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Advisory Committee on  
Administrative and Budgetary Questions

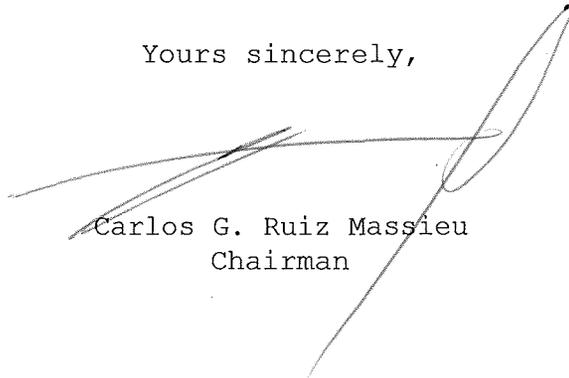
3 June 2016

Dear Ms. Clark,

Enclosed herewith please find the report of the Advisory Committee on Administrative and Budgetary Questions on the midterm review of the UNDP integrated budget for 2014-2017.

I should be grateful if you would place the Advisory Committee's report before the Executive Board at its forthcoming session.

Yours sincerely,



Carlos G. Ruiz Massieu  
Chairman

Encl.

Ms. Helen Clark  
Administrator  
United Nations Development Programme  
1 United Nations Plaza  
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# UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)

## Midterm review of the integrated budget

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

#### I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered an advance version of the report of the Administrator of the United Nations Development Programme (UNDP) on the midterm review of the institutional component of the integrated budget for 2014-2017 (DP/2016/10). During its consideration of the report, the Advisory Committee met with the representatives of the Administrator who provided additional information and clarifications, concluding with written responses dated 27 May 2016.
2. The Committee's review of the Administrator's report is in accordance with Regulation 13.04 of the UNDP Financial Regulations and Rules according to which, the institutional budget estimates shall be submitted to the Advisory Committee for comment prior to presentation to the Executive Board. In that regard, the Committee's comments and observations mainly relate to the institutional component of the integrated budget.
3. It is indicated in the report of the Administrator that the Executive Board, in its decision 2013/28, approved the UNDP integrated budget for 2014-2017 and that the integrated budget is an integral complement to the Strategic Plan for 2014-2017. The report also indicates that the Board's approval covered the regular resources portion of the UNDP integrated resource plan, including programmatic and institutional activities, and took note of the other resources portion of the integrated resources plan. The report further indicates that the Executive Board's decision also called for a midterm review of the 2014-2017 integrated budget to take place in conjunction with the midterm review of the Strategic Plan (DP/2016/9) at its 2016 annual session.
4. The Advisory Committee recalls that, in paragraph 8(a) of the above decision, the Executive Board, *inter alia*, approved an appropriation in the amount of \$1,510.4 million from regular resources for the institutional component of the integrated budget, 2014-2017, noting that \$788.3 million was earmarked for 2014-2015 and \$722.1 million earmarked for 2016-2017,

taking into account the gradual phase-out of the transitional measures discussed in DP/2013/41. The Advisory Committee further notes that no change is being requested by the Administrator in the 2014-2017 institutional budget approved by the Executive Board.

## **II. Update on performance for 2014-2015**

### *Contributions*

5. Table 1 in annex 1 of the Administrator's report (DP/2016/10), presents the original integrated resources plan for 2014-2017 drawn up in 2013 in comparison with the updated version of the plan according to the latest estimates for the 4-year period. The plan reflects a projected reduction in the total contributions from \$19,359 million to \$18,939.6 million corresponding to a reduction in the expenditure estimates under the institutional component of the integrated budget from \$2,979.7 million to \$2,872.6 million. The report indicates that, for the 2014-2015 period, reduced contributions to regular resources, exacerbated by the strengthening of the United States dollar, resulted in a decline in regular resources from \$896 million in 2013 to \$793 million in 2014 and \$704 million in 2015. Upon enquiry, the Advisory Committee was informed that the decline in contributions of \$103 million in 2014 comprised \$5 million in currency exchange losses and \$98 million in reduced donor contributions. Similarly, the Committee was informed that the additional decline in contributions of \$89 million in 2015 comprised \$95 million in currency exchange losses, offset in part by a net increase of \$6 million in contributions to regular resources.

6. The Administrator's report indicates that the resources channelled to programme countries through TRAC-1 and TRAC-3, programme support to resident coordination activities, South-South Cooperation and the Human Development Report Office are protected by Executive Board decision 2013/28 and were therefore not impacted by the decline in contributions. As explained in paragraph 9 of the report, protecting these programmatic lines resulted in reductions in other areas as well as the institutional component, particularly management activities. The report further explains, however, that resources for the institutional component of United Nations coordination activities were maintained and that oversight functions such as the Office of Audit and Investigations, the Independent Evaluation Office, and the Ethics Office faced relatively lower reductions of 4 per cent per year.

### *Progress towards achievement of strategic objectives*

7. The Administrator's report indicates that, during the 2014-2015 period, progress at a strategic level was achieved in the following areas:

- (a) reducing the proportion of regular resources allocated to the institutional budget in favour of the programme activities from 42 percent in 2012-2013 to 38 percent in 2014-2015;
- (b) decreasing the proportion allocated to management and increasing the proportion allocated to development effectiveness activities in the institutional budget, from 62 percent in 2012-2013 to 49 percent 2014-2015; and
- (c) maintaining core support for the backbone of United Nations development coordination activities.

#### *Cost recovery*

8. The Administrator's report indicates that 2014-2015 was the start of the implementation of the cost recovery policy approved by the Executive Board in its decision 2013/9. Upon enquiry, the Advisory Committee was informed that one of the major thrusts of decision 2013/9 was the improved alignment of costs whereby, development effectiveness activities should, in principle, be funded from programmatic resources and not from cost recovery resources and that cost recovery resources should be used to fund management activities and comparable special purpose activities. In paragraph 8 of the Administrator's report, it is indicated that there has been varied progress towards the implementation of the different aspects of the cost-recovery policy, with good progress in the implementation of the 8 percent cost-recovery rate for new third-party contributions (see para. 9 below). The report also indicates that decision 2013/9 also called for an independent and external assessment of the consistency and alignment of the cost-recovery methodology with General Assembly resolution 67/226 to take place in 2016, involving UNDP, UNFPA, UNICEF and UN Women.
9. The Advisory Committee notes that the Executive Board approved transitional measures from regular resources in the amount of \$132 million for 2014-2015 and \$66 million for 2016-2017, due to the transition time needed before the new cost-recovery policy took full effect, particularly the phasing out of the legacy cost-recovery rates of less than 8 per cent for third-party contributions, and full implementation of direct project charging of eligible development effectiveness activities. In this regard, the Administrator's report indicates that an effective average general management support (GMS) cost-recovery rate of 6.8 percent had been achieved on bilateral third party contributions in 2014-2015 and that by the end of 2015, 76 percent of the funding agreements were in compliance with the 8 percent rate compared with the planning assumption of 50 percent. The report also indicates that further improvements are needed in the other

aspects of the policy such as the direct project charging of development effectiveness costs, hence the need for transitional measures. The Committee was informed upon enquiry that these transitional measures were not meant to compensate for the reduced levels of regular contributions.

10. **The Advisory Committee welcomes the increasing percentage of the funding of the institutional budget from cost recovery. The Committee expects that, in accordance with General Assembly resolution 67/226, the financing of all non-programme costs will be based on full cost recovery, proportionally, from core and non-core funding sources. In this regard, the Advisory Committee looks forward to receiving an update on the alignment of the cost-recovery methodology with General Assembly resolution 67/226, including the findings of the independent and external assessment involving UNDP, UNFPA, UNICEF and UN Women, in the context of the next submission of the integrated budget.**

### **III. Outlook for 2016-2017**

11. According to the Administrator's report, the resource estimates for 2016-2017 project: (a) further reductions in the planned usage of regular resources for management activities compared to 2014-2015 estimates; (b) the gradual phasing out of transitional measures in conjunction with further improvement called for in cost alignment through enhanced cost recovery; and (c) funding of differentiated physical presence in line with decision 2013/30 which, according to paragraph 5 of decision 2012/1, is based on the overarching assumption that UNDP's presence should be based on the differentiated developmental needs of countries and a no one-size-fits-all approach in order to ensure efficient and effective response to national development priorities. The report also indicates that UNDP will continue to strive to achieve the approved level of regular resources in line with the approved financial framework and take measures to reduce the impact of potential adverse changes in resource levels in order to ensure implementation of the 2014-2017 Strategic Plan. The initiatives to be taken in this regard are outlined in paragraphs 24 to 27 of the Administrator's report.

### **IV. Other matters**

#### *Presentation*

12. The Advisory Committee recalls that, in its previous report (DP/2013/42, para. 9), the Committee requested that in future reports,

UNDP provide information on major items of expenditure under post and non-post resources as supplementary information in order to facilitate its consideration and better analysis of the institutional component of the integrated budget. During its consideration of the midterm review, the Advisory Committee noted that the report included a table showing the change in the proportion between programmatic and institutional resources and the decreasing proportion allocated to management resources in the institutional budget. The Committee also noted that annex 1 to the report included an updated iteration of the integrated resource plan for 2014-2017 (table 1) and the estimated resources by strategic plan outcome for the period (table 2). Upon the Committee's request for more detailed information on actual expenditures, the annex was amended to include table 3 showing budgeted vs actual expenditures for 2012-2013 and 2014-2015 broken down by major categories of expenditure.

13. **While recognizing that UNDP has incorporated the results-based budgeting approach in its integrated budget as approved by the Executive Board, the Advisory Committee, nonetheless, reiterates its request that UNDP provide to the Committee information on major items of expenditure under post and non-post resources, as supplementary information, to facilitate its future consideration and better analysis of the institutional component of the integrated budget (DP/2013/42, para. 9). The Committee is of the view that the supplementary information should include a comparison of expenditures against planning estimates and an analysis of variances.**

*Variances between estimated and actual expenditure*

14. The Advisory Committee notes from the information presented in table 3 of annex 1 to the Administrator's report that the actual expenditure under consultants in 2012-2013 amounted to \$29.7 million, compared with \$15 million budgeted for the period, reflecting an overexpenditure of \$14.7 million and in 2014-2015, actual expenditure under consultants amounted to \$23.8 million compared with \$22.5 million budgeted, reflecting an overexpenditure of \$1.3 million.
15. Upon enquiry with regard to these variances, the Advisory Committee was informed that consultancies were often required for short term staffing support in cases where vacancies occur in critical functions. It was explained that the increased spending on consultants in such cases was related to the temporary reductions in expenditure for regular posts. In this regard, the Committee notes that according to table 3, the underexpenditure on posts was \$67.7 million in 2012-2013 and \$57 million in 2014-2015 which, in both periods, more than offset the overexpenditure under consultants. The Committee was also informed that in 2014-2015, the \$23.8 million actual

expenditure on consultants had included \$4.5 million in non-recurrent costs related to change management. The Advisory Committee was further informed that the Executive Board approves an overall amount for the institutional component of the integrated budget and does not allocate resources at the object of expenditure level. In accordance with UNDP Financial Rule 114.05, the Administrator may, within the approved institutional budget, redeploy resources between objects of expenditure.

16. **The Advisory Committee expects to receive information on the analysis of such variances in future budget submissions. The Committee also underscores the need for more precise budgeting in order to limit such variances.**

*United Nations resident coordinator system*

17. The Administrator's report indicates that UNDP will continue its support for the United Nations resident coordinator system into 2016-2017. The Advisory Committee was informed, upon enquiry, that the funding shortfall in 2016 resulting from the absence of a decision of the General Assembly on the United Nations Secretariat's contribution to the United Nations resident coordinator system had been managed using residual balances from donor contributions received in 2014-2015 and a 10 percent reduction in the costs covered by the cost-sharing arrangement. The Committee was further informed that without donor contributions in 2017, the funding shortfall was expected to increase and lead to a further reduction in the costs funded from the cost-sharing arrangement.
18. The Advisory Committee recalls from its observations contained in report A/70/7, paragraphs IV.24 to IV.28, that the Secretary-General's request for resources in respect of the United Nations Secretariat's contribution had been presented without all of the relevant details as called for in General Assembly resolution 69/262 and the Committee was therefore not in a position to recommend approval of the proposed contribution of \$13 million. In its resolution 70/247, the General Assembly requested the Secretary-General to provide further detailed information on the proposed Secretariat contribution at the first part of its resumed seventieth session. The Advisory Committee further recalls that during its consideration of the Secretary-General's report (A/70/703) submitted subsequent to the above resolution of the General Assembly, the Committee expressed the view that further justification for the proposed cost-sharing arrangement was required and as such, recommended the approval of only part of the requested resources (A/70/7/Add.48). Subsequently, the Committee notes that the General Assembly has since deferred consideration of the above report of

the Advisory Committee and the related report of the Secretary-General (A/70/703) to its seventy-first session.

19. **The Advisory Committee reiterates the views expressed in its reports A/70/7 and A/70/7/Add.48 and expects that further detailed information will be provided to justify the proposed United Nations Secretariat contribution to the cost-sharing arrangement for the United Nations resident coordinator system. Furthermore, the Advisory Committee reiterates the view that, in the absence of a unified intergovernmental mechanism to review the funding of the resident coordinator system, the UNDP Executive Board may be best positioned to undertake intergovernmental consideration of all aspects of the cost-sharing arrangement for the resident coordinator system, including its global budget (ibid. para 22).**

*The 2030 Agenda*

20. The Advisory Committee was informed, upon enquiry, the United Nations development system's capacity to deliver coherent country-level support for the implementation of the 2030 Agenda would be significantly impacted as a result of the projected funding shortfall in the cost-shared budget for the United Nations resident coordinator system. In this connection, the Committee was informed that, in the absence of a predictable budget for 2017, resident coordinators were not in a position to make commitments to engage with governments on scaling up their support for the Sustainable Development Goals agenda. The Advisory Committee recalls that in its latest report on the 2030 and Addis Ababa Action Agendas (A/70/883), it recommended that the General Assembly request the Secretary-General to submit, no later than at the main part of the seventy-first session, a comprehensive proposal that addresses the effective and efficient delivery of mandates in support of the two Agendas together with a request for appropriation. **In this regard, the Advisory Committee trusts that UNDP will work with other UN system entities to ensure an integrated approach to the implementation of the 2030 and Addis Ababa Action Agendas.**

*Change from biennial to quadrennial budget and lessons learned*

21. The Advisory Committee was informed, upon enquiry, that the experience of UNDP with a 4-year budgeting cycle had been positive and that aligning the 4-year budget cycle with both the quadrennial comprehensive policy review (QCPR) by the General Assembly of United Nations operational activities for development and UNDP's Strategic Plan period had improved UNDP's results focus through enhanced linkages with the Strategic Plan. This alignment had facilitated a more holistic and

comprehensive approach to planning and budgeting UNDP's programmatic and institutional activities across the 4-year planning period. The Committee was also informed that the change to a 4-year budget cycle supported increased coherence through integration between programmatic and institutional components which are all geared to help programme countries achieve development results within the remit of the strategic plan. In addition, the Committee was informed that, with the 4-year budgeting cycle, there was increased predictability which reinforced the synergies between programmatic and institutional results at country, regional and global levels.

22. While noting the above advantages of a 4-year budget cycle, the Committee was informed that the integrated budget for 2014-2017, was based on income and expenditure estimates prepared in 2013. Given that a number of resource areas in the integrated budget were protected as indicated in the midterm review document (DP/2016/10, para. 9(a) and 9(b)), continuous monitoring and adjustment was required for the resource levels in other areas of the integrated budget in case of changes in the availability of regular resources.

23. **The Advisory Committee is of the view that the secretariat of UNDP, in consultation with those of UNICEF and UNFPA should conduct a lessons learned exercise on the implementation of the first harmonized quadrennial integrated budget, and report to their respective Executive Boards in the context of the submission of the next Strategic Plan and integrated budget.**

## V. Conclusion

24. The proposals with respect to the institutional component of the integrated budget for 2014-2017 are set out in the elements of a decision contained in the executive summary of the report of the Administrator on the midterm review of the integrated budget for 2014-2017 (DP/2016/10). **Subject to its comments contained in the present report, the Advisory Committee recommends that the Executive Board take note of the midterm review of the institutional component of the UNDP integrated budget for 2014-2017.**