United Nations

DP/OPS/2021/7

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

Distr.: General
8 July 2021

Original: English

**Second regular session 2021**
30 August–2 September 2021, New York
Item 11 of the provisional agenda
**UNOPS: Financial, budgetary and administrative matters**

# United Nations Office for Project Services budget estimates for the biennium 2022–2023

## Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered an advance version of the budget estimates for the biennium 2022-2023 for the United Nations Office for Project Services (UNOPS) (DP/OPS/2021/6). During its consideration of the report, the Advisory Committee met online with representatives of the Executive Director of UNOPS, who provided additional information and clarification, concluding with written responses received on 15 June 2021.

2. As indicated in the UNOPS report, the budget estimates for the 2022-2023 biennium emanate from the UNOPS strategic plan 2022-2025, and from the UNOPS purpose, mission and vision statements. The UNOPS results framework consists of three contribution goals and four management goals, and supports the 2030 Agenda for Sustainable Development and the requirements of the quadrennial comprehensive policy review of operational activities for development of the United Nations system. It is also indicated that UNOPS has aligned its budget for the biennium 2022-2023 with the harmonized presentation adopted by the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), and the United Nations Children's Fund (UNICEF), based on decisions 2010/32, 2011/10, 2012/27 and 2013/9, in which the Executive Board approved harmonized approaches for cost-classification, results-based budgeting and budget presentation. Due to the self-financing business model of UNOPS, two years is seen as the most relevant planning horizon in terms of revenue and costs (DP/OPS/2021/6, para. 81). Upon enquiry, the Advisory Committee was informed that in line with UNDP and UNFPA, with whom UNOPS shares the Executive Board, the UNOPS strategic plan stretches over a four-year period, but while UNDP and UNFPA align their budget periods to their strategic plan period, due to its self-financing nature, UNOPS prepares budget estimates on a biannual basis as opposed to the quadrennial budget period, providing the organization with sufficient opportunities to adjust the budget in line with the demand-driven business realities.

3. The report indicates furthermore that the minimum operational reserve requirements have been reviewed and a new formula for calculating the minimum operational reserve requirements is being proposed. With respect to the multi-year funding framework of the Sustainable Investments in Infrastructure and Innovation (S3I) initiative, UNOPS has established a separate reserve, the growth and innovation reserve, for valuation of the underlying assets (see section II below).

# I. Financial resources

4. As indicated in the summary of the report, the budget estimates for UNOPS for 2022-2023 of $181.3 million amount to $42.8 million in growth of management resources compared to the budget estimates for the previous biennium. The revenue target for the 2022-2023 biennium is set at $200.5 million, a decrease from the $258.4 million of the actuals for 2020 and the projected amount for 2021. As indicated in table 4 of the UNOPS report, the total resource plan for the 2022-2023 biennium amounts to $545.2 million of net assets after the impact of revenue on budget lines, reflecting an increase of $171.3 million (45.1 per cent) compared with the 2020-2021 budget estimates of $373.9 million, and an increase of $34.7 million (6.25 per cent) compared with the actuals for 2020 and the projected amount for 2021, comprising:

(a) $181.3 million of management resources (inclusive of $20 million of strategic investments which are now integrated into management resources), compared with the 2020-2021 estimates of $138.5 million, or an increase of $42.8 million (30.9 per cent), and the actuals for 2020 and the projected amount for 2021 would amount to $130.0 million, or a decrease of $61.3 million (39.5 per cent);

(b) $19.2 million of provisions, liabilities, and contingencies compared with the 2020-2021 estimates of $22.5 million, or a decrease of $3.3 million (14.7 per cent), and the actuals for 2020 and the projected amount for 2021 would amount to $33.4 million, or a decrease of $14.2 million (42.5 per cent); and

(c) $0 of strategic investments from surplus compared with the 2020-2021 estimates of $20 million, or a decrease of $20 million, and the actual amount for 2020 and the projected amount for 2021 would amount to $12.5 million. As indicated in paragraph 113 of the UNOPS report, strategic investments have been integrated into management resources; and

(d) $344.7 million of net assets at both the beginning and the end of the 2022-2023 biennium, compared with the 2020-2021 estimates of $192.9 million at the beginning and the end of the period, or an increase of $151.8 million (78.7 per cent), and: (i) at the beginning of the period an actual amount of $252.0 million, or an increase of $92.7 million (36.8 per cent); and (ii) at the end of the period a projected amount of $344.7 million, or an increase of $151.9 million (78.9 per cent).

5. Upon enquiry, the Advisory Committee was provided with an expanded resource plan (see table 4 of the UNOPS report), showing comparative figures since the 2014-2015 biennium (see annex I to the present report). The Committee notes from annex I that the net assets have continued to exceed the budget estimates over past biennia. From 2014-2015 to 2020-2021, at the beginning of the year, the actual net assets of UNOPS have exceeded the budget estimates by an average of $29.5 million (23.9 per cent), ranging from $15.6 million (24.8 per cent) to $59.1 million (30.6 per cent). At the end of the biennia, actual net assets exceeded the estimates by an average of $96.1 million (79.8 per cent), ranging from $36.3 million (63.4 per cent) to $151.8 million (78.7 per cent).

6. The Advisory Committee was also provided with an expanded table (see table 5 of the UNOPS report) showing budget estimates and actual figures of management resources, as follows:

**Table 1**
**Budget estimates, by expense category**
*(millions of US dollars)*

| | Expense category | 2018-2019 budget estimates | 2018-2019 Actual | 2020-2021 budget estimates | 2020 Actual & 2021 Projections | *Change* | | 2022-2023 budget estimates |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Amount in dollars | Percentage (%) | |
| Management expenses | Posts | 25.5 | 24.1 | 27.1 | 26.0 | 4.2 | 15.5 | 31.3 |
| | Common staff costs (16) | 18.4 | 17.4 | 20.4 | 19.4 | 2.7 | 13.2 | 23.1 |
| | Travel | 8.0 | 7.4 | 8.7 | 3.8 | 0.0 | 0.0 | 8.7 |
| | Consultants (17) | 61.9 | 55.8 | 66.4 | 66.8 | 34.6 | 52.1 | 101.0 |
| | Operating expenses (18) | 15.0 | 7.9 | 12.9 | 9.6 | 0.1 | 0.8 | 13.0 |
| | Furniture and equipment (19) | 1.7 | 0.9 | 1.0 | 1.8 | 0.4 | 40.0 | 1.4 |
| | Reimbursements | 2.4 | 1.8 | 2.0 | 2.6 | 0.8 | 40.0 | 2.8 |
| | **Total management expenses** | **132.9** | **115.1** | **138.5** | **130.0** | **42.8** | **30.9** | **181.3** |

7. The Advisory Committee notes from table 1 above that for the 2022-2023 biennium estimated expenses amount to $181.3 million, compared to the actual projected expenses for 2020-2021 of $130.0 million, or an increase of $42.8 million (30.9 per cent). For the 2018-2019 biennium, estimated expenses amounted to $132.9 million, compared to actual expenses of $115.1 million, or $17.8 million (13.4 per cent) below the estimate.

**8. The Advisory Committee notes that a conservative baseline is applied in the preparation of the budget estimates and that the income of UNOPS is constantly underestimated notwithstanding the continuously surpassed expectations, as evidenced by the actual figures since at least the 2014-2015 biennium. The Committee further notes that no explanation of the estimated and actual figures has been presented to enable an analysis of the variances with respect to the expenses. The Committee recalls its previous observation that the projected net revenue has been consistently above the approved target of zero net revenue (see DP/OPS/2019/6, para.7, and section II below). The Committee notes with concern that the net assets of UNOPS continue to surpass expectations and exceed the biennial estimates, and that the overly conservative approach to budgeting has now led to high unspent balances and a compounded accumulation of reserves. The Committee emphasizes that, bearing in mind its nature as a self-financing entity and its approved target of zero net revenue, UNOPS should ensure that budget estimates, starting with the 2024-2025 biennium, are consistently based on realistic assumptions derived from past expenditure and revenue patterns. The Committee addresses related matters, including on revenue and the operational reserve in the paragraphs below.**

**9. The Advisory Committee trusts that the information provided in table 1 above, and the table presented in annex I to the present report, showing respectively the actual figures for the previous three biennia, actual and projected figures for the current biennium, and projected figures for the following biennium, will be included as a matter of routine in future budget reports, starting from the 2024-2025 budget report.**

*Revenue, pricing, and self-financing business model*

10. UNOPS indicates in paragraph 72 of its report that it will recover sufficient revenue to offset its cost, using a flexible pricing model whereby each engagement signed with partners is priced based on set-up and context. Upon enquiry, the Advisory Committee was informed that, in accordance with its

Financial Regulations and Rules, as a self-financing entity, UNOPS operates on the basis of full cost recovery and sets its management fees accordingly, with sufficient net surplus to be generated to maintain the operational reserve at the level established by the Executive Board. The Committee was furthermore informed that the pricing model of UNOPS is flexible, with different rates for different types of projects, based on cost drivers such as complexity, size and risk. The Committee was also informed that the higher risk of some UNOPS services had been reflected in the present proposal on the operational reserve (see also section II below).

11. Upon enquiry, the Advisory Committee was provided with information on UNOPS partners from 2018 to 2020, and the related amounts, as at May 2021, as follows:

**Table 2**
**UNOPS partners from 2018 to 2020, and related amounts, as at May 2021**

| Year* | Number of partners* | Delivery amount in US $* |
|---|---|---|
| 2018 | 165 | 1.9 billion |
| 2019 | 156 | 2.3 billion |
| 2020 | 158 | 2.2 billion |

* Between 2018 and 2020, UNOPS worked with 201 unique partners, including partners with whom the total delivery over the three years exceeded $50,000.

12. Upon enquiry, the Advisory Committee was also provided with the estimated and actual revenues from 2004-2005 to 2020-2021, as follows:

**Table 3**
**Annual revenue figures for UNOPS from 2004-2005 to 2020-2021**
*(millions of US dollars)*

| Biennium | Budget estimates forecast | Gross revenue (actuals*) | Net revenue (actuals*) |
|---|---|---|---|
| 2004-2005 | 88.0 | 118.7 | 102.2 |
| 2006-2007 | 108.7 | 125.9 | 109.1 |
| 2008-2009 | 133.3 | 158.6 | 135.2 |
| 2010-2011 | 140.1 | 168.0 | 150.2 |
| 2012-2013 | 148.7 | 160.1 | 132.8 |
| 2014-2015 | 139.2 | 173.9 | 151.0 |
| 2016-2017 | 138.7 | 184.2 | 169.2 |
| 2018-2019 | 179.3 | 198.0 | 182.9 |
| 2020-2021 | 181.0 | 270.8 | 258.4 |
| 2022-2023 | 181.3 | | |

*Except for 2021, which is projected

13. As indicated in section II.A of the budget report, the viability of UNOPS as a self-financing United Nations entity requires that its revenue cover management costs and operational risks. UNOPS operates on the principle of full cost recovery, which includes its direct and indirect costs. Upon enquiry, the Advisory Committee was informed that of the total UNOPS revenue for the global Secretariat (including peace missions and special political missions) direct costs amounted to $319,309,000 (17.6 per cent), comprising: (a) $214,914,000 for mine action; (b) $30,392,000 for peace operations; (c) $61,000 for one special political mission; (d) $37,035,000 for the Department of Operational Support; and (e) $36,880,000 for other Secretariat offices. Indirect costs amounted to $17,619,000 (15.9 per cent), comprising: (a) $10,696,000 for mine action; (b) $2,420,000 for peace operations; (c) $5,000 for one special political mission; (d) $1,796,000 for the Department of Operational Support; and (e) $2,703,000 for other Secretariat offices. The Committee was furthermore informed that, under the flexible pricing model, each signed engagement has a specific indirect cost that should be recovered and that higher rates indicate that the portfolio is more complex, has additional smaller projects and/or is riskier than the average activities. The Committee was informed, also upon enquiry, that a memorandum of understanding, signed in 2014 between the United Nations Secretariat and UNOPS, governs the fixed management fee rates. The Committee was further informed, upon enquiry, that the Board of Auditors has expressed concerns as to whether UNOPS is adequately recovering its full indirect cost under all memorandums of understanding, and has asked UNOPS to establish a pricing model.

14. **The Advisory Committee notes with concern that the continuous and increasing surpluses of UNOPS as a result of various factors including for example levels of management fees, exceed the full cost recovery. The Committee reiterates its previous recommendation that UNOPS will reassess the level of management fees it charges as part of its cost-recovery model with a view to establishing fees at levels which do not accumulate surpluses over and above the realistically assessed operational reserve. The Committee stresses furthermore that there is a need for UNOPS to provide Member States and United Nations system entities with transparent budget estimates and pricing structures, and therefore requests that detailed information on the calculation methodology applied for all clients will be presented in the context of the budget estimates for the 2024-2025 biennium and thereafter.**

15. Upon enquiry, the Advisory Committee was provided with information showing the refunded amounts (rebates) to the United Nations Secretariat in accordance with the above-mentioned memorandums of understanding, as follows:

**Table 4**
**Refunded amounts to the United Nations Secretariat since 2016**[1]

| Year | United Nations Secretariat rebate ($ millions) | Surplus for the period ($ millions)** | Ratio of United Nations Secretariat rebate over surplus for the period** |
|---|---|---|---|
| 2020* | 2.14 | N/A | N/A |
| 2019 | 2.24 | 47.14 | 4.8% |
| 2018 | 2.31 | 38.43 | 6.0% |
| 2017 | 2.28 | 28.97 | 7.9% |
| 2016 | 2.23 | 31.28 | 7.1% |

*The rebate amount for 2020 is the estimated value subject to confirmation of the Secretariat. Also, the UNOPS Financial report and audited financial statements for 2020 had not been published at the time of the issuance of the written response to the Advisory Committee.
**Based on the UNOPS financial report and audited financial statements, chapter II. Statement of financial performance for the period.

[1] The Advisory Committee was informed, upon enquiry, that for the years 2014 and 2015 the overall engagement with the Secretariat was not sufficient in terms of volume to trigger the discount under the terms of the memorandum of understanding.

16. The Advisory Committee was informed, upon enquiry, that the fee is returned to the United Nations Secretariat only and is not returned to other UNOPS clients. The Committee was also informed that this rebate was not related to the UNOPS surplus, as the rebate is considered a contractual obligation and fees would be refunded regardless of whether a surplus existed or not. The Committee was also informed that the operational part of the surplus that is fully funded by the indirect cost is considered the contribution to the UNOPS reserves (see section II below). **The Advisory Committee stresses that the provision of rebates should not be limited to one entity, i.e, the United Nations Secretariat, but that all United Nations system entities should be able to avail themselves of the opportunity to receive refunds on fees paid. The Committee trusts that information on the specific steps taken in this respect, including the conclusion of related memoranda of understanding with United Nations system entities, will be presented in the context of the budget estimates for the 2024-2025 biennium.**

## II. Financial reserves

17. The Advisory Committee recalls that, under the provisions of the Regulation 22.02 of the UNOPS Financial Regulations and Rules, the following reserves may be established within the UNOPS accounts:

(a) An operational reserve at a level set by the Executive Board. The purpose of the operational reserve is to guarantee the financial viability and integrity of UNOPS as a going concern.

(b) A growth and innovation reserve to invest in the future revenue generating ability of UNOPS. Transfers to this reserve will be limited to 50 per cent of the excess operational reserves, over and above the level set by the Executive Board. The specific approval of the Executive Board shall be required if the amount to be transferred exceeds 50 per cent of the excess operational reserves.

(c) The decision to draw from these reserves shall rest solely with the Executive Director who shall report all drawdowns to the Executive Board.

### A. Operational reserve

18. As indicated in annex II of the UNOPS report, at its second regular session 2013, the Executive Board approved the current basis of the minimum requirement for the UNOPS operational reserve at four months of the average of the previous three years' expense under its management budget (DP/OPS/2013/6, DP/OPS/2013/CRP.1, Executive Board decision 2013/33). The UNOPS report also indicates that the change was approved after UNOPS, in line with the other United Nations organizations and as mandated by General Assembly resolution 60/283, had adopted International Public Sector Accounting Standards (IPSAS) as of 1 January 2012.

19. The Advisory Committee was informed that, at a cost of $105,900, UNOPS has reviewed the minimum operational reserve requirements with an external consultant. Upon enquiry, the Committee was informed that the external consultant undertook an analysis of the main financial risks associated with the UNOPS self-financing business model, including quantitative modelling (a so-called Monte Carlo analysis) related to the net assets study. The external consultant also reviewed formulations of operational reserve requirements in other similar organizations operating according to IPSAS or the International Financial Reporting Standards, taking into account the risks associated with the UNOPS portfolio, including the cash risk. The external consultant presented two main observations, as follows:

(a) The current level of minimum reserve is too low and not adequate for the UNOPS risk exposure profile: the consultant performed a benchmarking study comparing UNOPS with 19 other United Nations organizations, a peer group of 7 similar United Nations organizations, and a group of 5 construction companies in the private sector. It was determined that when compared against the total expenses, the level of minimum reserves of UNOPS is one of the lowest of its peer group. A Monte Carlo simulation showed that UNOPS would rapidly exhaust its minimum operational reserves when stress-testing the robustness of the current level of minimum operational reserves; and

(b) the minimum operational reserve should be correlated to the UNOPS level of activities and engagements portfolio composition, particularly of design-related and project failure risks pertaining not only to infrastructure projects but also to legal, reputational and fraud risks.

20. Upon enquiry, the Advisory Committee was informed that the external consultant recommended that based on the proposed formula and figures from the UNOPS 2019 financial statements for the year ended 31 December 2019, the recommended level of minimum reserves would grow from $21 million to $126.9 million, with the Monte Carlo simulation showing that this amount would be acceptable and would protect against the likelihood of negative net assets/ equity. The external consultant recommended that UNOPS consider amending the formula for the minimum operational reserves and revise its Financial Regulations and Rules accordingly. As indicated in the report, UNOPS is now proposing a new formula for calculating its minimum operational reserve requirements whereby the minimum requirement would be “fit for purpose” taking into consideration the residual risks of project implementation (DP/OPS/2021/6, para. 33). UNOPS proposes calculating the appropriate minimum requirement for the reserve as follows: 25 per cent of the infrastructure service line expenses, 5 per cent of expenses for other service lines, and 33 per cent of administrative cost, with a weight of 50 per cent for the current year, 30 per cent for the previous year, and 20 per cent for year prior (ibid., summary and annex II).

*Observations of the Board of Auditors and the Advisory Committee on the operational reserve*

21. The Advisory Committee recalls that the Board of Auditors observed and considered the contention of UNOPS that the existing minimum operational reserve is inadequate needs to be viewed in the context of the Board’s recommendation that UNOPS reassess its requirement for minimum operational reserves (A/71/5/Add.11); the aforementioned recommendation has not yet been implemented. The Committee recalls that the Board recommended that UNOPS review its required minimum operational reserve and adhere to its policy of full cost recovery, so that the risks arising during the course of its operations were effectively met and surpluses were not accumulated over and above the realistically assessed operational reserves (A/75/5/Add.11, chap. I, paras. 18-23), as endorsed by the General Assembly in its resolution 75/242.

22. The Advisory Committee reiterates its concern that the Secretary-General has not implemented the resolutions of the General Assembly, dating back to its resolution 73/268. The Committee emphasizes that the Assembly, in its resolution 75/242, endorsed the report of the Board, as well as the report of the Committee, and that in operative paragraph 8, the Assembly reiterated its request to the Secretary-General and the executive heads of the funds and programmes of the United Nations, including UNOPS, to ensure full implementation of the recommendations of the Board and of the Committee in a prompt and timely manner (see also para. 25 below). The Assembly also reiterated its request that the Secretary-General, in his role as Chair of the United Nations System Chief Executives Board for Coordination, facilitate the development of reasonable benchmarks for minimum and maximum levels of the operational reserves for the United Nations system. The Committee recalls that in its report on shifting the management paradigm in the United Nations: review of progress in the implementation of management reform, it reiterated the need for benchmarks not only for the minimum levels of operational reserve but also for the maximum levels of operational reserve. The Committee noted that it requested, but did not receive, information on the action taken by the Secretary-General in response to the Board’s related recommendations endorsed by the General Assembly (see A/75/538, paras. 38-44).

23. As in prior years, the present budget estimates report indicates that since 2009, the operational reserve has remained above the minimum set by the Executive Board. As indicated in table 2 above and in annex I to the present report, the projected reserve for the 2020-2021 biennium was estimated at $192.1 million but is now projected at $344.7 million, a level which would presumably be maintained throughout the 2022-2023 biennium. The available figures since the 2014-2015 biennium show equally large discrepancies between the estimated and actual amounts (see table 2 above). In its previous reports, the Advisory Committee has repeatedly highlighted its concerns regarding the growing surplus,

as the actual reserves have continued to be significantly higher than the related estimates over the course the most recent biennia (see for example DP/OPS/2019/6, para. 12, and DP/OPS/2017/7, para. 6).

24. Upon enquiry, the Advisory Committee was informed by the Board of Auditors that in its previous report, the Board noted that in line with the zero net revenue target, the budgeted reserves (i.e., the net surplus) of UNOPS were frozen at their existing values for 2018 and 2019 but that the actual reserves had increased considerably, resulting in a substantial net surplus in both years. The Board also informed that, during the audit review, UNOPS informed the Board that the minimum operational reserve was designed to cover cost overruns associated with management expenses, and that the existing minimum operational reserve was inadequate to support the residual risks that UNOPS was facing (A/75/5/Add.11, chap. II, para. 18-24). The Board indicated that, as also indicated in paragraph 21 above, UNOPS has not yet implemented its recommendation, dating back to the year 2012, that UNOPS reassess the requirement for minimum operational reserves (see A/71/5/Add.11).

*Comments of the Advisory Committee on maximum operational reserves*

25. The Advisory Committee recalls that it has expressed its concern that the Secretary-General did not implement the decisions taken by the General Assembly in its resolutions 73/268 and 74/249 with respect to the benchmarks for minimum and maximum levels of operational reserve. The Committee also recalls that it concurred with the findings of the Board of Auditors and recalls its recommendation that the Assembly again request the Secretary-General, in his role as Chair of the United Nations System Chief Executives Board for Coordination, to, inter alia, facilitate the development of reasonable benchmarks for minimum and maximum levels of the operational reserves for the United Nations system (A/75/539, para. 18), as endorsed by the General Assembly in its resolution A/75/242.

26. The Advisory Committee notes that UNOPS has formulated and implemented its budgets in a prudent manner, underspending on the expenditure side and surpassing expectations on the income side. The Committee considers that, as the actual minimum reserves of UNOPS may easily exceed any minimum levels, it would therefore not be feasible to consider a minimum level of operational reserve without also considering a maximum level of operational reserves.

27. Upon enquiry, the Advisory Committee was informed that if a maximum operational reserve level was to be formalized, the organization might unintentionally exceed that level, for example, should the demand for UNOPS infrastructure projects increase significantly in one year. The Committee was also informed that setting a maximum level for the operational reserve would limit the possibility of UNOPS to grow in line with its partner demand while at the same time remaining covered for the risks related to its portfolio. The Committee was informed that therefore, management does not consider that setting a maximum operational reserve is feasible. **The Advisory Committee points out that there are precedents for establishing reserves in absolute dollar terms, and that maximum reserves may be established as a ratio of the expenditure in any given biennium, or according to the formula now proposed by UNOPS for its minimum operational reserves, without impacting UNOPS operations. The Committee also notes that the lack of establishment of maximum reserves might risk leading to the unnecessary accumulation of surpluses through high management fees beyond the need for the mitigation of risks. The Committee stresses that the General Assembly has requested UNOPS on several occasions to establish a maximum level of operational reserve (see para. 25 above). The Committee provides further comments in paragraphs 29 and 30 below.**

*Comments of the Advisory Committee with respect to the decision of the Executive Board*

28. The report on the budget estimates for the 2022-2023 biennium indicates that "the Executive Board may wish to approve the change of the minimum requirement for the operational reserve of UNOPS to be set at 25 per cent of the infrastructure service line expenses, 5 per cent of expenses for other service lines, and 33 per cent of administrative cost, with a weight of 50 per cent the for current year, 30 per cent for previous year, and 20 per cent for the year prior" (DP/OPS.2021/6, summary and annex II). **The Advisory Committee is of the view that the Executive Board may wish to defer its decision on the operational reserve based on the underlying reasons stated in paragraphs 29 and 30 below.**

**29. The Advisory Committee continues to concur with the views of the Board of Auditors on all aspects pertaining to the UNOPS operational reserve. The Committee recalls that the General Assembly, in its resolutions 73/268 and 75/242, reiterated its request for the full implementation of the recommendations of the Board of Auditors and the related recommendations of the Committee in a prompt and timely manner. The Committee regrets that notwithstanding its repeated observations, as well as the observations and recommendations of the Board of Auditors dating back some ten years ago, UNOPS has not taken the appropriate steps concerning its level of operational reserve. As the surplus has been growing steadily and is well above the level of the minimum requirement set by the relevant Financial Regulations and Rules, and by decision 2016/12 of the Executive Board, the Committee trusts that this surplus will not continue to remain idle but will be released during the 2022-2023 biennium to support projects in the mandated areas and that management fees will be established at realistic levels for the clients of UNOPS, including United Nations system entities.**

**30. The focus of the aforementioned review by an external consultant was on the calculation of the appropriate minimum requirement for the reserve based on a basket of factors. The Advisory Committee, however, emphasizes that the operational model of UNOPS, as a not-for-profit and self-financing entity, does not require the high level of operational reserve which it has been carrying for some time, and without a clearly defined upper limit. The Committee stresses that the maximum level of the operational reserve should be set at a level that will cover any associated risks and will result in the lowering of the current level of management fees. The Committee, therefore, stresses that there is a need to determine both the minimum and maximum levels of reserve and to reduce the surplus, as per General Assembly resolution 73/268. The Committee stresses that UNOPS will undertake further analysis and determine the modalities for the ideal levels of reserve (including with respect to the portion to be allocated to the growth and innovation reserve [see section B. below]), as well as: (a) an analysis on how to prevent the accumulation of excessive surpluses, and (b) an analysis with respect to the possible implications on both the direct and indirect costs of the services provided to clients. The Committee expects that detailed information on the results of the analyses, the resultant recommendations, and a timeline for their operationalization will be presented in the budget estimates for the 2024-2025 biennium.**

## B. Growth and innovation reserve, and Sustainable Investments in Infrastructure and Innovation initiative

*Sustainable Investments in Infrastructure and Innovation initiative*

31. The Advisory Committee recalls its observation with respect to the first investment made by UNOPS under its S3I initiative, financed by its reserve and its expectation that in accordance with the UNOPS Financial Regulations and Rules, further details, such as the type of reserve and its proportion utilized for making such investments, would be provided to the Executive Board at the time of its consideration of the budget estimates for 2020-2021, and that updated information, including the status of the reserve created and the amount expended, should be included in the next budget estimates. The growth and innovation reserve provides seed funding to S3I activities that contribute to accelerating achievement of the Sustainable Development Goals through projects having the potential to deliver social and environmental impact alongside a financial return (see also DP/OPS/2019/6, paras. 17-18).

*Growth and innovation reserve*

32. The Advisory Committee recalls its expectation that, in accordance with the UNOPS Financial Regulations and Rules, further details, such as the type of reserve and its proportion utilized for making S3I investments, would be provided to the Executive Board at the time of its consideration of the budget estimates for the 2020-2021 biennium, with updated information, including on the status of the reserve created and the amount expended, to be provided in the following budget estimates (DP/OPS/2019/6, para. 18). UNOPS has presented its review of the growth and innovation reserve in annex II of the budget estimates for the 2022-2023 biennium.

*Observations of the Board of Auditors on the growth and innovation reserve*

33. Upon enquiry, the Advisory Committee was informed by the Board of Auditors that in its previous report (A/75/5/Add.11, chap. II, para. 39-64), the Board observed, inter alia, with respect to S3I that UNOPS concluded a memorandum of understanding with a private entity partner on a direct selection basis under its S3I initiative, to formalize collaboration on designing and developing projects in sustainable social housing, renewable energy and health care. The Board also informed that UNOPS stated that competitive solicitation was not being considered because the private partnership was outside the scope of the procurement framework. The Board informed furthermore that it recommended that UNOPS review the status of implementation of the projects, establish a more structured process for monitoring their progress, reassess the risks to its investments on the basis of actual progress against the benchmarks and take appropriate steps for mitigation measures.

34. Upon enquiry, the Advisory Committee was informed by the Board of Auditors that the Board had observed in the past that UNOPS had not established a growth and innovation reserve as envisaged in its Financial Regulations and Rules, despite having a large surplus in its operational reserve (A/73/5/Add.11, chap. II, para. 20, and A/74/5/Add.11, chap. II, para. 25). The Board also noted that investment in social impact projects directly from operational reserve but without ring-fencing the resources through the establishment of a specific growth and innovation reserve was not in accordance with the UNOPS Financial Regulations and Rules, and recommended that UNOPS establish such a reserve (A/74/5/Add.11, chap. II, para. 29). The Board informed that it considers the recommendations implemented, as the UNOPS Executive Director established a growth and innovation reserve in November 2019, with a set value at 50 per cent of the excess of the minimum operational reserve, with housing, energy and health defined as focus areas for investments. The Board informed furthermore that, as of 31 March 2021, no separate account for the growth and innovation reserve had been established and the balance was not recorded, which was not in conformity with the UNOPS Financial Regulations and Rules. The Board informed that it recommends that UNOPS set up a separate account for the growth and innovation reserve, develop relevant policies and maintain appropriate compliance, in order to ensure prudent management of the reserve.

*Comments of the Advisory Committee with respect to the decision of the Executive Board*

35. The report on the budget estimates for the 2022-2023 biennium indicates that “the Executive Board may wish to approve the change in the UNOPS Financial Regulations and Rules, regulation 22.02 (see annex II), to include “a S3I reserve for funding and recording the valuation of investments under the Sustainable Investments in Infrastructure and Innovation initiative, reviewed annually by the Executive Director. The Executive Director may increase the level of funding through the excess operational reserve not allocated to the growth and innovation reserve.” (DP/OPS.2021/6, summary and annex II). **The Advisory Committee is of the view that the Executive Board may wish to defer its decision with respect to the growth and innovation reserve based on the underlying reasons in paragraph 36 below.**

**36. The Advisory Committee notes that the investments under the Sustainable Investments in Infrastructure and Innovation initiative (S3I) are financed by the growth and innovation reserve aimed at supporting the implementation of the Sustainable Development Goals across all United Nations system entities, including agencies, funds and programmes. The Committee is of the view that the initial phase should be on a pilot basis, until 31 December 2023. The Committee considers that a change to the UNOPS Financial Regulations and Rules is premature at this stage, in particular as the decision-making authority regarding the levels and utilization of the growth and innovation reserve may need to be subject to strengthened oversight provisions, including inter-agency oversight. The Committee is of the view that following the end of the pilot, an evaluation and analysis will be undertaken with the full involvement of the stakeholders through inter-agency consultation via the United Nations System Chief Executive Board for Coordination/ High-level Committee on Management, which is chaired by the Executive Director of UNOPS.**

**The Committee requests that the related conclusions be presented in the budget estimates in future budget submissions.**

# III. Staff and personnel

37. Upon enquiry, the Advisory Committee was provided with the updated number of UNOPS personnel, as at 31 March 2021, as indicated in table 1 below. The Committee notes that the total number of staff posts funded by direct and indirect costs has remained stable, at approximately 750, since mid-2017 (DP/OPS/2019/6, para. 19).

**Table 5**

**Number of UNOPS personnel, by category, as of 31 Mar. 2021**

| Contract modality | Staff | Contractors | Total |
|---|---|---|---|
| UNOPS personnel | 754 | 4,409 | 5,163 |
| Partner personnel | 31 | 7,121 | 7,498 |
| **Combined personnel** | **785** | **11,530** | **12,315** |

38. UNOPS indicates the estimated number of staff in the budget estimates for the 2022-2023 biennium reflects the status as of 2021, and that as the organization grows and evolves, UNOPS assesses business needs and adapts the number of staff positions accordingly, in line with Financial Regulations and Rules (Regulation 14.02). In the 2022-2023 biennium, 128 staff would be funded by the management budget, which is unchanged from the 2020-2021 biennium (see also (DP/OPS/2021/6, paras. 118 – 120). The Advisory Committee recalls that in accordance with Regulation 14.02 of the UNOPS Financial Regulations and Rules, the Executive Director has the authority to redeploy resources within the approved management budget and to increase or reduce the total approved management budget allotment (including the number of posts in the staffing table and their grades, up to and including the D-2 level), provided that the net revenue target established by the Executive Board for the budget period remains unchanged (see also DP/OPS/2019/6, para. 22). **The Advisory Committee notes Regulation 14.02 of the UNOPS Financial Regulations and Rules, and reiterates that a review should be undertaken of the provision whereby the Executive Director has the sole authority to redeploy resources and to change the total approved management budget allotment.**

# IV. Other matters

## A. UN Web Buy Plus

39. The report indicates that UNOPS will be make services available to United Nations system partners either directly or through its UN Web Buy Plus e-commerce platform. Also, UNOPS plans to enhance its eSourcing system, which is integrated with the United Nations Global Marketplace, and its other eProcurement tools (DP/OPS/2021/6, para. 68). Upon enquiry, the Advisory Committee was informed that UN Web Buy Plus is a comprehensive UNOPS-owned e-commerce platform for the humanitarian and development sector where partners can place orders against long-term agreements signed by UNOPS or other United Nations organizations. The Committee was also informed that in the view of UNOPS, the UN Web Buy Plus platform has the potential to become a central piece of the UN procurement system. **The Advisory Committee looks forward to further information on the UN Web Buy Plus platform, including with respect to its integration into the overall UN system procurement system.**

## V. Conclusion

40. The elements of the decisions of the Executive Board, as requested by UNOPS, are set out in the summary of the budget estimates report. **Taking into account its observations and recommendations above, the Advisory Committee recommends that the Executive Board:**

**(a) defer a decision on any change to the minimum requirement of the operational reserve of UNOPS pending further review, and reassessment, of the modalities of the minimum and maximum levels of the operational reserve and the possible implications on both the direct and indirect costs of the services provided to clients (see section II.A above); and**

**(b) defer any change to the UNOPS Financial Regulations and Rules, including Regulation 22.02, pending the end of the pilot period, and the evaluation and analysis (including on the related oversight modalities) with inter-agency consultations via the United Nations System Chief Executives Board for Coordination (see section II.B above).**

| Annex I | 2014-2015 | 2014-2015 | 2016-2017 | 2016-2017 | 2018-2019 | 2018-2019 | 2020-2021 | 2020 (actuals) and 2021 (projection) | 2022-2023 |
|---|---|---|---|---|---|---|---|---|---|
| **Resources** | **Budget estimates** | **Actuals** | **Budget estimates** | **Actuals** | **Budget estimates** | **Actuals** | **Budget estimates** | | **Budget estimates** |
| **Net assets at beginning of period** | **62.9** | **78.5** | **82.8** | **99.2** | **131.6** | **158.6** | **192.9** | **252.0** | **344.7** |
| Total revenue on budget basis | 139.2 | 146.4 | 138.7 | 169.2 | 179.3 | 182.9 | 181.0 | 258.4 | 200.5 |
| Net assets after the impact of revenue on budget basis | 202.1 | 224.9 | 221.5 | 268.4 | 310.9 | 341.5 | 373.9 | 510.5 | 545.2 |
| **Use of resources** | | | | | | | | | |
| Management resources | 131.2 | 103.6 | 125.6 | 134.9 | 132.7 | 115.1 | 138.5 | 130.0 | 181.3 |
| Provisions, liabilities and contingencies | 8.0 | 20.6 | 13.1 | -4.7 | 26.6 | 9.1 | 22.5 | 33.4 | 19.2 |
| Strategic investments from surplus | 0.0 | 0.0 | 0.0 | 0.0 | 20.0 | 5.8 | 20.0 | 12.5 | 0.0 |
| **Total use of resources** | **139.2** | **124.2** | **138.7** | **130.1** | **179.3** | **130.1** | **181.0** | **175.9** | **200.5** |
| **Balance of resources** | | | | | | | | | |
| Net revenue on budget basis | 0.0 | 22.1 | 0.0 | 39.0 | 0.0 | 52.8 | 0.0 | 82.5 | 0.0 |
| Net financial income | 0.0 | 4.6 | 0.0 | 21.2 | 0.0 | 45.3 | 0.0 | 11.0 | 0.0 |
| IPSAS basis difference | 0.0 | 6.3 | 0.0 | -2.0 | 0.0 | -12.5 | 0.0 | 4.4 | 0.0 |
| Actuarial gains/losses for the period | 0.0 | -12.3 | 0.0 | -2.0 | 0.0 | 2.2 | 0.0 | -7.2 | 0.0 |
| Increase in fair value reserve | 0.0 | 0.0 | 0.0 | 3.1 | 0.0 | 5.7 | 0.0 | 1.9 | 0.0 |
| Budget basis to IPSAS reconciliation | 0.0 | -6.0 | 0.0 | -0.8 | 0.0 | -4.7 | 0.0 | -0.9 | 0.0 |
| Change to the Net assets on IPSAS basis | 0.0 | 20.7 | 0.0 | 59.4 | 0.0 | 93.4 | 0.0 | 92.6 | 0.0 |
| **Net assets at end of period** | **62.9** | **99.2** | **82.8** | **158.6** | **131.6** | **252.0** | **192.9** | **344.7** | **344.7** |
| | | | | | | | | | |
| **UNOPS net assets composition** | | | | | | | | | |
| Actuarial gains/losses | 21.4 | 14.2 | 26.5 | 9.8 | 12.1 | 12.0 | 12.3 | 4.8 | 4.8 |
| Fair value of available for sale financial assets | 0.0 | 0.0 | 0.0 | 3.6 | 3.1 | 9.2 | -3.0 | 11.1 | 11.1 |
| Minimum operational reserve | 46.8 | 20.1 | 20.2 | 20.7 | 20.7 | 21.0 | 21.7 | 145.8 | 179.8 |
| Growth and innovation reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 104.9 | 0.0 | 39.0 | 22.0 |
| S3I reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 104.9 | 104.9 |
| Accumulated surpluses | -5.3 | 64.9 | 36.1 | 124.6 | 95.6 | 104.9 | 162.0 | 39.0 | 22.0 |
| **Net assets at end of period** | **62.9** | **99.2** | **82.8** | **158.6** | **131.6** | **252.0** | **192.9** | **344.7** | **344.7** |