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OTHER FUNDS AND PROGRAMMES

UNITED NATIONS FUND FOR POPULATION ACTIVITIES

Operational reserve

Report and Recommendations of the Executive Director

At its twenty-seventh session in June 1980, the Governing Council decided "to review the question of the Fund's operational reserve at the twenty-eighth session" and requested "the Executive Director to submit recommendations taking fully into account, as appropriate, the decision taken at the twenty-seventh session concerning the arrangements for the operational reserve of UNDP". This paper sets forth the background in regard to UNFPA's operational reserve and puts forth recommendations of the Executive Director concerning its future levels for consideration and action by the Council.

* Re-issued for technical reasons.

I. Summary

1. At its twenty-seventh session, the Governing Council decided "to review the question of the Fund's operational reserve at the twenty-eighth session" and requested the Executive Director "to submit recommendations, taking fully into account, as appropriate, the decision taken at the twenty-seventh session concerning the arrangements for the operational reserve of UNDP". For the UNDP, the Council decided that the level of the operational reserve for each year of the third IPF cycle (1982-1986) shall be established at 25 per cent of the estimated contributions or expenditures for that year, whichever may be higher.

II. Background

2. In January 1973, at its fifteenth session, the Governing Council, under the authority of the General Assembly^{1/}, authorized the Executive Director to "establish on a provisional basis an operational reserve of \$20 million".^{2/} (During the first years of full operation (1969-1972), the UNFPA had no operational reserve because it provided for the estimated cost of projects extended into future years on a fully-funded basis). At its fifteenth session, the Council also applied to UNFPA annualized funding procedures similar to those of UNDP and authorized UNFPA to prepare financial regulations and rules. Under annualized funding procedures, UNFPA devised a "rolling plan" in which the Governing Council is requested to approve a total budget for the UNFPA programme for the first year of the plan and lesser amounts for succeeding years. The Work Plan is revised each year, dropping the first year and adding the next succeeding year. Under this arrangement, the Fund entered into future years' commitments without being obliged to earmark current reserves to the full extent of those future commitments.

3. Under annualized funding, an approval authority is established each year by the Governing Council equal to new resources (contributions and other income) expected to be pledged during the year plus any unallocated balance of funds from previous years. The Executive Director is authorized to allocate the total of the funds up to the approval authority for UNFPA activities. Any allocations remaining unspent at the end of the year are maintained and carried forward as an addition to the programme for the following year. Similarly, under the present annualized budgetary system, project allocations which are issued to executing agencies are subdivided into calendar year budget segments. Each year's budget segment is chargeable to the resources available to the Fund during the year. Future annual budgets are not chargeable to current resources. Furthermore, cumulative annual budgets through the current year cannot exceed cumulative resources through the current year. Any budgets for a given year

^{1/} The General Assembly by Resolution 3019 (XXVII) of 18 December 1972, decided "to place the United Nations Fund for Population Activities under the authority of the General Assembly" and decided further that "the Governing Council of the United Nations Development Programme, subject to conditions to be established by the Economic and Social Council, shall be the governing body of the United Nations Fund for Population Activities" and invited "the Governing Council to concern itself with the financial and administrative policies relating to the work programme, the fund-raising methods and the annual budget of the Fund;"....

^{2/} Official Records of the Economic and Social Council, Fifty-fifth Session, Supplement No. 2 (E/5256), para. 299.

which are not expended during the current year are to be rephased by the executing agencies to the next or succeeding years.

4. The operational reserve was established to guarantee under all circumstances the financial liquidity and integrity of the programme, to compensate for uneven cash flows and to meet such other requirements as may be decided upon by the Governing Council. The operational reserve as a proportion of the Fund's future years' commitments as measured by approved budgets for future years, has changed over time. In 1973 the Governing Council granted approval authority in the total amount of \$83 million for 1974-1976 and the operational reserve stood at 24 per cent of these commitments; in 1976 the Fund approved project budgets totalling \$63.6 million for 1977-1979 and the operational reserve was 31.4 per cent of this amount. In the years since 1976, the financial position of the Fund has changed, as the level of future years' commitments has increased rapidly. In 1978 approved budgets for 1979-1981 rose to \$117.6 million; and in 1979 approved budgets for 1980-1982 reached \$146 million. The operational reserve of \$20 million was only 17 per cent of total future years' commitments in 1978 and 13.7 per cent in 1979. As the future years' commitments stand at \$179 million for 1982-1984 and the operational reserve is only 11.2 per cent of this amount, an increase in the present operational reserve would appear to be necessary.

5. In addition to the operational reserve, beginning in 1973 UNFPA had a reserve in the form of unallocated funds. An unallocated reserve of \$26 million became available when UNFPA changed from a system of full funding to annualized funding in January 1973. The unallocated funds fluctuated from year to year but by the end of 1980, no unallocated funds remained and, because of the increased demand for funds, it is unlikely that unallocated funds will be substantial in the near future.

III. Recommendations

6. The operational reserve of UNFPA should have its original purposes extended to be not only a contingency reserve for future years' commitments and to cover uneven cash flow situations in case there should be delays in payments by donor countries against their pledges or an abnormal "bulge" in disbursements at any time in the fiscal year, but also (a) to assure availability of funds in cases of downward fluctuations and shortfall in resources, since the bulk of resources come from thirteen major donor countries (as of 1 January 1981) and a failure on the part of any of these countries to meet their pledges could result in cash flow problems of substantial magnitude; (b) to cover increases in actual costs as compared to planning estimates or fluctuations in delivery and (c) to cover other contingencies which could result in loss of resources for which the Fund has made commitments for programming.

7. The UNFPA operational reserve should not be considered as a source of funding for liquidation of the Fund. Should the unlikely question of liquidation arise, it would be of such importance that it would merit a complete presentation to the Governing Council with all available facts of the moment and a recommendation for a decision of the Council. The purpose of the UNFPA operational reserve should continue to be as a guaranty for the financial viability and integrity of the Fund.

8. The matter of the level of the operational reserve has been given very careful consideration by the Executive Director. It is possible to relate the size of the operational reserve to the volume of allocations for future years, with the understanding that the current year's level of expenditures would be fully provided by the current year's level of income (pledges, interest income and miscellaneous income). As a per-

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centage of allocations for future years, the operational reserve level would increase rapidly as the volume of future years' commitments would also tend to increase rapidly after inflation and currency fluctuations and adjustments. By relating the operational reserve to allocations for future years, a large amount of current assets would be tied up to cover future unrealized expenditures. It seems preferable and it is, therefore, recommended that, taking fully into account the recommendation of the Council concerning the arrangements for the UNDP operational reserve, the level of the operational reserve for UNFPA should be related to the level of anticipated annual pledges. Specifically, it is recommended that a target of 25 per cent of annual pledges should be established for the operational reserve to be met by the Fund by the end of the next four-year Work Plan.

9. The Executive Director would like to request all donor Governments to increase their annual pledges so that the increase in the operational reserve shall be without detriment to the programme level during the next Work Plan period.

10. In order to ensure that the operational reserve reaches the desired level in a four-year period, it is recommended that an amount be set aside out of annual income and be added to the operational reserve each year. In conjunction with resource utilization projections submitted to the Council in the UNFPA Work Plan each year, the Executive Director will present to the Council an annualized replenishment schedule each year to meet the set target. The attached table shows a summary of resource utilization as compared with the available reserve balances for the period 1973-1979, as well as projections for the period 1980-1985 to meet the desired targets.

SUMMARY OF RESOURCE UTILIZATION AS COMPARED TO RESERVE BALANCES (1973-1985)

(in million US\$)

	1973	1974	1975	1976	1977	1978	1979	1980 ^e	1981 ^e	1982 ^e	1983 ^e	1984 ^e	1985 ^e
1. Approval Authority	52	53	80	90	95	115	136	138	147	147	170	195	224
2. <u>Income</u>													
Pledges for current year	42.6	49.6	58.0	73.5	85.4	100.9	111.7	124.7	129.0	145.0	168.0	193.0	222.0
Interest income, miscellaneous and adjustments	2.4	7.5	3.0	1.6	3.6	3.1	5.4	2.3	2.0	2.0	2.0	2.0	2.0
Total Income	45.0	57.1	61.0	75.1	89.0	104.0	117.1	127.0	131.0	147.0	170.0	195.0	224.0
3. <u>Expenditures</u>													
Total programme costs	43.8	58.9	68.1	72.3	68.1	91.1	126.2	134.0	122.7	132.7	152.5	173.1	169.1
Total administrative costs at HQ	2.1	2.5	3.1	3.5	4.0	4.6	5.4	6.8	8.3	9.3	10.5	11.9	13.4
Total Expenditures	45.9	61.4	71.2	75.8	72.1	95.7	131.6	140.8	131.0	142.0	163.0	185.0	182.5
4. <u>Reserves</u>													
Operational reserve	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	25.0	32.0	42.0	55.5
Unallocated reserve	22.1	17.4	2.5	9.3	23.1	26.1	7.3	-	-	-	-	-	-
Total Reserves	42.1	37.4	22.5	29.3	43.1	46.1	27.3	20.0	20.0	25.0	32.0	42.0	55.5
5. Reserves as a percentage of current pledges	99%	75.4%	38.8%	39.9%	50.5%	45.7%	24.4%	16%	15%	17%	19%	22%	25%

e - estimates