in accordance with Executive Board decision 1999/8.

12. In order to minimize the negative impact of uncertainties on programme implementation, UNICEF continuously reviews progress against the plan, identifies deviations and prompts corrective action as necessary. In this framework, UNICEF revises the financial plan each year on a “rolling basis” to reflect the most current income estimates. UNICEF uses the revised estimates to update the annual expenditure phasing and to determine the level of estimated programme cooperation to be prepared for the following years.

13. The major purpose of the plan is to enable the Executive Board to review the financial performance of UNICEF in 2001 and the updated income projections. In this framework, the plan provides the Executive Board with a basis for deciding the total level of affordable programmes to be submitted in 2003.

B. Performance in 2001 compared with the previous medium-term financial plan

14. Figure I provides a comparison between the actual 2001 results, the projections of the financial plan and the 2000 results.

Income

15. Total net income for 2001 was $1,218 million, an increase of $86 million (8 per cent) over 2000 and $58 million (5 per cent) over the target of $1,160 million established in the previous financial plan. Despite the growth in total income, the slight decline in regular resources (in absolute and relative terms) is a source of deep concern to UNICEF.

16. Regular resources declined by 2 per cent in 2001 to $551 million, from $563 million in 2000, due in part to reduced regular resources income from private sector sources. Private sector income (derived through PSD) was affected adversely in part by the high value of the United States dollar in relation to other currencies. Regular resources contributions from Governments increased by $8 million in 2001, to $351 million. In line with the harmonized budget formats of the United Nations Development Programme, the United Nations Population Fund and UNICEF, certain biennial support budget costs (including income tax reimbursement and government contributions towards local costs) amounting to $7.8 million have been subtracted from total income for 2001. For 2000, the amount subtracted was $7.5 million. After these adjustments for biennial support budget costs, total regular resources income from Governments was $343 million in 2001, compared to $335 million in 2000.

17. Total other resources income (both regular and emergency) for 2001 was $674 million, an increase of close to $98 million (17 per cent) compared to 2000 and of

$59 million (10 per cent) in relation to the financial plan projections for 2001. Other resources (regular) income amounted to $439 million in 2001, an increase of $61 million (16 per cent) as compared to 2000 and close to 4 per cent more than projected in the financial plan. Other resources income for emergencies reached $235 million, an increase of $37 million (18 per cent) over 2000 and an even greater increase (23 per cent) compared to the projections in the financial plan, largely because of contributions for the Afghanistan crisis late in the year.

18. In 2001, as in previous years, UNICEF derived its income principally from two sources: Governments and intergovernmental organizations, which on a net basis, contributed $782 million (64 per cent) of total income; and non-governmental or private sector sources, which provided $400 million (33 per cent).[1] The balance of $36 million (3 per cent) was derived from other miscellaneous sources. Interest, the main component of the miscellaneous income category, decreased largely because of lower interest rates, especially in the United States. In terms of gross contributions, Governments and intergovernmental organizations contributed $790 million in 2001, compared to $725 million in 2000. The overall mix between regular and other resources continued to worsen in 2001, with regular resources decreasing from 49 per cent of total contributions in 2000 to 45 per cent in 2001.

Expenditure

19. In 2001, total expenditure amounted to $1,238 million (excluding adjustments), an increase of $141 million (13 per cent) over expenditures of $1,097 million in 2000. Total expenditures were $128 million (12 per cent) higher than anticipated in the financial plan. Management and administration expenditures were $81 million (6.5 per cent of total expenditure) and programme support amounted to $145 million (12 per cent of total expenditure). Regular resources expenditure increased from $563 million in 2000 to $606 million in 2001 (close to 8 per cent). This is also an increase of close to 10 per cent as compared to the earlier MTP projections for 2001. Other resources expenditures amounted to $632 million, up from $530 million in 2000 (19 per cent), due in part to increased income.

20. Direct programme assistance amounted to $1,012 million (14 per cent more than in 2000), or 82 per cent of overall expenditure. Total support budget expenditure (management and administration and programme support) for 2001 amounted to $226 million, a little over 19 per cent of total expenditure. That is the average percentage for the 2000-2001 biennium, compared to 24 per cent for the 1998-1999 biennium.

21. The substantial increase in expenditure in 2001 is a result of the increase in other resources income, enhanced absorption capacity in large programme countries and implementation of various emergency programmes. Another factor is the stabilization of UNICEF management operating systems, which allows for better planning and improved pace of commitment of resources.

[1] Includes contributions from National Committees for UNICEF, private individuals, corporations and contributions under inter-organizational arrangements (with other United Nations agencies, for the most part).

Cash balances

22. The 2001 year-end cash balance (excluding $198 million in trust funds for procurement services and other activities) was $447 million. This was $20 million (a little over 4 per cent) more than the balance for 2000. In general, the increase in cash balances is the result of efforts to reduce accounts receivable through improved collection of funds, mainly through the National Committees for UNICEF and contributions from major donors.

23. The regular resources cash balance at the end of 2001 was $84 million. This consisted of $76 million in convertible currencies and $8 million in non-convertible currencies. The convertible regular resources cash balance is $20 million less than the level in 2000 (due to the need to finance higher-level programme throughput) and $13 million more than the minimum liquidity guideline of $63 million.

24. The other resources cash balance for 2001 was $363 million, $41 million (13 per cent) more than the balance at the end of 2000. This increase is largely due to the surplus of income over expenditure.

25. In addition to income and expenditure, movements in non-cash assets and liabilities on the balance sheet also affect year-end cash balances. Increases in assets reduce cash balances, while increases in liabilities increase cash balances.

26. Accounts receivable (regular resources) amounting to $289 million is the largest non-cash asset on the UNICEF balance sheet. In 2001, this balance sheet item decreased by 14 per cent compared to 2000, although the accounts receivable for 2001 were 11 per cent greater than in 1999. Contributions receivable (the second largest non-cash item), composed essentially of other resources, increased to $212 million (8 per cent), due mainly to increased other resources income.

27. Inventories consist of the Supply Division warehouse at Copenhagen and PSD stock. The Supply Division uses inventory to meet the requirements for standard supply and equipment items for UNICEF programmes as well as for procurement services. At the end of 2001, inventories reached $26 million, representing a decrease of $5 million from 2000. Compared over the two bienniums, inventory remained at similar levels at the end of 1999 and 2001, close to $26 million.

28. Contributions for following years received in advance appear as a liability on the UNICEF balance sheet. At the end of 2001, other resources contributions received in advance amounted to $4 million.

29. For regular resources cash balances, changes in non-cash assets and liabilities provided a source of cash amounting to $45 million during the year. For other resources, the net effect on cash balances of all changes in non-cash assets and liabilities was an addition of $3 million in cash.

C. Financial plan for 2002-2005

30. A comparison of this year’s financial MTP to last year’s plan is shown in table 2.

31. Total planned programme expenditures for 2002 through 2005 are updated to reflect higher levels resulting from increased income, especially in other resources

categories and improved absorption capacities of programme countries, as evidenced by the 2001 implementation rates.

Income projections for 2002-2005

32. Table 3 shows income projections from various sources for the period 2002-2005. These projections are set for planning purposes and do not imply a commitment by individual donors since all contributions to UNICEF are voluntary. They are in United States dollars using the June 2002 United Nations rates of exchange.

33. The financial plan forecasts total income for 2002 of $1,354 million, 10 per cent higher than income for 2001. This projected increase is mainly due to the proceeds from a one-time legacy ($55 million) received in 2002. The plan also forecasts total income of $1,333 million for 2003, some 2 per cent lower than in 2002, and an increase of 3 per cent annually during 2004 and 2005, with an expected income of $1,405 million in 2005. UNICEF actual annual growth in total income for the five years preceding the plan was around 6 per cent. In this light and unless UNICEF resource mobilization efforts yield additional contributions, it is expected that that a cumulative gap of $141 million will be registered during the period 2004-2005. This gap is fundamentally due to the non-realized increases in regular resources income that were envisaged in the MTSP funding targets.

Regular resources income

34. Table 3 shows the various sources of regular resources income. The breakdown is as follows:

(a) **Government contributions**. A total of 51 Governments pledged or indicated tentative pledges to UNICEF at the United Nations Pledging Conference and at the pledging event held during the first regular session of the Executive Board in 2002, compared to 66 Governments in 2001. Pledges and/or indications for 2002 regular resources amounted to $325 million, which is $25 million less than actual income for 2001. Of the 51 Governments, 75 per cent of those that pledged in their own currencies increased or maintained the same level of contribution as the previous year, with 11 Governments increasing their contributions by 7 per cent or more. As of end June 2002, total pledges had increased to $348 million. If donor Governments that have not pledged were to pledge at 2001 levels, it would result in an increase of $12 million for 2002. The recent decline in the value of the United States dollar in relation to the euro and other pledge currencies, which has a slight positive impact on income, is already reflected in the planning figure, which uses the June 2002 exchange rate. Exchange rate fluctuations will also affect cash holdings and may result in modest windfalls in the ‘other’ category of income if the United States dollar continues to depreciate throughout the year, perhaps compensating in part for the effect of lower interest rates on this income category. UNICEF will monitor these trends closely, update its forecasts and manage its treasury operations accordingly. The revised financial plan forecasts an average annual growth of 3 per cent for the period 2004-2005, after the one-time increase of 10 per cent in 2002, owing largely to the legacy referred to above;

(b) **Private sector contributions**. The projections reflect a revised estimate of the PSD work plan (E/ICEF/2002/AB/L.1) approved by the Executive Board at its first regular session of 2002. Net income from the private sector includes proceeds from the sale of greeting cards and other products, and private sector fund-raising. In the light of the recent PSD income performance (which in 2001 declined to $164 million), the financial plan forecasts that UNICEF will record private sector income of $175 million in 2002 (accounting also for the possible positive impact of the weakened United States dollar), with modest annual increases of approximately 3 per cent for the period 2003-2005. While the $55 million resulting from the one-time legacy has been recorded as private sector income, it is not part of the projections in the PSD business plan;

(c) **Other income**. Other income consists mainly of interest income and includes gains/losses as a result of exchange rate movements and other miscellaneous items. Other income is forecast to be $35 million per year throughout the plan period, a level that accounts for possible modest gains in exchange rates resulting from the depreciation of the United States dollar. Interest income is unlikely to recover to previous years' levels, given the prevailing and forecast interest rates in the United States.

Other resources income

35. UNICEF receives contributions for other resources for programmes and for emergency relief. Table 3 shows the forecast for these contributions separately. The revised financial plan for the period 2002-2005 forecasts a 3-per-cent annual increase in total other resources income.

Liquidity

36. To meet liquidity requirements, the UNICEF liquidity policy recommends a minimum year-end regular resources convertible cash balance equal to 10 per cent of projected regular resources income for the following year. This financial plan sets planned regular resources expenditures at a level that ensures continuous strict compliance with this requirement.

37. Programmes funded from other resources are normally fully funded before implementation begins. Therefore, the cash balance for other resources is higher than for regular resources. The year-end cash balance can vary widely depending on the timing of the receipt of funds and the implementation of programmes. For example, if large cash contributions are received late in the year, the year-end cash balance will be high because most of the spending on the related programmes will occur in the following year. This financial plan assumes that the other resources cash balance will increase by an average of approximately 5 per cent annually during 2002-2005.

Projected programme expenditures

38. At the beginning of 2002, there was an unspent balance of approved regular resources programme commitments of $1.2 billion planned for implementation from 2002 through 2005.

39. Regular resources programmes proposed to the Executive Board in 2002 amount to $371 million. These programme recommendations are summarized in the programme "round up" document (E/ICEF/2002/P/L.37).

40. The plan provides for the preparation of $253 million of regular resources programme proposals for the approval of the Executive Board in 2003. If future

information about projected income shows levels different from the plan, the scale of programme preparation will be adjusted accordingly.

41. The 2002-2005 level of planned spending is in line with the goal of maximizing programme expenditures while maintaining regular resources liquidity. The estimated yearly phasing of expenditures on approved, new and future programme recommendations is shown in table 4.

42. The plan proposes regular resources programme expenditures of $345 million in 2002, $10 million more than the amount originally planned for 2002, in line with the higher implementation rates registered in 2001. Planned programme expenditures for 2003, 2004 and 2005 are $340 million, $343 million and $346 million, respectively. These levels take into account the objective of optimizing use of resources within the bounds of income and sound liquidity.

43. The unspent balance of programme cooperation from other resources was $583 million at the end of 2001. The financial plan forecasts that other resources programme expenditure will be in line with the expected income levels for 2002 through 2005.

44. Based on income projections in the plan, total expenditures (excluding write-offs and reimbursement costs) for 2002 and 2003 are forecast at $1,270 and $1,297 million, respectively. The financial plan forecasts total programme expenditures to increase to $1,343 million in 2004 and $1,390 million in 2005. However, actual spending will be adjusted in line with the level of achievement of income projections set in the present plan.

45. The current financial plan forecasts that the support budget will grow by 4 per cent in 2002, 2 per cent in 2003 and 4 per cent per year in the period 2004-2005. The projections take into account higher other resources income and expenditures, which leads to a reduction of support budget expenditures from regular resources.

Assets and liabilities

46. As explained in paragraph 25 above, movements in non-cash assets and liabilities affect year-end cash balances. Line 4 in tables 5, 6 and 7 shows the forecasted effect of these movements.

47. At its 1990 regular session, the Executive Board approved a capital asset fund to be used for field office accommodation and staff housing (E/ICEF/1990/13, decision 1990/26). At the end of 2001, about $14 million remained to be spent from the fund. Estimated spending from this fund is $4 million during the period 2002-2005.

48. All the above items — income, expenditure and liquidity — are summarized in table 5, with a breakdown of regular resources in table 6 and other resources in table 7. Figures II through V show actual and forecasted financial information by source of funds.

Trust funds

49. Trust funds (known in the past as special accounts) are earmarked resources entrusted to UNICEF from various sources, including governments, other United Nations organizations and non-governmental organizations, mainly to cover the cost of procurement of supplies and services undertaken by UNICEF on behalf of others.

They also include financing provided by sponsors to cover the costs of Junior Professional Officers.

50. As per Regulation 5.3 of the UNICEF Financial Regulations and Rules, trust funds are not considered UNICEF income and are recorded separately and distinguished from funds that are part of income and are spent for programmes approved by the Executive Board.

51. In the past, trust funds for non-procurement services activities have been fairly limited, accounting for just a few million dollars. This situation has changed remarkably since the establishment of the Oil-for-Food Programme in Iraq in 1996. Since 1997, when UNICEF began its financial participation in this programme, the total amount of funds allocated has amounted to $486 million, with disbursements and obligations of $98 million in 2001. The total amount expended from trust funds other than procurement services in 2001 was $262 million, up from $141 million in 2000. The level of activity for the trust accounts is expected to be sustained as a result of the $750 million committed by the Vaccine Fund of the Global Alliance for Vaccines and Immunization, which will be matched with funds from other contributors; to date, $111 million have been provided to recipient countries in supply deliveries and cash grants. In addition, a number of agreements funded through the International Development Association have been initiated in partnership with UNICEF. In 2000, the first funds were disbursed by the World Bank for UNICEF-implemented projects in Bangladesh, followed by Yemen in 2001 and Azerbaijan in 2002.

52. Table 12 reports on trust fund activity in 2001 and projects conservatively receipts and disbursements during the MTSP period. Overall in 2001, UNICEF received $481 million in cash for trust fund accounts and disbursements and obligations amounted to $354 million.

III. Recommendation

53. The Executive Director recommends that the Executive Board approve the following draft recommendation:

The Executive Board

(a) *Takes note* of the medium-term financial plan (E/ICEF/2002/AB/L.9) as a flexible framework for supporting UNICEF programmes;

(b) *Approves* the medium-term financial plan as a framework of projections for 2002-2005 (summarized in table 5 of document E/ICEF/2002/AB/L.9), including the preparation of up to $253 million in programme expenditures from regular resources to be submitted to the Executive Board in 2003 (shown in table 4, item 3, of document E/ICEF/2002/AB/L.9). The amount is subject to the availability of resources and to the condition that estimates of income and expenditure made in this plan continue to be valid.