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Midterm review of the integrated resources plan and integrated budget, 2018-2021

Report of the Administrator

Summary

During the period 2018-2019, UNDP leveraged management efficiencies to fully fund the recurring institutional budget expenditures from the institutional budget revenue earned in the respective years.

These efficiencies also allowed UNDP to support the Administrator's deliberate decision not to spend the $49 million of additional regular resources approved by the Executive Board for use on management activities. The non-utilization of this approved resource facility contrasted with past strategic plan periods when recurring institutional budget expenditures were funded from institutional budget revenue earned in the year and the reserves were used at the discretion of the Administrator.

The reduction in institutional budget expenditure allowed the proportion of regular resources allocated to development programmes to increase to 64 per cent from 62 per cent (approximately $20 million), while the proportion of regular resources used for institutional budget activities decreased from 38 per cent to 36 per cent compared to the previous period, all of which contributed to the development results achieved by UNDP as articulated in the integrated results and resources framework for 2018 and 2019.

For every United States dollar of expenditure during 2018-2019, 91 cents were spent on development programmes and services, up from 88 cents in 2014-2017. In aggregate, this represents approximately $240 million in additional resources available for development in 2018-2019.

Against an initially planned level of $15.3 billion in available resources for 2018-2019, UNDP attained $14.9 billion in available resources, reaching 97.4 per cent of the planned level, indicating the continued confidence of funding partners. UNDP would have reached 98 per cent of the planned level if not for the impact of exchange rate losses of approximately $0.02 billion attributed to regular resources and the remaining $0.12 billion to other resources.

The COVID-19 pandemic is having real-time repercussions for the work of UNDP. The Administrator will address the Executive Board separately on the pandemic, the implications for the institutional component of the integrated budget and its impact on the Strategic Plan.

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Annexes (available on the Executive Board website)

I. Strategic context

1. This midterm review of the integrated resources plan and budget should be read in conjunction with the midterm review of the Strategic Plan 2018-2021 (DP/2020/8), which it supports in both substance and form. As discussed at length in that document, it must be acknowledged at the outset that UNDP, the United Nations development system (UNDS) and world at large are currently responding to the COVID-19 pandemic, which is impacting the Strategic Plan in real time as this report is being compiled. Drawing on lessons learned from its work in Asia in recent weeks and its experience in working with partners to tackle epidemics and pandemics, UNDP is:

(a) Ramping up its programmatic response, as part of the overall United Nations response to COVID-19;
(b) Actively considering investments to ensure a cost-effective institutional response to contribute to mitigating and containing the spread of this pandemic.

2. The above-mentioned measures will aid the ongoing efforts of UNDP to buffer the impact on different regions, country offices or individual scenarios. UNDP is actively ascertaining the impact of COVID-19 and is fully prepared for the necessary implications, ensuring that there remains a tight rein on institutional expenses related to an effective response. UNDP will inform the Executive Board on the latest impact of this pandemic and the UNDP response.

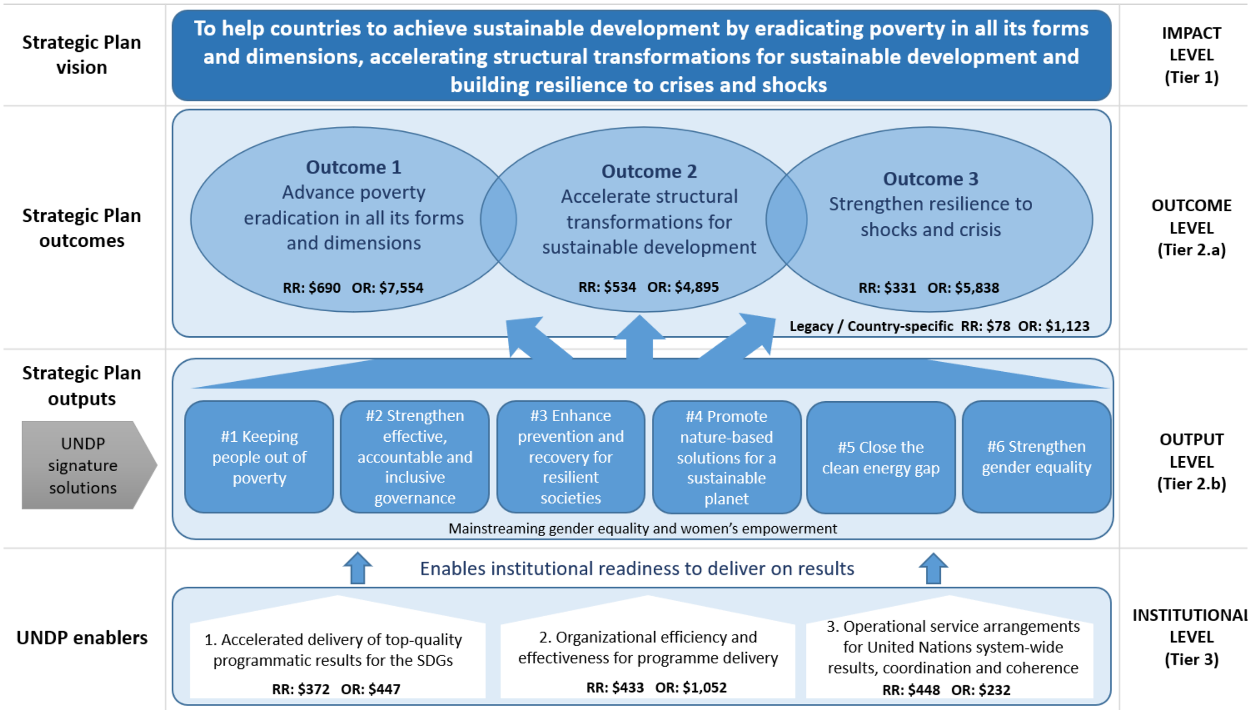
3. That said, the performance in 2018-2019 reviewed in this report should be considered against the backdrop of two contexts: (a) the overarching objective of the UNDP budget was to ensure financial sustainability with respect to the institutional and programmatic components, achieve a better equilibrium between regular and other resources and increase its productivity over time; and (b) General Assembly resolution 72/279 of 31 May 2018 on the repositioning of the United Nations development system in the context of the quadrennial comprehensive policy review of operational activities for development of the United Nations system, which established a plan for a reinvigorated resident coordinator system at the centre of a repositioned UNDS at the country level, and which has had a major impact on all aspects of both the UNDP Strategic Plan and the integrated resources plan. This report should also be interpreted against the backdrop of General Assembly resolution 71/243 of 21 December 2016 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system (QCPR).

4. As indicated in the midterm review of the Strategic Plan, the Sustainable Development Goals remain the world’s blueprint for increasingly urgent action, and through this framework UNDP has managed to channel even more resources to its development programming, while also demonstrating significant management efficiency and effectiveness.

5. Noting the General Assembly resolutions and the Secretary-General’s call for reform and a renewed Funding Compact with Member States, in its decision 2017/31 the Executive Board approved the UNDP integrated budget for 2018-2021, which is an integral complement to the UNDP Strategic Plan, 2018-2021. The Board approved the regular resources portion of the integrated resources 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 other resources funding previously came predominantly from bilateral and multilateral partners.

6. The integrated resources plan and budget underpin and support the implementation and operationalization of the Strategic Plan, which enables UNDP to deliver stronger whole-of-society solutions to address increasingly complex development challenges across three development settings, with six integrated signature solutions, the Global Policy Network and country support platforms. These are outlined in figure I.

Figure I.
UNDP Strategic Plan integrated results and resources framework



Amounts are in millions of United States dollars.
RR=regular resources; OR=other resources.

7. The original objectives of a single and integrated resources plan and budget, as set out in the first UNDP integrated budget (DP/2013/41), are still relevant for this midterm review, as they aim to:

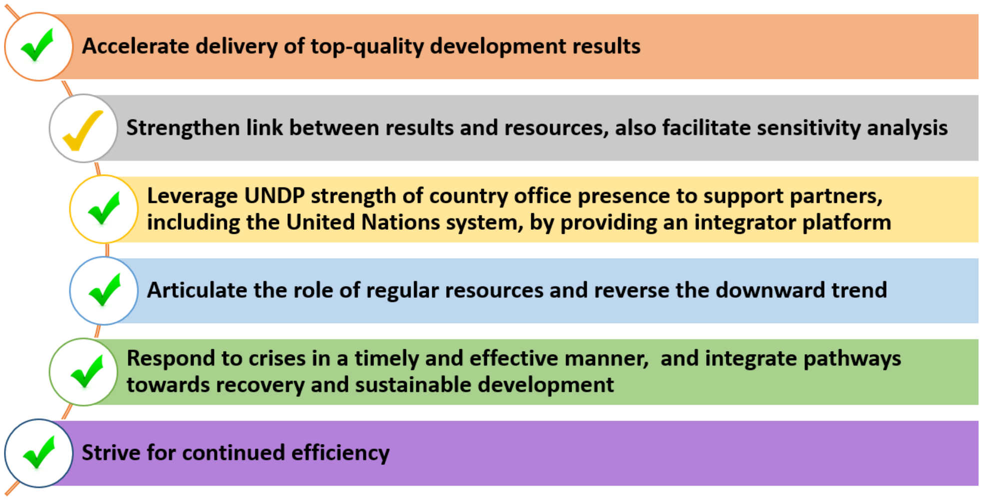
(a) Deliberately reduce the proportion of regular resources allocated to the institutional component of the integrated budget, in favour of the programmatic component;
(b) Improve the results focus and enhance linkages with the Strategic Plan results and demonstrate that UNDP has become more efficient and effective during the past two years;
(c) Underscore the importance of regular resources for the ongoing functioning of the organization, and as seed money to attract additional funding.

8. The integrated resources plan includes regular and other resources and encompasses the integrated budget estimates, which cover regular resources only. The present report serves as the midterm review of the 2018-2021 integrated resources plan and integrated budget (see annex 1 specifically along with the detailed information provided in annexes 2 (tables 1-7), 3 and 4). For ease of comparability with the plan, this review is structured along the lines of the UNDP integrated resources plan and integrated budget estimates, 2018-2021 (DP/2017/39), including progress towards the above-stated objectives and the potential opportunities and challenges which UNDP may face in the period 2020-2021. The present report reviews: (a) the integrated resources plan, including contributions/income and use of resources (expenditure) for programmatic and institutional activities; and (b) the integrated budget, including contributions/income and use of resources (expenditure) for programmatic and institutional activities. Noting that the principal discussion on organizational results takes place in the midterm review of the Strategic Plan, this report discusses elements of the integrated results and resources framework (IRRF) in relation to the integrated resources plan.

II. Review of the integrated resources plan

Objectives

9. The chart below indicates the objectives of the integrated resources plan (and of the integrated budget estimates) 2018-2021 as set out in document DP/2017/39. The present report discusses progress against these objectives.



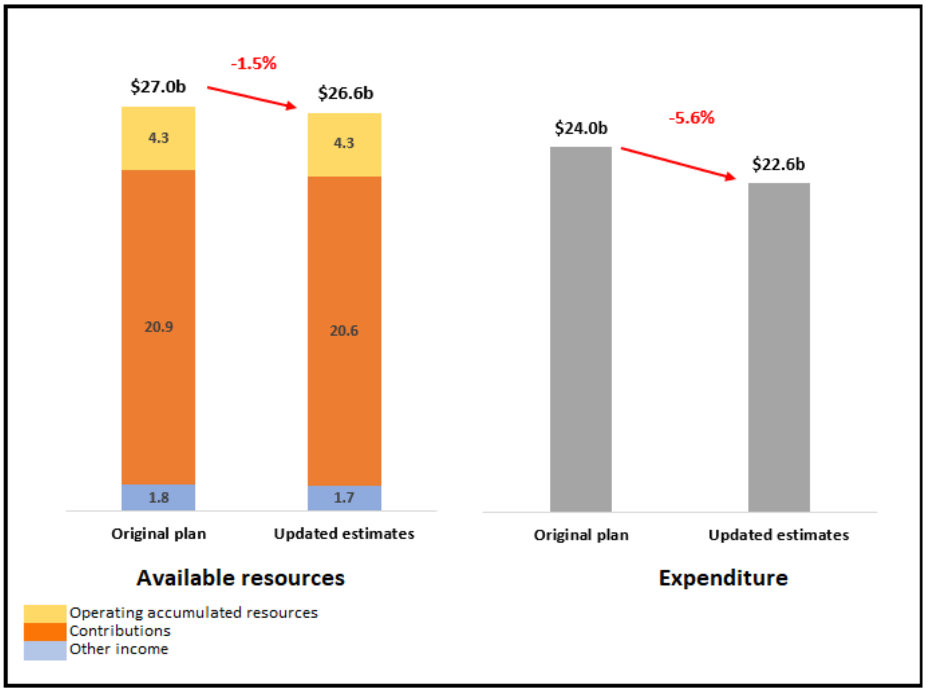
10. This section provides information on the financial performance of the first half of the integrated resources plan including key features, resources available (income) and use of resources (expenditure). This analysis is based on a comparison of the 2018-2019 planning estimates compared with actuals taking into account audited figures for 2018 and unaudited figures for 2019. The detailed integrated resources plan is set out in annex 2, table 2.

11. Against an initially planned level of $15.3 billion in available resources for 2018-2019, UNDP attained $14.9 billion, reaching 97.4 per cent of the planned level, indicating the continued confidence of funding partners. Of the shortfall of $0.4 billion, approximately 40 per cent ($0.14 billion) relates to the impact of exchange rate fluctuations.

12. On the expenditure side, against the initially planned level of $11.7 billion, UNDP spent $10.3 billion or 88 per cent of its planned level. Details are discussed in the following paragraphs.

13. The section also compares the 2018-2021 planning estimates with updated figures for 2018-2021 taking into account the 2018-2019 actual performance and the 2020-2021 estimates as endorsed by the Executive Board in 2016. An overview is presented in figure II below.

Figure II.
Key features of the midterm review of the integrated resources plan, 2018-2021



14. Looking at the overall quadrennial implications of the first two years of implementation, UNDP remains on track to achieve its initially planned level of $27.0 billion in available resources ($26.6 billion or 98.5 per cent). On the expenditure side, UNDP is on track to reach a level $22.6 billion or 94.4 per cent of its original quadrennial planning estimate.

15. It is important to recall that all expenditures, including drawdowns from accumulated programme resources balances, are incurred in line with the UNDP regulatory framework and, where applicable, relevant funding agreements. Accumulated programme resource balances are highly earmarked project funds and are not fungible (that is, they must be delivered in accordance with project documents and the related financing agreements); and are programmed for delivery over multiple years (so that the resources are not necessarily spent in the year in which they are received). UNDP continues to seek opportunities to accelerate the earlier delivery of development results and to further draw down accumulated programme resources balances, considering the programme cycle, multi-year programmes, specific donor agreements and the UNDP regulatory and governance framework.

Resources available (income)[1]

16. The midterm review of the Strategic Plan outlines the evolving UNDP partnership landscape. What follows below are the related financial highlights set out in annex 2, table 1. Focusing on the period 2018-2019, actual contributions reached $9.8 billion, representing 97 per cent of the planned level of $10.1 billion. Over 40 per cent or approximately $0.14 billion of the shortfall can be attributed to a net loss resulting from exchange rate fluctuations. Excluding this net loss, contributions during the period would have reached $9.9 billion, or 98 per cent of the planned level. Key observations on

[1] To complement the actual contributions received during the period, UNDP had the benefit of an opening balance of $4.3 billion, while it also generated income from other sources, for example reimbursement for services to other United Nations organizations and cost recovery, of $0.8 billion for the period 2018-2019. Thus, the total available resources in 2018-2019 amounted to $14.9 billion.

contributions in this period, which are discussed in more detail in the remainder of the section, are as follows:

(a) A change in UNDP funding from a healthier mix of regular and other resources to a higher concentration of earmarked other resources funding. Bilateral contributions and thematic funding windows are also important sources of this funding category;
(b) A sustained level of funding from vertical funds, noting the evolving change in the mix of funding between these funds (Global Fund to Fight AIDS, Tuberculosis and Malaria, Global Environment Facility, Global Climate Fund, Multilateral Fund for the Implementation of the Montreal Protocol, etc.);
(c) Broadening of domestic resource mobilization across regions;
(d) Deepening and expanding partnerships with international financial institutions.

17. When discussing both regular and other resources contributions to UNDP, it is important to highlight the evolving shift of the donor landscape, with donors sharply reducing their level of regular resources contributions relative to other resources contributions. In 2010, the ratio of regular to other resources was 20:80 and has since dropped to 12:88.

18. While UNDP welcomes the incremental growth in contributors that are not members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development and non-State actors, there is an emerging consensus that a global growth slowdown is imminent, while mitigating exchange rate risk has become especially challenging to manage in all of the world’s major currencies.

19. Since 2015, the same top 10 donors have accounted for 85 per cent of total regular resources, underscoring the high dependency of UNDP on these top donors, a trend commonly observed among United Nations agencies. While UNDP is grateful for the continued support from traditional donors, broadening the core donor base, despite continued efforts, remains a challenge for UNDP and for the broader UNDS.

20. For 2018-2019, government contributions to local office costs (GLOC) for low-income and middle-income countries, including cash, accounting linkages, in-kind contributions and arrears, reached 61 per cent and 75 per cent against GLOC obligations, respectively. Upper-middle-income countries and net contributor countries were at 100 per cent, a strong and very welcome demonstration of Member States’ support to UNDP.

Table 1. Government contributions to local office costs, 2018-2019
(In millions of United States dollars)

Income category	GLOC obligations including in-kind contributions	Cash and accounting linkage	In-kind contributions	Total income received	Percentage received against obligations	Arrears GLOC payments	Total income plus cash arrears received
Low-income countries ($1,280 and below)	13.1	3.3	4.7	8.0	61%	4.7	12.7
Middle-income countries ($GNI Per Capita < $6,660)	39.4	18.4	11.0	29.4	75%	11.5	40.9
Middle-income countries ($GNI Per Capita > $6,660)	25.7	21.8	3.9	25.7	100%	0.9	26.6
Net contributor countries	20.3	16.8	3.5	20.3	100%	0.0	20.3
Grand Total	**98.5**	**60.3**	**23.1**	**83.4**	**85%**	**17.1**	**100.5**

21. UNDP welcomes the Secretary-General’s Funding Compact as a means to balance the share of regular and other resources funding and to steer the UNDS towards improved sustainable development results and collaboration through better, more effective partnerships. To shift the balance towards the 30 per cent target for regular resources set out in the Funding Compact, UNDP is expanding efforts and engaging with Member States that are currently below the threshold (note, regular resources currently account for 12 per cent of total resources compared with 20 per cent a decade ago).

22. The Funding Compact also calls for increasing the share of multi-year contributions to improve the predictability of funding. In 2019, contributions to regular resources received from 11 major donors through multi-year commitments reached $363 million, accounting for 57.7 per cent of total contributions, compared to 43 per cent in 2018. This provides some needed predictability of regular resources funding, albeit from a narrow base.

23. As evidence of the effort to strengthen other resources, during 2018-2019, UNDP received over $676 million from international financial institutions, mostly in crisis settings, representing an overall increase of 50 per cent compared to the previous biennium 2016-2017 ($451 million).

24. Vertical funds represent 18 per cent of total contributions to UNDP, with $1.8 billion mobilized across all vertical funds in 2018-2019. The annual average of executed Global Fund grants was close to $900 million in the first two-year of this quadrennial plan. Some $142 million was mobilized in 2019 to support national planning and programming for adaptation to climate change.

25. Moreover, programme Governments' cost-sharing contributions in 2018-2019 reached $1.8 billion, remaining a vital component of UNDP efforts to support national Sustainable Development Goal priorities with government counterparts.

26. Contributions to UNDP thematic funding windows, enabling more integrated approaches to complex development challenges through the signature solutions, increased from $67 million in 2018 to $103 million in 2019, a rise of 54 per cent. This increased level of commitment reaffirms the trust partners place in UNDP.

27. Finally, the Multi-Partner Trust Fund Office continues to be a priority for Secretary-General to support development effectiveness and United Nations coherence through efficient, accountable and transparent design and administration of innovative pooled financing instruments. For 2019, UNDP received $452 million in contributions from this mechanism, continuing a pattern of growth for pooled funding from the 2017 baseline level of $341 million. UNDP support for the Sustainable Development Goals and the broader UNDS underpins this effort.

Use of resources (expenditure)

28. Expenditure for 2018-2019 reached $10.3 billion, representing 87 per cent of the planned level of $11.7 billion as set out in annex 2, table 1. Delivery varied by regions and country offices based on local circumstances and because of the resident coordinator delinking process, which resulted in field-level leadership positions being temporarily vacant.

29. Annex 4 presents actual expenditure reported in 2018-2019 at the country level by country typology (low-income and middle-income countries, middle-income countries with per capita gross national income above $6,660, eligible programme countries and net contributor countries), in line with Executive Board decisions 2012/28, 2013/28 and 2013/30. The annex shows that 43 per cent of total programmatic and institutional resources at country level were spent in low-income countries. This is 25 per cent less than the level of 57 per cent of total programmatic and institutional resources reported in the preceding period (2014-2017), commensurate with the graduation of 16 countries to the middle-income country category, which reduced the number of low-income countries from 56 to 40 from the past (2014-2017) to the present programming cycle. It should be noted that the share of middle-income countries in total resources is higher in 2018-2019 as it includes, in particular, other resources from programme countries, i.e., government cost-sharing resources (see annex 4 for details).

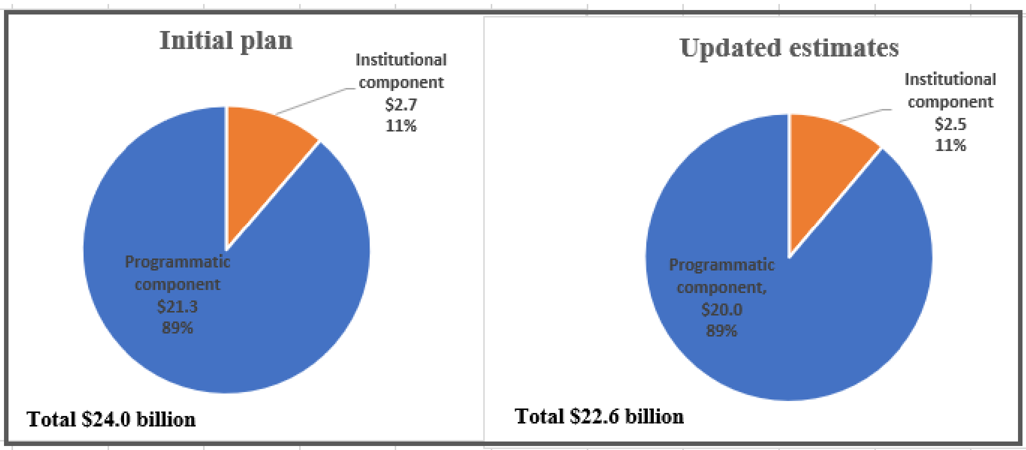
30. Regarding the institutional component of the integrated resource plan, expenditure reached $1.2 billion, below the planned level of $1.4 billion. Among other factors, this reflected the temporary underexpenditure on staffing-related costs mentioned above across regions and country offices, and as a result of operating efficiencies and consolidation at the headquarters and field levels which led to greater resources being available for programme and services for development activities. Among the

number of elements affecting operating efficiencies was the clustering of functions. Expansion on clustering and the consolidation of space at the headquarters and field levels has resulted in effectiveness and efficiency, and will contribute to even greater efficiencies during the remainder of the strategic plan period 2020-2021 and beyond.

31. Despite the challenges faced during this initial period of the Strategic Plan and thanks to the deliberate actions of UNDP leadership, it is important to note that for every dollar of expenditure, 91 cents were spent on programmes and services to achieve development results. This meets the targeted level set out in the 2018-2021 budget and represents a significant improvement over the level of 88 cents during the period 2014-2017 (see annex 2, figure A).

32. Figure III below provides a comparison of major categories of expenditure between original planning figures and updated estimates. Annex 2, table 2 provides details of the estimated integrated resources plan, 2018-2021, including a comparison with that of updated estimates, by cost classification category.

Figure III.
Initial planned use of total resources between programmatic and institutional component compared to updated estimates, 2018-2021



Looking forward

33. The 2030 Agenda for Sustainable Development sets out ambitious, transformative goals for the global community, matched by unprecedented financing needs. To meet these needs, the Addis Ababa Action Agenda calls not only for far greater financial resources to advance the 2030 Agenda, but also for new and innovative instruments to deliver these resources. UNDP aims to strategically create new opportunities to mobilize additional funds and broaden the base of actors contributing to development finance through the creation of innovative products such as loan guarantees, impact investing and social impact bonds. These products are still in the research and development phase but are building on lessons learned from the private sector and will be designed to strengthen partnerships with people, vertical funds and the private sector.

Accelerate delivery of top-quality development results

34. UNDP has redefined its business model as a combination of systems, processes, instruments, partnerships and financing that effectively and efficiently support the delivery of development results.

As the development contexts change, continual improvement of the UNDP business model is required to meet the evolving demands of programme Governments.

35. As discussed at the outset, this midterm review of the integrated resources plan and budget should be read in conjunction with the midterm review of the Strategic Plan, which provides additional details and context around UNDP work to accelerate development results through the creation of the Global Policy Network, digital innovation, staff training and business process improvements.

Strive for continued efficiency

36. Continued fiscal discipline and efficiencies permitted UNDP to maintain a balanced institutional budget in 2018 and 2019 in line with the objectives of the integrated resources plan and integrated budget 2018-2021 for ensuring financial sustainability. At the same time, these efficiencies allowed UNDP to fully fund the recurring institutional budget expenditures from the institutional budget revenue earned in the respective years. These efficiencies allowed UNDP to support the Administrator's deliberate decision not to use the $49 million of additional regular resources approved by the Executive Board for use on management activities. The non-utilization of this approved resource facility contrasted with past strategic plan periods wherein recurring institutional budget expenditures were funded from institutional budget revenue earned in the year and the reserves were used at the discretion of the Administrator. In the case of regular resources for the integrated resources plan and integrated budget 2018–2021, the reduction in institutional budget expenditure allowed the proportion of regular resources allocated to development programmes to increase to 64 per cent from 62 per cent (approximately $20 million), while the proportion of regular resources used for institutional budget activities decreased from 38 per cent to 36 per cent compared to the previous period, all of which contributed to the achievement of development results by UNDP as articulated in the IRRF for 2018 and 2019.

37. As also noted above, despite the challenges faced in the period 2018-2019, for every dollar of expenditure, 91 cents are spent on development programmes and services, up from 88 cents in 2014-2017. As evidenced in the IRRF, the UNDP management efficiency ratio continues to improve and remains below the level of the corresponding annual milestone. From 2019 onwards, both milestone and actuals, in line with the Executive Board-approved harmonized cost classification categories, include costs related to management activities that previously (i.e., in 2018 and prior years, when UNDP managed the resident coordinator system) were part of the "backbone" services provided by the resident coordinator/UNDP resident representative and UNDP country office to the United Nations system coordination and representation functions. Having accounted for this, UNDP continues to outperform its annual milestone. During 2018-2019, UNDP exceeded its targeted levels, moving to a management efficiency ratio of 6.7 per cent (actual) versus 6.9 per cent (milestone), and 7.5 per cent (actual) versus 7.7 per cent (milestone) for 2018 and 2019 respectively.[2]

Cost recovery

38. In connection with the harmonized policy on cost recovery, UNDP, working in conjunction with the United Nations Children's Fund (UNICEF), United Nations Population Fund (UNFPA) and United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), continued its engagement with the Executive Board on cost classification, and cost recovery. In response to

[2] The figures for 2019 reflect the impact of General Assembly resolution 72/279 on delinking the resident coordinator system from UNDP.

Executive Board decision 2013/9, annex 3 provides a detailed update on UNDP cost-recovery policy rates with a focus on General Management Support waivers.

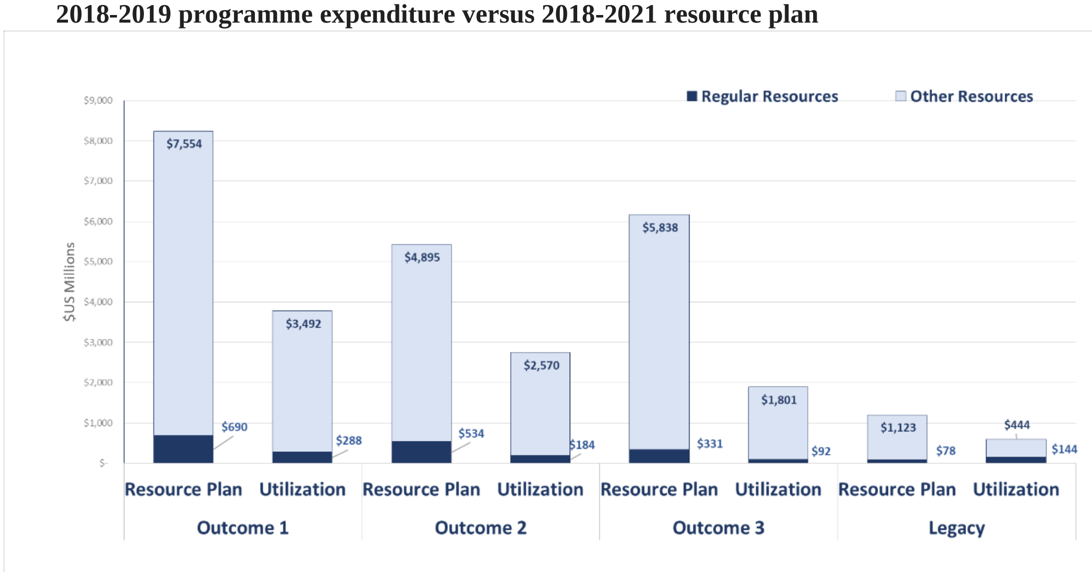
39. UNDP remains firm in honouring its commitment to an optimally repositioned UNDS, and its fully harmonized cost classification and cost-recovery policy to deliver on the 2030 Agenda. In this connection, the discussion on critical cross-cutting management functions, while proposed to be retained as a part of the new cost-recovery policy, may require further elaboration where there has been a greater impact for UNDP as a result of the delinking process.

III. Integrated results and resources framework

40. The IRRF translates the Strategic Plan, 2018-2021 into a set of development and organizational results that show how UNDP will use the resources entrusted to it by Member States and others to deliver on its mandate and vision. At the midpoint of the plan period, UNDP has spent $10.3 billion or 88 per cent of its planned level and 43 per cent against the $24.0 billion four-year plan.

41. In 2018-2019, programme expenditure reached $9.1 billion, 43 per cent of the $21.3 billion original estimate in the four-year plan. UNDP spent $3.8 billion to advance poverty eradication in all its forms and dimensions (outcome 1), $2.8 billion to accelerate structural transformations for sustainable development (outcome 2), $1.9 billion to strengthen resilience to shocks and crisis and $0.6 billion to support legacy interventions from the previous Strategic Plan.

Figure IV.
2018-2019 programme expenditure versus 2018-2021 resource plan



42. On the institutional side, UNDP spent $1.1 billion, 41 per cent of the $2.7 billion four-year plan figure to accelerate delivery of top-quality programmatic results, attain organizational efficiently and effectiveness and provide operational service arrangements for United Nations system-wide results coordination and coherence. Further details on UNDP achievements are discussed in the midterm review of the Strategic Plan and its annex.

Strengthen link between results and resources, also facilitate sensitivity analysis

Leverage UNDP strength of country office presence to support partners, including the United Nations system, by providing an integrator platform

IV. Review of the integrated budget (regular resources)

Articulate the role of regular resources and reverse the downward trend

A. The role of regular resources

43. The General Assembly, in resolution 71/243, the Executive Board in numerous decisions and the Advisory Committee on Administrative and Budgetary Questions have stressed the importance of regular resources for UNDP, which remain the bedrock of the organization and constitute a pillar of support to the poorest countries. The ability of UNDP to implement the Strategic Plan and support Governments in implementing the 2030 Agenda depends on a flexible and sustainable funding base.

44. Taking into account the guidance of the Executive Board regarding the focused use of regular resources, UNDP has rearticulated the role of these resources in line with the following objectives of the integrated budget, 2018-2021, premised on the following three integrated budget pillars:

(a) Achieving synergies by integrating programmatic and institutional budget components;
(b) Leveraging the harmonized cost classification framework as agreed with UNFPA, UNICEF and UN-Women, to respond to the QCPR and to further enhance the transparent and efficient usage of resources;
(c) Improving cost alignment through more rigorous and targeted implementation of a harmonized cost-recovery policy (see DP/FPA-ICEF-UNW/2020/CRP.1).

45. Regular resources remain critical for UNDP not only to support low-income countries to eradicate poverty but also to test innovative approaches and fill critical resource gaps in the areas which UNDP does not attract sufficient resources, such as gender. Flexible and predictable regular resources enable country offices to meet the demands of programme Governments for long-term sustainability rather than orienting interventions around donor priorities through short-term project funding. Being the backbone of UNDP, regular resources drive the organization, cement its achievements on the ground and allow it to sustain and scale successful investments.

Contributions

46. In 2018-2019, contributions to regular resources reached $1.3 billion,[3] or 96 per cent of the planning estimate. This indicates continued strong support from funding partners. Forty per cent of the shortfall or $23 million can be attributed to exchange rate fluctuations resulting in net losses. UNDP makes every effort to mitigate the negative impact of exchange rate fluctuations, building on payment schedules provided by Member States in advance of the year.

Expenditures

47. On the expenditure side, UNDP leveraged management efficiencies to maximize its programme spend. Expanded clustering of functions and the consolidation of space at the headquarters and field levels have resulted in effectiveness and efficiency, and will contribute to even greater efficiencies during remainder of the plan period 2020-2021 and beyond. During the first two years of the strategic plan period, this resulted in an increase in UNDP programmatic spending from 62 per cent of the institutional budget to 64 per cent. The reduction in regular resources institutional budget expenditure allowed the proportion of regular resources allocated to development programmes to increase by approximately $20 million. This growth came at the expense of the institutional component of the integrated budget, which dropped from 38 per cent to 36 per cent of 2018-2019 actuals. See table 2 below.

[3] Taking into account a $12 million holdover from the Government of the United States which is expected to be received by March 2020.

Table 2. UNDP programmatic and institutional components of the integrated budget

Regular resources	2018-2019 updated planning estimates			2018-2019 actuals	
	% of total	Amount (in millions of dollars)		% of total	Amount (in millions of dollars)
Programmatic component	62%	845		64%	784
Institutional component	38%	511		36%	443
Total	**100%**	**1,356**		**100%**	**1,227**
Insitutional component					
Development effectiveness	25%	129		22%	97
Unites Nations development coordination	16%	80		17%	74
Management	55%	281		58%	256
Special purpose	4%	22		4%	17
Total	**100%**	**511**		**100%**	**443**

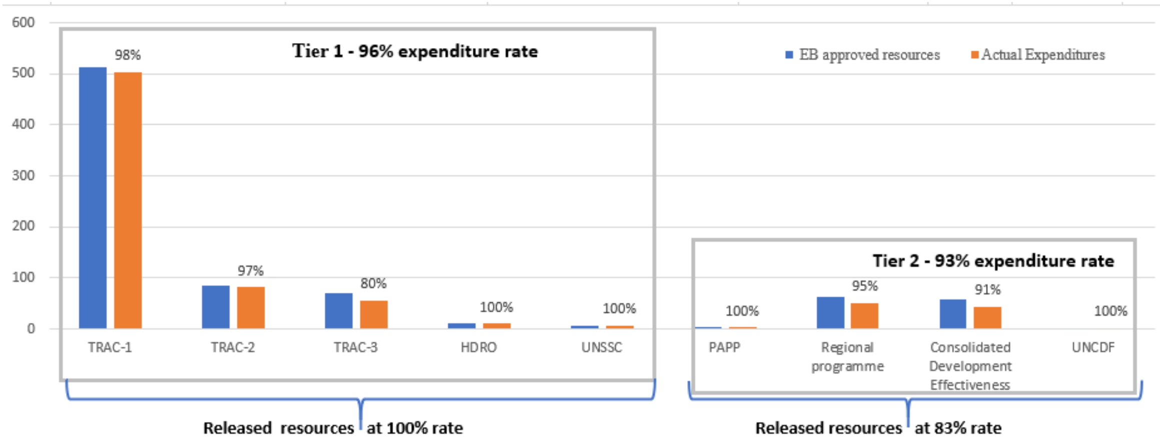
B. Review of the programmatic component of the integrated budget

48. Allocations of regular resources for country-level programme activities are made through the Target for Resource Assignment from the Core (TRAC) system discussed in detail below. During 2018-2019, the UNDP level of programmatic expenditure is in line with planning estimates of the integrated budget. The UNDP TRAC lines, particularly TRAC-2, are discussed in detail below.

49. For 2018-2021, the recently endorsed two-tiered shielding approach for development activities has been put in place; under this approach, in the event of a regular resources reduction of 5 per cent, the lines in tier 1 would not be reduced but the lines in tier 2 would be reduced. In the event that resources fall by more than 5 per cent of the planning level, the lines in tier 1 and tier 2 both would be reduced in equal proportion. Thus, the lines for TRAC-1, TRAC-3, Human Development Report Office and the United Nations Office for South-South Cooperation have been shielded from the impact of reduced contribution levels in the first two years of the 2018-2021 period. In addition, and in contrast to previous integrated budgets which did not shield TRAC-2 resources, budget lines have not experienced declines correlated to a shortfall in contributions.

50. The integrated budget's programmatic components are underpinned by interrelated principles with respect to predictability, universality and progressivity, as reaffirmed by the Executive Board in decision 2012/1. Predictability relates to the availability of sufficient regular resources to ensure sustainability and the multidimensionality of UNDP results. Universality ensures that UNDP development resources and activities are available to support all eligible countries. Progressivity focuses the distribution of regular programme resources on low-income and least developed countries.

Figure V.
Programmatic component of the integrated budget 2018-2019: planning estimates compared to actuals



HDRO=Human Development Report Office; UNSSC=United Nations Office for South-South Cooperation; PAPP=Programme of Assistance to the Palestinian People.

51. Figure V presents the two-tiered approach of funding the programmatic component of the integrated budget which was introduced in the 2018-2021 integrated budget. The two tiers are:

(a) Tier 1 includes TRAC-1, TRAC-2, TRAC-3, the United Nations Office for South-South Cooperation and the Human Development Report Office;

(b) Tier 2 includes regional programmes, the Programme of Assistance to the Palestinian People, consolidated development effectiveness and the programmatic line for the United Nations Capital Development Fund.

52. It is noted that the budgets for Tier-1 programmatic lines were fully released in line with the levels of the Executive Board-approved budget. This resulted in an overall implementation rate of 96 per cent. TRAC-1 and TRAC-2 achieved implementation rates of 98 per cent and 97 per cent respectively and TRAC-3 achieved 80 per cent (noting the specific character of the latter budget line). The United Nations Office for South-South Cooperation and Human Development Report Office both achieved 100 per cent implementation during the period.

53. In line with the two-tiered approach for funding of programmatic lines in case of a decline in contributions to regular resources, the Tier-2 programmatic lines were released at 83 per cent. The overall implementation rate of expenditure compared to these reduced budget levels was 93 per cent against the released resources.

The TRAC system

54. Allocations of regular resources for country-level programme activities are made through the TRAC system. TRAC is a three-tiered system in which TRAC-1 and TRAC-2 resources are linked in a combined pool to support country programming, while TRAC-3 resources are made available through a separate pool to support crisis response. TRAC allocations form the financial foundation for the UNDP programmatic presence on the ground.

55. The remaining programmatic components from regular resources are used to finance: (a) development effectiveness activities, which play a complementary role to country-level programme activities by providing quality assurance, thought leadership and innovation; and (b) the regional programmes, which provide support for intercountry cooperation in all five regions in response to development priorities and challenges.

56. The UNDP TRAC-1 calculation methodology uses a predictability parameter to ensure a smooth transition from the last programming arrangements period to critical work under this Strategic Plan. However, per its mandate, TRAC-1 also include the same percentage allocation ranges: low-income countries, would which continue to receive between 85 per cent and 91 per cent of these resources; middle-income countries, between 9 per cent and 15 per cent; and least developed countries, which straddle both low- and middle-income countries, at least 60 per cent. The UNDP country-level presence is based on differentiated development needs of countries in order to ensure an efficient and effective response to national development priorities.

57. TRAC-2 provides additional incentives for high-priority, high-impact programming, stimulates countries to make greater use of regular resources funding and helps to mobilize other resources. However, experience accumulated over the years has revealed some significant – and interrelated – shortcomings in the TRAC system, such as results-to-resources linkages, diffused funding and gap financing. It is thus important to use TRAC-2 funds as strategically as possible to substantially lift organizational performance in key areas. The proposal in the integrated resources plan for 2018-2021 was made with this argument in mind.

58. Against the backdrop of the considerations outlined, the way forward for TRAC-2 has balanced flexibility for country offices and regional bureaux with corporate commitments to the Executive Board and the demands of a rapidly evolving operating environment. The overarching aim has been to help achieve development outcomes consistent with UNDP commitments, in both the Strategic Plan and integrated resources plan, and to strongly position the organization in the context of the Sustainable Development Goals and UNDS reform. UNDP regional bureaux and country offices have confirmed that TRAC-2 resources were utilized to leverage strategic partnerships, position UNDP to be a key development partner for Sustainable Development Goal integration and to take pilots to scale. For example, TRAC-2 funding was used in Somalia and Yemen to strengthen readiness for reform by creating a solid basis for tapping into innovative solutions, building collaboration platforms and sparking new partnerships and instruments for development.

Allocation methodology and the present low-income and high-income country typology

59. While graduating from low- to middle-income status is a positive outcome for countries, it poses the question of the allocation methodology beyond 2018-2021. The present methodology for TRAC-1 and TRAC-2 resources approved by the Executive Board, based on gross national income, allocates 85 per cent to low-income countries, the low end of the approved range of 85 per cent to 91 per cent. This reflects the fact that the number of low-income countries dropped from 63 during the period 2008-2013 period to 40 in the 2018-2021 period, as illustrated below:

	2008-2013	**2014-2017**	**2018-2021**
Number of low-income countries	**63**	**56**	**40**
Percentage of TRAC-1 / TRAC-2 resources allocated to low-income countries (as approved by the Executive Board)	87.2%	89.6%	85.0%

60. In the rapidly changing development context, based on current data, the number of low-income countries is expected to decline further in the next plan period, i.e., from 2022 onwards, as more countries graduate from low- to middle-income status. This would drive the allocation of resources to low-income countries below the Executive Board-mandated threshold of 85 per cent, although for now TRAC allocations remain in line with planning estimates. It is important to note that middle-income countries, as highlighted in the 2019 Human Development Report, often face grave consequences as a result of this designation as they are often denied development assistance. In fact, despite overall economic growth in many economies, there are rising levels of inequality lurking beneath top-line growth.

C. Review of the institutional component of the integrated budget

61. The UNDP integrated budget acknowledges the synergies and linkages between development and institutional results at country, regional and global levels. 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 resources plan.

62. Regular resources expenditure on the institutional component for 2018-2019 was $443 million, against a planned level of $511 million, or 87 per cent. This represents a drop from 38 per cent of the integrated budget to 36 per cent, which can broadly be attributed to the cost effectiveness and innovative initiatives that have complemented UNDP management effectiveness efforts. UNDP remained well within its planning limits for management expenditure during 2018-2019, which amounted to $256 million against a planned level of $281 million.

63. The midterm review of the Strategic Plan discusses overall organizational and institutional results in depth, including achieving greater effectiveness and efficiencies. Against this backdrop, UNDP balanced its institutional budget in 2019 for the third year in a row. The Administrator made a deliberate decision not to draw on the additional $49 million approved for management activities by the Executive Board in 2017, to ensure full compliance with the cost-recovery policy approved by the Board. Hence, the UNDP institutional budget remained in balance in the first two years of the plan period.

64. It is noteworthy that the aforementioned efficiencies which resulted in a balanced budget were made while UNDP still was able to achieve the results articulated in the IRRF. This enabled UNDP to provide a greater level of funding for programmes and will enable it invest in the strengthening of key functions.

65. Table 3 below sets out a comparison of 2018-2019 institutional component of the integrated budget by categories of expenditure, and updated estimates taking into account actuals from 2018 and 2019. Variance analysis indicates that UNDP is estimated to remain within the levels originally estimated, in particular on key categories for travel and consultants. The largest absolute dollar amount level of underspending relates to the category of post costs (i.e., salaries and benefits), at $64 million out of the original estimate of $454 million, which is against the backdrop of the temporary high vacancy factor during the 2019 period. With a full staffing complement in place, expenditures on posts will be in line with the budgeted levels for the next two years of the strategic plan period.

Table 3. Institutional component of the integrated budget by expenditures category: 2018-2019 planning estimates compared to 2018-2019 actuals

(*In millions of United States dollars)*

			Variances	
Category of expenditures	**2018 - 2021 budget estimates**	**2018 - 2019 actuals and 2020-2021 planning estimates**	**$**	**%**
Posts	856.5	792.5	(64.0)	-7%
Other staff costs	2.1	1.7	(0.4)	-19%
Consultants	37.9	29.2	(8.7)	-23%
Travel	22.1	22.1	0.0	0%
Operating expenses	130.0	127.0	(3.0)	-2%
Furniture/equipment	5.1	5.1	(0.0)	-1%
Reimbursements/contributions	12.2	10.8	(1.4)	-11%
Provision for strategic investments	28.0	24.5	(3.5)	-12%
Total expenditures	**1,093.9**	**1,012.8**	**(81.1)**	**-7%**

Positions

66. As a result of the delinking of the resident coordinator system from UNDP, many new UNDP leadership positions at the country level were filled in 2019. UNDP continued to support the functioning of the independent and reinvigorated resident coordinator system, helping to ensure that resident coordinators and their offices are able to carry out their critical coordination functions seamlessly. At the same time, UNDP maintained its business continuity and continued successfully to drive forward the Strategic Plan, 2018-2021. See annex 2 for a detailed overview of positions graded D1 and higher.

B. Lessons learned and looking forward

67. Today UNDP is a lean organization. In response to the commitments UNDP has made to the Executive Board, the organization has: (a) continued to demonstrate that it has become more efficient and effective during the past two years; (b) shown that its total resources dedicated to programme and development have grown; and (c) stressed the importance of regular resources for the ongoing functioning of the organization (and as seed money to attract additional funding).

68. For the second half of the plan period, UNDP will strive for even greater productivity, efficiency and effectiveness, and an improvement in its management efficiency ratio as it contemplates the challenges ahead for the next strategic planning cycle.

69. On the issue of cost recovery, the discussion on critical cross-cutting management functions, which is proposed to be retained as a part of the new cost-recovery policy, may require further elaboration given the impact of the delinking process on UNDP. It is envisaged that this will be addressed in the final cost-recovery policy framework to be presented to the Executive Board at its second regular session of 2020.

70. With a programme presence in around 170 countries and territories, UNDP has the largest operational platform in the United Nations family, providing an ample range and volume of services to the entire system. Steady improvement in operational efficiency will allow UNDP to strengthen its client orientation and offer better integrated operational support to other organizations, especially non-resident partners.