United Nations E/ICEF/2003/AB/L.5

Economic and Social Council

Distr.: Limited
3 April 2003

Original: English

For action

United Nations Children's Fund
Executive Board
Annual session 2003
2-6 and 9 June 2003
Item 5 of the provisional agenda*

The UNICEF recovery policy

Introduction

1. At its first regular session in 2003, the UNICEF Executive Board reviewed "The UNICEF recovery policy" (E/ICEF/2003/AB/L.1) and "The UNICEF recovery policy: Report of the Advisory Committee on Administrative and Budgetary Questions" (E/ICEF/2003/AB/L.2), and requested UNICEF to hold consultations and revert to the Executive Board at its annual session in 2003 (E/ICEF/2003/9 (Part I), paragraph 59).

2. UNICEF held various consultations with the regional groups, National Committees and, in some cases, bilateral consultations. The areas discussed are summarized below.

Underlying principles of the recovery policy

3. The following are key areas of consensus on the underlying principles of the recovery policy:

(a) Other resources programmes should be channelled to priority areas approved in the medium-term strategic plan (MTSP);

(b) In view of the stagnating level of contributions to regular resources, it is essential, to the extent possible, that regular resources should not be used to subsidize other resources-funded programmes. Continued subsidization would cut into the core capacity of UNICEF required to sustain overall UNICEF programmes;

(c) The recovery policy should be structured to encourage reduction in transaction costs while keeping the mechanism simple and transparent to administer.

* E/ICEF/2003/10.

03-31210 (E) 300403
0331210

How key concern areas are dealt with in the revised proposal

4. The following are key areas of concern as expressed by the delegates.

Harmonization

5. Almost all delegations stressed the importance of harmonization and a common United Nations model. As indicated in the Secretary-General's report on the Joint Inspection Unit (JIU) study, "Members of the United Nations System Chief Executives Board for Coordination generally accept the findings and recommendations contained in the report and acknowledge the need to monitor, on a system-wide basis, emerging policy questions and procedures and to keep under review the overall management of extrabudgetary resources within the United Nations system." (A/57/442/Add.1, Summary). It should be pointed out that the proposed UNICEF recovery policy is in line with the recommendations contained in the JIU report. UNICEF has initiated discussions on the JIU paper among United Nations agencies and will pursue common methodology through the Management Group of the United Nations Development Group (UNDG).

Thematic fund-raising

6. Throughout the consultations, it was evident that delegations, in general, support the concept of a thematic, multi-country fund-raising approach, and feel that the recovery policy ought to be formulated to channel the other resources to the MTSP priorities. For fund-raising purposes, donors would be encouraged to provide funding for the thematic areas at global, regional and country levels. There would be five MTSP priority thematic areas and one for humanitarian assistance. For example, all the country thematic contributions for girls' education will be pooled to fund the activities for girls' education of the country programme approved by the Executive Board. Individual tracking of each contribution will not be established in the financial system as consolidated reporting will be given for the specific theme. This will reduce the transactional costs of maintaining and reporting based upon individual donor contributions. Therefore, it is proposed that a reduction of 3 per cent on the recovery rate would be given to the thematic contributions.

Private sector fund-raising

7. In the recovery policy paper, it was proposed that the recovery rate for the private sector fund-raising in the programme countries will be maintained at 5 per cent in view of the difficult economic situation and fluctuating exchange rates. For other private sector fund-raising from National Committees, foundations, non-governmental organizations and individuals, in view of the competitive fund-raising markets, and since such contributions are booked on a cash basis, it is proposed that the recovery rate will be 5 per cent for thematic contributions, and 7 per cent for non-thematic contributions. As National Committees typically build their fund-raising base for regular resources from the contribution to other resources, this will provide an environment for increased fund-raising capability in both regular resources and other resources.

Simplification of the proposal

8. Most delegations would like to see a simplification of the original proposal while still providing incentives for low transaction costs. It is recommended that for contributions from government and intergovernmental sources , the reduction of 3 per cent for thematic contributions, 2 per cent for contributions with 90 per cent paid up front, and 1 per cent for contributions over $500,000 be offered. Table one below gives the possible situations depending on the conditions of the contribution. For small value contributions, which are usually paid up front, donors would be encouraged to provide for thematic areas to reduce the transaction costs. In this case, the recovery rate would be 7 per cent.

Table 1 Recovery rate schedule

			Reduction percentage (%)			Total	**Recovery**
			S	T	P	Reduction	**rate**
Contribution less than $500,000	Non-thematic	Tranches	0	0	0	0%	**12%**
		90% paid upfront	0	0	2%	2%	**10%**
	Thematic	Tranches	0	3%	0	3%	**9%**
		90% paid upfront	0	3%	2%	5%	**7%**
Contribution above $500,000	Non-thematic	Tranches	1%	0	0	1%	**11%**
		90% paid upfront	1%	0	2%	3%	**9%**
	Thematic	Tranches	1%	3%	0	4%	**8%**
		90% paid upfront	1%	3%	2%	6%	**6%**

S=size T=Thematic P=minimum 90% paid up front

Interest income on other resources cash balances

9. As indicated in the recovery paper, ACABQ has pointed out that in light of potential fluctuations in the pattern of receipts and disbursements, as well as fluctuations in exchange rates and interest rates, it would not be prudent, as a matter of policy, to rely on interest income to cover shortfalls in support costs recovery. Hence, this proposal continues not to reduce the recovery rate to take into account interest income, which is currently estimated to be around 2 per cent. Interest income earned on other resources will continue to be recorded as miscellaneous income in regular resources as stipulated in UNICEF financial regulation 11.4. However, to take into account the lead-time between the receipt of cash income and actual spending, during which time the interest income will accrue, a reduction of 2 per cent is proposed as indicated under paragraph 8 above.

United Nations reform and new funding modality

10. New funding modality and procedures may emerge from the UNDG discussions on United Nations reform. Until this discussion is finalized, it is difficult to foresee what will be the support activities and associated support costs required. Hence, it is proposed that the Executive Director be authorized to accept such funds in line with the principles mentioned above, with a rate to be determined on the basis of support required, and report back to the Executive Board.

Recommendation

11. The Executive Director *recommends* that the Executive Board adopt the following draft recommendation:

The Executive Board,

Having reviewed the UNICEF recovery policy, as contained in document E/ICEF/2003/AB/L.1, and the document E/ICEF/2003/AB/L.5 submitted at the present session,

1. *Approves* the principles that other resources support the medium-term strategic plan priorities and that regular resources should not subsidize the support costs for other resources programmes, and *encourages* a procedure that will reduce transaction costs for other resources programmes;

2. *Endorses* that the methodology, as described in paragraph 13 of document E/ICEF/2003/AB/L.1, be used. The methodology will be reviewed in light of the harmonization discussion among the United Nations agencies;

3. *Takes note* of the calculation shown in document E/ICEF/2003/AB/L.1, annex II, on the basis of methodology and 2000-2001 actual expenditure which yields a rate of 12 per cent;

4. *Authorizes* the Executive Director to apply the following rates to all new agreements to be signed after Executive Board approval of the revised policy:

(a) 5 per cent for all funds raised from the private sector in the programme countries;

(b) For other private sector funds, 5 per cent for thematic contributions and 7 per cent for non-thematic contributions;

(c) For other contributions, the reduction of 3 per cent for thematic funds, 2 per cent for 90 per cent up-front payments, and 1 per cent for contributions over $500,000;

(d) For new funding arrangements under United Nations reform, rates will be determined in accordance to specific support activities required from UNICEF. This will be reported back to the Executive Board;

5. *Requests* the Executive Director to report to the Executive Board on the experiences of the recovery policy in the 2006-2007 biennium support budget document.