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Cumulative review of the integrated budget, 2014-2017

Report of the Administrator

Executive summary

In its decision 2013/28, the Executive Board approved the UNDP integrated budget for 2014-2017, which forms an integral complement to the UNDP Strategic Plan, 2014-2017. The approval covered the regular resources portion of the UNDP integrated resources plan, including programmatic and institutional activities. The Board also took note of the 'other resources' portion of the integrated resources plan of UNDP. Decision 2013/28 called for a midterm review of the integrated budget (which took place in conjunction with the midterm review of the Strategic Plan at the annual session of 2016, covering the period 2014-2015), and a cumulative review of the integrated budget at the annual session of 2017.

The present report presents the cumulative review of the integrated budget, 2014-2017.

Elements of a decision

The Executive Board may wish to take note of the cumulative review of the integrated budget, 2014-2017.

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I. Context

1. In its decision 2013/28, the Executive Board approved the UNDP integrated budget for 2014-2017, which complements the Strategic Plan, 2014-2017. The Board approved the regular resources portion of the UNDP 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 non-core financing previously came predominantly from bilateral and multilateral partners. The decision also called for a midterm review of the 2014-2017 integrated budget (which took place (DP/2016/10) in conjunction with the midterm review of the Strategic Plan (DP/2016/9) at the 2016 annual session of the Executive Board, covering the period 2014-2015), and for a cumulative review (covering the period 2014-2016) at the annual session of 2017.

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

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

(a) improving the results focus and enhancing linkages with the Strategic Plan results;

(b) deliberately reducing the proportion of regular resources allocated to the institutional component of the integrated budget, in favour of the programmatic component;

(c) rebalancing the resources within the institutional budget component, by decreasing the proportion allocated to management and increasing the proportion allocated to development effectiveness;

(d) maintaining the core support for the coordination function.

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

(a) achieving synergies by integrating programmatic and institutional budget components;

(b) leveraging the new cost classification, to respond to the quadrennial comprehensive policy review of United Nations operational activities for development and to further enhance the transparent and efficient usage of resources;

(c) improving cost alignment through more rigorous and targeted implementation of the cost-recovery policy.

5. In this context, this report presents a cumulative three-year review covering the period 2014-2016 of the integrated budget, including the progress towards the achievement of the above-stated objectives of the integrated budget.

II. Update on 2014-2016 performance

Overall performance

6. The period 2014-2016 was unique from multiple perspectives. It was the start of the implementation of the UNDP Strategic Plan, 2014-2017, underpinned by the integrated resources plan encompassing the integrated budget. It was also the start of the implementation of the cost-recovery policy approved by the Executive Board in decision 2013/9. The structural change implemented within UNDP at headquarters and regional levels also continued during this period.

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

Regular resources	**2016 actuals expenditures**			**2015 actuals expenditures**			**2014 actuals expenditures**	
Programmatic	67%	$415		63%	$451		61%	$507
Institutional	33%	$207		37%	$261		39%	$325
Total	**100%**	**$621**		**100%**	**$712**		**100%**	**$832**

Institutional	**2016 actuals expenditures**			**2015 actuals expenditures**			**2014 actuals expenditures**	
Development effectiveness	21%	$43		24%	$62		18%	$57
United Nations coordination	37%	$77		29%	$76		22%	$73
Management	38%	$78		42%	$110		55%	$179
Special purpose	4%	$9		5%	$13		5%	$16
Total	**100%**	**$207**		**100%**	**$261**		**100%**	**$325**

* All amounts in millions of United States dollars.

** All references to 2014 and 2015 are from audited financial statements; and 2016 actuals are from 2016 unaudited financial statements.

*** Management expenditure of $179 million in 2014 and $110 million in 2015 includes transitionary measures of $132 million ($66 million in each year). Management expenditures of $78 million in 2016 includes $33 million of transitionary measures (50 per cent of the approved $66 million for the period 2016-2017).

8. As seen in the table above, management expenditures decreased from $179 million in 2014 to $110 million in 2015 (a decrease of $69 million), and to $78 million in 2016 (a further decrease of $32 million). More details are included in annex 1, tables 3, 4 and 6.

9. With respect to improved cost alignment, progress towards the implementation of the cost-recovery policy across its different aspects has been mixed, with good progress in the

[1] Overall performance related to improving the results focus is elaborated upon in the cumulative review of the UNDP Strategic Plan (DP/2017/15).

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

10. During 2014-2016, significantly reduced contributions to regular resources, exacerbated by the strengthening of the United States dollar, resulted in reduced totals of regular resources, which declined from $793 million in 2014 to $704 million in 2015 and $618 million in 2016. In the context of General Assembly resolutions 67/226 and 71/243 on the quadrennial comprehensive policy review, which stressed that regular resources, because of their untied nature, continue to be the bedrock of the operational activities for the development of the United Nations system, and relevant Executive Board decisions, including decision 2013/28 on the UNDP integrated budget, UNDP will continue its efforts, with the support of all countries in a position to do so, to mobilize increased contributions to regular resources. Reductions in regular resources were applied proportionally to the programmatic and institutional components. The financial impact of reduced levels of regular resources in 2014-2016 is described below:

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

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

11. The 2014-2016 financial performance against the integrated budget for 2014-2017 approved by the Executive Board discussed in paragraphs 6-9 above has been presented in the annexes as follows:

(a) Annex 1:

(i) Table 1 compares the 2014-2017 planning estimates presented in the UNDP integrated budget (DP/2013/41) with 2014-2016 actuals based on the audited figures for 2014 and 2015 and unaudited figures for 2016. The table includes overall actual contributions of $13.8 billion in 2014-2016, which is 71 per cent of the level of $19.4 billion in contributions in the integrated resources plan, 2014-2017. This $13.8 billion is comprised of $2.1 billion in regular resources, $9.1 billion in other resources contributions from bilateral/multilateral partners and $2.6 billion from programme country government partners. The table shows that notwithstanding the overall reductions in regular resources during the period 2014-2016, progress towards achieving the key objectives of the integrated budget has been in the right direction, noting the proportion of resources across the harmonized cost-classification categories remaining broadly in line with the 2014-2017 planning parameters;

(ii) Table 2 provides the linkage of 2014-2016 actuals to the Integrated Results and Resources Framework of the Strategic Plan;

(iii) Table 3 compares actual expenditures by category, with the budget for the institutional component of the integrated budget, during the period 2014-2016;

(iv) Table 4 presents the distribution of the institutional component of the integrated resources plan between harmonized functional clusters during the period 2014-2016;

(v) Table 5 presents regular and other resources expenditures by Strategic Plan outcome;

(vi) Table 6 provides comparison of the actual expenditures with the budget for the programmatic component of the integrated budget by programmatic line, during the three-year period 2014-2016.

(b) Annex 2 provides the details of the cost recovery-related waivers granted during 2014-2016;

(c) Annex 3 provides an overview of resources for external oversight functions.

Cost alignment through improved cost recovery

12. In decision 2013/9, the Executive Board recognized that cost recovery, proportionally from regular and other resources, would lead to fewer resources being drawn from regular resources to finance the management costs of contributions to other resources, and a larger share of regular resources being allocated to programme activities, thereby providing incentives for contributions to regular resources. With respect to improved cost alignment and an environment of lower regular resources, there is a need to reflect on the relevance of the varied GMS rates for different funding instruments, as well as the possibility of applying discounted GMS rates on larger contribution volumes and premium (i.e., higher) GMS rates on smaller contribution volumes.

13. It is recalled that in approving the 2014-2017 integrated budget, the Executive Board approved transitionary measures of $132 million for 2014-2015 and $66 million for 2016-2017. Thus, for the period 2014-2016 transitionary measures amounted to $165 million ($132 million + $33 million). Transitionary measures are funded by regular resources that were required due to the transition time needed before the new cost-recovery policy was in full effect, in particular the phasing out of the legacy cost-recovery rates of less than 8 per cent for third-party contributions, and full implementation of direct project charging of eligible development effectiveness activities.

14. In 2014-2016, progress was mixed towards the implementation across different aspects of the approved cost-recovery policy. Good progress was achieved in the implementation of the 8 per cent rate for new third-party contributions, and there was some progress in direct project charging of development effectiveness costs at ‘project level’ and ‘programme level’. However, further improvements are needed with respect to further compliance with the 8 per cent cost-recovery rate and direct project charging of development effectiveness costs at project and programme levels.

15. Planning assumption for implementing the GMS cost-recovery rate of 8 per cent was that 75 per cent of the third-party agreements would be in compliance with this policy by the end of 2016. However, UNDP exceeded that initially envisaged level by achieving an 89 per cent compliance rate by the end of 2016. The remaining 11 per cent of agreements relate primarily to extensions of ongoing projects with legacy cost-recovery rates (below 8 per cent), as well as the

impact of waivers (see annex 2 for an overview of waivers granted in 2014-2016) to the 8 per cent cost-recovery policy.

16. The actual effective cost-recovery rate increased from 6.1 per cent in 2014 to 6.3 per cent in 2015 and to 6.4 per cent in 2016. The effective rate is by definition lower than the approved 8 per cent rate, taking into account the approved differentiated rates, waivers and legacy rates. Below are the details of cost-recovery revenue earned in 2014, 2015 and 2016 by funding stream:

	2014		2015		2016	
	(In millions of United States dollars)					
Funding stream	**Non-core programme expenses**	**Cost recovery revenue**	**Non-core programme expenses**	**Cost recovery revenue**	**Non-core programme expenses**	**Cost recovery revenue**
Third-party cost sharing	1,293.4	77.6	1,296.5	82.6	1,200.5	78.5
European Union	254.7	16.4	347.4	20.8	241.1	15.1
Programme Country government cost sharing	907.1	35.0	918.0	35.5	798.8	29.3
South-South contributions	3.1	0.2	2.6	0.2	2.7	0.1
Thematic trust funds	114.7	6.8	107.8	4.4	60.3	4.1
Global Environment Facility	350.8	37.1	374.2	41.7	397.0	36.1
Global Fund to Fight AIDS, Tuberculosis and Malaria	474.0	31.2	423.2	28.6	395.5	25.9
Montreal Protocol	38.0	2.5	37.4	2.4	31.1	1.9
Law and Order Trust Fund for Afghanistan	382.7	14.7	247.4	9.5	319.4	12.3
Other trust funds	64.1	3.7	51.1	3.6	58.4	4.2
Total	**3,882.8**	**225.2**	**3,805.5**	**229.3**	**3,504.9**	**207.4**

17. It is recalled that per Executive Board decision 2013/9, "on an exceptional basis (….) the Administrator may consider granting a waiver of the cost-recovery rates on a case-by-case basis, (…) and that the Executive Board will be informed of these waivers in the annual financial reports".

18. In 2014, 2015 and 2016, 24, 9 and 12 waivers respectively were granted at the request of the respective funding partners. Waivers granted in 2014-2015 have been reported in the annual reports on the financial situation for 2014 and 2015. The waivers granted in 2016 will be reported in the annual report for 2016. Details of these waivers are provided in the annex 2.

19. In 2016, a joint inter-agency (UNDP, United Nations Children's Fund, United Nations Population Fund, United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)) cost-recovery review, including an independent and external assessment of the consistency and alignment of the harmonized cost-recovery methodology with General Assembly resolution 67/226, took place in accordance with Executive Board decision 2013/9 on cost recovery. Moreover, the four agencies held a joint informal session with the Executive Boards in February 2017 and presented information on the actual performance of the cost-recovery policy based on 2014 and 2015 actual financial data. The review and the 2014-2015 data demonstrated that the four agencies were compliant with the harmonized cost-recovery and integrated budget frameworks approved by the Executive Boards. It also showed that the four agencies applied the approved cost-recovery framework and the approved cost-recovery rates consistently. In the case of UNDP, the 2014-2015 data demonstrated that there was no cross cross-subsidy between regular and other resources, hence UNDP complied with the Executive Board-approved cost-recovery policy and the integrated budget framework.

20. Based on the feedback received from the Executive Board at the aforementioned joint informal session, and to comply with the Boards' previous decisions to receive all the requested information on cost recovery in time to be included for the consultations on the 2018-2021 strategic plan and integrated budget, the four agencies are preparing a conference room paper, with detailed financial information for 2014-2016, outlining:

(a) Proposed principles on the use of regular resources for financing agencies' activities, noting the unique nature of regular resources referred to in General Assembly resolutions 67/226 and 71/243;

(b) Review of application of cost recovery by the four agencies in the context of their business and funding models, relative size and the resulting impact on comparability and harmonization;

(c) Impact of the differentiated rates on cost recovery due to different governing mechanisms of multilateral and non-governmental donors;

(d) Building on the above, proposed options for the cost-recovery methodology, identifying implementation implications, pros and cons and opportunities and challenges.

Government contributions towards local office costs

21. Government contributions towards local office costs (GLOC) comprise direct cash payments, accounting linkage with voluntary contributions and in-kind contributions. In 2014-2016, UNDP achieved an average of 73 per cent recovery on GLOC cash targets. This represented an improvement over the levels of GLOC cash received in prior years ($85.9 million in 2014-2016 compared to $67.5 million in 2011-2013).

Measures taken in 2014-2016

22. As mentioned above, UNDP was faced with the implications of significantly reduced levels of regular resources during 2014-2016, which was exacerbated by the strengthening of the United States dollar. UNDP managed this situation by making adjustments in its spending levels and organizational structure. The cumulative review of the Strategic Plan discusses organizational performance and gains achieved by the structural change process, including by strengthening the regional hubs to bring support closer to country offices.

23. Despite the drop in regular resources income, UNDP ensured that the regular resources channeled to programme countries through TRAC-1 and TRAC-3 were maintained. However, this adversely impacted the availability of complementary support, provided through regional and global programmes, and through development effectiveness and management services. During the three-year period 2014-2016, the average management ratio was contained at 8.0 per cent, as compared to the planning assumption of 8.1 per cent for the period 2014-2017 (Please refer to annex 1, table 1 for the calculation of the management ratio).

Regular resources expenditures for security measures

24. In its decision 2013/28 on the UNDP integrated budget, the Executive Board decided, "in continuance of existing arrangements, to grant the Administrator with exceptional authority, during 2014-2017, in addition to the approved appropriation from regular resources for the institutional component of the integrated budget of $1,510.4 million, to access up to $30 million in regular resources for security measures." During 2014-2015, $5 million was drawn to respond to the outbreak of Ebola virus disease in West Africa. This was reported to the President of the Executive Board and disclosed in the annual review of the financial situation, and is shown in annex 1, table 1. There were no additional expenditures for security measures during 2016.

III. Outlook for 2017

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

26. As mentioned above, overall progress towards the achievement of the objectives of the integrated budget for 2014-2017 has been in the right direction at the strategic level during 2014-2016.

27. In 2017, contributions to regular resources will continue to play a pivotal role in meeting the objectives of the Strategic Plan, including through the availability of the core institutional funding that is essential to deliver on the Strategic Plan in an accountable and effective manner. UNDP, with the support of Member States and other funding partners, will continue to strive to achieve the approved level of regular resources for 2017, in line with the financial framework approved by the Executive Board. Further, the approved transitionary measures amounting to $33 million will be required in 2017, until the measures required by decision 2013/9 have been fully implemented (i.e., 8 per cent rate for third-party cost-sharing contributions, and direct charging of eligible development effectiveness costs to programme resources). This is particularly important as reduced levels of regular resources would result in continued pro-rata reductions of both the programmatic and institutional components of the integrated budget.

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

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

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

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

IV. Conclusions

32. The period 2014-2016 was unique from multiple perspectives. It was the start of the UNDP Strategic Plan, 2014-2017, underpinned by the integrated budget, and it was the start of the implementation of the new cost-recovery policy. At the same time, UNDP was faced with the implications of significantly reduced levels of regular resources.

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

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

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

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