United Nations DP/2016/10

Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services

Distr.: General
15 April 2016

Original: English

Annual session 2016
6-10 June 2016, New York
Item 3 of the provisional agenda
Financial, budgetary and administrative matters

Midterm review of the integrated budget, 2014-2017

Report of the Administrator

Executive summary

In its decision 2013/28, the Executive Board approved the UNDP integrated budget for 2014-2017, which is an integral complement to the Strategic Plan, 2014-2017. The Board's approval covered the regular resources portion of the UNDP integrated resource plan, including programmatic and institutional activities. The Board also took note of the other resources portion of the integrated resources plan. The decision also called for a midterm review of the 2014-2017 integrated budget to take place in conjunction with the midterm review of the Strategic Plan (DP/2016/9) at the 2016 annual session of the Executive Board.

The present report presents the midterm review of the institutional component of the integrated budget, 2014-2017.

Elements of a decision

The Executive Board may wish to:

(a) take note of the midterm review of the institutional component of the integrated budget, 2014-2017;

(b) recall Executive Board decision 2015/16 which emphasized that regular resources are the bedrock of UNDP and essential to maintaining the multilateral, neutral and universal nature of its mandate and to carry out its work, and in this regard, encourage UNDP to further mobilize these resources while continuing to mobilize other resources to respond to the needs of all programme countries, particularly the poorest and most vulnerable;

(c) recall Executive Board decision 2013/28 in which the Board approved appropriations from regular resources for the institutional component of the integrated budget, 2014-2017, which included transitionary measures discussed in document DP/2013/41;

(d) acknowledge progress made by UNDP in cost alignment through implementation of the cost-recovery policy, note that UNDP should make further progress and encourage UNDP partners to adhere to the aspects of the cost-recovery policy approved by the Executive Board in decision 2013/9;

(e) request UNDP to incorporate lessons learned from the integrated budget, 2014-2017, in the preparation of the integrated budget for 2018-2021.

16-06256 (E) 020516

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I. Context

1. In its decision 2013/28, the Executive Board approved the UNDP integrated budget for 2014-2017, which is an integral complement to the Strategic Plan, 2014-2017. The Board approved the regular resources portion of the UNDP integrated resource plan, including programmatic and institutional activities, and took note of the other resources portion of the integrated resources plan, which covers resources from bilateral and multilateral partners and programme country government partners, including growth in programme country government contributions in regions where non-core financing previously came predominantly from bilateral and multilateral partners. The decision also called for a midterm review of the 2014-2017 integrated budget, in conjunction with the midterm review of the Strategic Plan (DP/2016/9), at the 2016 annual session of the Executive Board.

2. The UNDP integrated budget acknowledges the synergies and linkages between development and institutional results at country, regional and global levels. It also acknowledges the associated resource requirements, as its underlying financial framework, approved by the Executive Board, is premised on a certain level of regular resources. It recognizes that institutional activities and their funding are essential strategic enablers for the achievement of development results. Hence, regular resources funding of these institutional activities is an essential element of the integrated budget and for delivering on the Strategic Plan and related Integrated Results and Resources Framework.

3. It is recalled that the objectives of a single and integrated budget that includes all budgetary categories are:

(a) improving the results focus and enhancing linkages with the Strategic Plan results;
(b) deliberately reducing the proportion of regular resources allocated to the institutional component of the integrated budget, in favour of the programmatic component;
(c) rebalancing the resources within the institutional budget component, by decreasing the proportion allocated to management and increasing the proportion allocated to development effectiveness;
(d) maintaining the core support for the coordination function.

4. Achievement of the above-stated objectives is premised on the following three pillars on which the integrated budget is based:

(a) achieving synergies by integrating programmatic and institutional budget components;
(b) leveraging the new cost classification, to respond to the quadrennial comprehensive policy review of United Nations operational activities for development and to further enhance the transparent and efficient usage of resources;
(c) improving cost alignment through more rigorous and targeted implementation of the cost-recovery policy.

5. In this context, the present report presents a midterm review of the 2014-2017 integrated budget, including the progress towards the achievement of the above-stated objectives of the integrated budget, as well as the potential opportunities and challenges which UNDP may face in 2016-2017 in achieving these objectives.

II. Update on 2014-2015 performance

Overall performance

6. The period 2014-2015 was unique from multiple perspectives. It was the first biennium of the implementation of the UNDP Strategic Plan, 2014-2017, underpinned by the integrated resources plan encompassing the integrated budget. It was also the start of the implementation of the cost-recovery policy approved by the Executive Board in decision 2013/9. The structural change implemented within UNDP also continued during this period.

7. Overall, progress towards the achievement of the objectives of the integrated budget for 2014-2017 has been in the right direction at the strategic level[1] as illustrated in the table below, noting: (a) the reduction in the proportion of regular resources allocated to the institutional component of the integrated budget in favour of the programmatic component; (b) the rebalancing of resources within the institutional component of the integrated budget by decreasing the proportion allocated to management and increasing the proportion allocated to development effectiveness activities; and (c) maintenance of core support for the backbone of United Nations development coordination activities. Achievement of these objectives leveraged the pillars on which the integrated budget was based, in particular synergies from integrating programmatic and institutional budget components, and leveraging the harmonized cost classification categories for enhanced transparency and improved cost alignment.

Regular resources	**2012-2013 Actuals***			**2014-2015 Actuals***	
	% of total	Amount (in millions of United States dollars)		% of total	Amount (in millions of United States dollars)
Programmatic	58%	$1,058		62%	$958
Institutional	42%	$757		38%	$586
Total	**100%**	**$1,815**		**100%**	**$1,544**

Institutional					
Development effectiveness	17%	$128		21%	$119
United Nations coordination	17%	$129		25%	$149
Management	62%	$472		49%	$289**
Special purpose	4%	$28		5%	$29
Total	**100%**	**$757**		**100%**	**$586**

* All references to 2012, 2013 and 2014 are from audited financial statements; and 2015 actuals are from 2015 unaudited financial statements.

** Management expenditure of $289 million includes transitionary measures of $132 million, as explained in paragraph 13 below.

8. With respect to improved cost alignment, progress towards the implementation of the cost-recovery policy across its different aspects has been mixed, with good progress in the implementation of the 8 per cent cost-recovery rate for new third-party contributions, noting that the cost-recovery policy has varied general management support (GMS) rates for different funding instruments. Recognizing the progress made, some further improvements are needed with respect to the compliance with the 8 per cent cost-recovery rate and direct project charging of eligible programmatic and development effectiveness costs at project and programme levels. Details of the progress in the implementation of the cost-recovery policy are outlined further in the discussion below on cost alignment through improved cost recovery.

9. During 2014-2015, significantly reduced contributions to regular resources, exacerbated by the strengthening of the United States dollar, resulted in reduced totals of regular resources, which declined from $896 million in 2013 to $793 million in 2014 and $704 million in 2015. In the context of General Assembly resolution 67/226 on the quadrennial comprehensive policy review, which stressed that regular resources, because of their untied nature, continue to be the bedrock of the operational activities for the development of the United Nations system, and

[1] Overall performance related to improving the results focus is elaborated upon in the midterm review of the UNDP Strategic Plan (DP/2016/9).

relevant Executive Board decisions, including decision 2013/28 on the UNDP integrated budget, UNDP will continue its efforts, with the support of all countries in a position to do so, to mobilize increased contributions to regular resources. As in the past, reductions in regular resources were applied proportionally to the programmatic and institutional components. The financial impact of reduced levels of regular resources in 2014-2015 is described below:

(a) Impact on the programmatic component: TRAC-1, TRAC-3, Programme support to resident coordination activities, the South-South Cooperation Programme and the Human Development Report Office were not impacted by the reduced level of regular resources as they are protected by decision 2013/28. Thus, the amounts of regular resources channeled to programme countries through TRAC-1 and TRAC-3 were maintained. However, protecting these programmatic lines resulted in a sharp reductions to TRAC-2, Regional Programme, Global Programme, the Programme of Assistance to the Palestinian People, Development Support Services, Economists' Programme, Policy Advisory Services, gender mainstreaming and the United Nations Capital Development Fund, as these are not protected. The midterm review of the Strategic Plan discusses the important role of development effectiveness activities with respect to programme quality;

(b) Impact on the institutional component: As a reprioritization, in line with a deliberate decision of UNDP management, resource allocation levels within the institutional component of the integrated budget for United Nations coordination activities have been protected in line with the objectives of the integrated budget, due to the importance of UNDP stewardship of the resident coordinator function. Resource allocation levels for oversight functions (i.e., Office of Audit and Investigations, Independent Evaluation Office, Ethics Office) faced relatively lower reductions, in line with reduction levels presented in the approved integrated budget document (DP/2013/41) of 4 per cent per year. The institutional budget of the United Nations Office for South-South Cooperation was also protected. As a consequence, the institutional budget for all other areas, in particular management activities, was significantly reduced.

10. The 2014-2015 financial performance discussed in paragraphs 6-9 above has been reflected in the tables presented in annex 1, which compare the original 2014-2017 planning estimates from the approved integrated budget document (DP/2013/41) with updated estimates, taking into account audited actual figures for 2014, unaudited actual figures for 2015 and estimates for 2016-2017 per the integrated resources plan in document DP/2013/41. The integrated resources plan table in annex 1 includes overall actual contributions of $9.0 billion in 2014-2015 ($9.3 billion in 2012-2013). This comprises $1.5 billion in regular resources ($1.74 billion in 2012-2013), $5.8 billion in other resource contributions from bilateral/multilateral partners ($5.6 billion in 2012-2013) and $1.7 billion from programme country government partners ($2.0 billion in 2012-2013). While in aggregate, non-core resource contributions from bilateral/multilateral and programme country partners received of $7.5 billion in 2014-2015 were close to planning estimates in DP/2013/41 of $7.75 billion, contribution levels between and within regions have been varied. The tables show that notwithstanding the overall reductions in core resources during the period 2014-2015, progress towards achieving the key objectives of the integrated budget has been in the right direction, noting the proportion of resources across the harmonized cost-classification categories remaining broadly in line with the 2014-2017 planning parameters.

Cost alignment through improved cost recovery

11. As mentioned in paragraph 6 above, the period 2014-2015 was the start of the implementation of the cost-recovery policy approved by the Executive Board in decision 2013/9. The decision also called for an independent and external assessment, to take place in 2016, of the consistency and alignment of the cost-recovery methodology with General Assembly resolution 67/226. UNDP will report on this assessment, together with UNFPA, the United Nations Children's Fund (UNICEF) and the United Nations Entity for Gender Equality and the Empowerment of Women at the 2016 second regular sessions of the respective Executive Boards. This assessment will also cover matters common to all agencies such as introduction of volume discount on GMS rates.

12. Executive Board decision 2013/9 recognized that full cost recovery, proportionally from regular and other resources, would lead to fewer resources being drawn from regular resources to finance the management costs of contributions to other resources, and a larger share of regular resources being allocated to programme activities, thereby providing incentives for contributions to regular resources. With respect to improved cost alignment and an environment of lower regular resources, there is a need to reflect on the relevance of the varied GMS rates for different funding instruments.

13. It is recalled that in approving the 2014-2017 integrated budget, the Executive Board approved transitionary measures of $132 million for 2014-2015, i.e., measures funded by regular resources that were required due to the transition time needed before the new cost-recovery policy was in full effect, in particular the phasing out of the legacy cost-recovery rates of less than 8 per cent for third-party contributions, and full implementation of direct project charging of eligible development effectiveness activities.

14. In 2014-2015, progress was mixed towards the implementation across different aspects of the cost-recovery policy. Good progress was achieved in the implementation of the 8 per cent rate for new third-party contributions, and there was some progress in direct project charging of development effectiveness costs at 'project level' and 'programme level'. However, further improvements are needed with respect to further compliance with the 8 per cent cost-recovery rate and direct project charging of development effectiveness costs at project and programme levels.

15. GMS cost-recovery income. Actual GMS cost-recovery income in the period 2014-2015 was $450 million (with an effective average GMS rate of 6.8 per cent achieved on bilateral third-party contributions in 2015[2]). Planning assumption for implementing GMS cost-recovery rate of 8 per cent was that 50 per cent of the agreements would be in compliance with this policy by the end of 2015. However, UNDP exceeded that initially envisaged level by achieving 76 per cent rate of the compliance by the end of 2015. The remaining 24 per cent of agreements relate primarily to extensions of ongoing projects with legacy cost-recovery rates (below 8 per cent), as well as the impact of waivers (see annex 2 for an overview of waivers granted in 2014-2015) to the 8 per cent cost-recovery policy. Nevertheless, if the 8 per cent GMS cost-recovery rate had been in effect for all third-party contributions in 2014-2015, an additional amount of $42 million would have been earned as GMS cost-recovery income.

16. Direct project charging of development effectiveness costs. In 2014-2015, $151 million of cost-recovery income was used for development effectiveness activities, compared to the estimate of $122 million in the integrated budget. Further improvements are needed and planned in implementing the direct project charging of development effectiveness costs, with the support of the funding partners.

17. Noting that more progress was needed in 2014-2015 regarding improved cost alignment through GMS cost recovery and direct project charging, the transitionary measures referred to in paragraph 13 were used to fund institutional activities in 2014-2015.

Government contributions towards local office costs

18. Government contributions towards local office costs (GLOC) comprise direct cash payments, accounting linkage with voluntary contributions and in-kind contributions. In 2014-2015, UNDP achieved an average of 64 per cent recovery on GLOC cash targets. This represented an improvement over the levels of GLOC cash received in prior years ($58 million in 2014-2015 compared to $45 million in 2012-2013).

[2] Effective GMS cost-recovery rates on all sources of funding are reported annually, for 2014 in annex 2 of the annual report of the Administrator and for 2015, in the annex to the midterm review of the Strategic Plan containing the Integrated Results and Resources Framework methodology and 2015 results.

Measures taken in 2014-2015

19. As mentioned above, UNDP was faced with the implications of the significantly reduced levels of regular resources during 2014-2015. This impact was exacerbated by the strengthening of the United States dollar. UNDP managed this situation by making adjustments in its spending levels and organizational structure. The midterm review of the Strategic Plan discusses organizational performance, including gains achieved by the structural change process, including by strengthening of regional hubs to bring support closer to country.

20. Despite the drop in regular resources income, UNDP ensured that the regular resources channeled to programme countries through TRAC-1 and TRAC-3 were maintained. However, this adversely impacted the availability of complementary support, provided through regional and global programmes, and through development effectiveness and management services (management ratio was contained to 8.1 per cent).

Regular resources expenditures for security measures

21. In its decision 2013/28 on the UNDP integrated budget, the Executive Board decided, "in continuance of existing arrangements, to grant the Administrator with exceptional authority, during 2014-2017, in addition to the approved appropriation from regular resources for the institutional component of the integrated budget of $1,510.4 million, to access up to $30 million in regular resources for security measures." During 2014-2015, $5 million was drawn to respond to the outbreak of Ebola virus disease in West Africa. This was reported to the President of the Executive Board and disclosed in the annual review of the financial situation, and is shown in annex 1, table 1.

III. Outlook for 2016-2017

22. It is recalled that the integrated resources plan within the 2014-2017 integrated budget incorporated 2016-2017 estimates with: (a) further reductions in the planned usage of regular resources for management activities as compared to 2014-2015 estimates; (b) gradual phasing out of transitionary measures in conjunction with further improvement called for in cost alignment through enhanced cost recovery; and (c) funding of differentiated physical presence in line with decision 2013/30, noting that the end of the two-year grace period starts in 2016 and applies to 14 high-middle-income countries (per table 2 of DP/2013/45).

23. In 2016-2017, contributions to regular resources will continue to play a pivotal role in meeting the objectives of the Strategic Plan, including through the availability of the essential core institutional funding to deliver on the Strategic Plan, in an accountable and effective manner. UNDP, with the support of Member States and other funding partners, will continue to strive to achieve the approved level of regular resources for 2016-2017, in line with the financial framework approved by the Executive Board. Further, the approved transitionary measures amounting to $66 million will be required in 2016-2017, until the measures required by decision 2013/9 have been fully implemented (i.e., 8 per cent rate for third-party cost-sharing contributions, and direct charging of eligible development effectiveness costs to programme resources). This is particularly important as reduced levels of regular resources would result in continued pro-rata reductions of both the programmatic and institutional components of the integrated budget.

24. UNDP will also continue to take measures to reduce the impact of any potential adverse change in resource levels, to ensure that it delivers on the Strategic Plan, 2014-2017 and is well positioned to play a vital role in the implementation of 2030 Agenda for Sustainable Development. This would include initiatives such as: (a) advocating for a reversal in the negative trend in regular resources with the '100 partners' campaign, including by diversifying the funding base among and beyond governments; (b) enhancing the UNDP organizational planning processes, to increase effectiveness and efficiencies; (c) leveraging the introduction of new funding windows for lesser-earmarked resources; and (d) adjustments to spending levels in line with prior practice to remain within Executive Board-mandated liquidity parameters (i.e., above

three months core liquidity levels). Additional measures with respect to cost alignment, GLOC collection and support to United Nations coordination are outlined below.

25. Increasing cost alignment through enhanced cost recovery. To make further progress towards the full implementation of the cost-recovery policy with the support of UNDP funding partners, compliance with the 8 per cent rate for third-party contributions will be monitored rigorously. Furthermore, recognizing the need to accelerate efforts to plan for and implement the direct project charging of eligible programmatic and development effectiveness costs, internal targets have been set. Progress against these targets will be monitored through a robust performance measurement system.

26. Improving GLOC collection. UNDP appreciates improvements made by programme countries in respect of the support which they provide through government contributions towards local office costs. There is room for improvement in GLOC collection, however. With the vital support of programme country governments and by introducing the right incentives, UNDP aims to improve GLOC collection in the period 2016-2017.

27. Support to United Nations coordination activities. As in the past, UNDP will continue its strong support for the United Nations coordination function by performing its stewardship role in this regard.

IV. Conclusions

28. The period 2014-2015 was unique from multiple perspectives. It was the first biennium of the UNDP Strategic Plan, 2014-2017, underpinned by the integrated budget and it was the start of the implementation of the new cost-recovery policy. At the same time, UNDP was faced with the implications of significantly reduced levels of regular resources.

29. UNDP responded to these challenges by making progress towards the objectives of the integrated budget, 2014-2017, underpinned by its three pillars: (a) achieving synergies by integrating the programmatic and institutional budget components; (b) leveraging the new cost classification, to further enhance the transparent and efficient usage of resources; and (c) improving cost alignment through implementing different aspects of the cost-recovery policy. It also adjusted spending levels downwards, while protecting the majority of country-level programme resources and maintaining its support to the United Nations coordination function.

30. Taking into account the actual performance for 2014-2015 discussed in the present report, the UNDP financial resource plan for 2014-2017 remains within the financial framework approved by the Executive Board in decision 2013/28, albeit at a reduced level of regular resources. Because regular resources provide an essential and predictable foundation for responding to the needs of programme countries and supporting the mandate, integrity and resource mobilization platform leading to the results of the Strategic Plan, UNDP, with the support of Member States and other funding partners, will intensify its efforts to achieve the level of regular resources in line with the 2016-2017 financial framework. It will also strive to increase the level of unearmarked other resources through new funding windows.

31. During 2016-2017, UNDP will continue to take measures to reduce the impact of any potential adverse change in resource levels, to ensure that it delivers on the Strategic Plan, 2014-2017 and is well positioned to play a pivotal role in the implementation of 2030 Agenda for Sustainable Development. In this regard, UNDP will appropriately enhance its planning processes towards increased effectiveness and efficiency; leverage new funding windows; adjust spending levels according to needs; accelerate implementation of all the aspects of the cost-recovery policy; improve GLOC collection; and maintain its support to the United Nations coordination function.

32. The above-mentioned efforts, in addition to the lessons learned during the implementation of the Strategic Plan and integrated budget for 2014-2017 will constructively inform the preparation of next strategic plan and integrated resource plan, which encompasses the integrated budget, for the period 2018-2021.