



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

Distr.: General
12 July 2013

Original: English

Second regular session 2013

9-13 September 2013, New York

Item 3 of the provisional agenda

Financial, budgetary and administrative matters

**UNDP integrated budget estimates for 2014-2017
Report of the Administrator**

Executive summary

The present document forms an integral complement to the strategic plan, 2014-2017. The estimates are presented in line with the harmonized approach agreed within the context of the 'joint road map to an integrated budget for UNDP, UNFPA, UNICEF and UN-Women'. For the first time, Executive Board decision is sought within the context of a single, integrated presentation on all regular resources-funded activities – areas previously legislated through two distinct funding instruments, the institutional budget and the programming arrangements.

This acknowledges the synergies and linkages between development and institutional results at country, regional and global levels, and the associated resource requirements. It recognizes that institutional activities represent essential strategic enablers for the achievement of development results. This will facilitate the process of continuous realignment of institutional capacities required to help programme countries achieve development results.

The integrated budget covers the same four-year period as the strategic plan – a change from the previous practice of two-year institutional budgets and four-year programming arrangements frameworks. This is in line with Executive Board decision 2012/27, which also calls for a midterm review focusing on the financial estimates of institutional components of the integrated budget, if adjustments are required due to a need for realignment of resources and results or major changes in the overall financial framework.

The integrated resource plan covers \$24.3 billion in estimated available resources; partners provide resources for present and future years. Of \$22.6 billion in total estimated expenditure of regular and other resources for 2014-2017, 88.8 per cent is planned for development activities; 1.7 per cent for United Nations development coordination activities (covering the UNDP commitment financing the backbone of United Nations development coordination activities, plus its share of system-wide cost-sharing with United Nations Development Group member organizations); 8.1 per cent for management activities; and 1.4 per cent for special purpose activities. This reflects increased expenditures for development activities (88.8 per cent, compared to 88 per cent estimated in the most recent comparable period (2012-2013), and decreased expenditures for management activities (8.1 per cent, compared to the 8.6 per cent estimated during 2012-2013), reflecting greater burden-sharing and increased efficiency.

Accordingly, and in response to General Assembly resolution 67/226 on the quadrennial comprehensive policy review of United Nations operational activities for development, as well as Executive Board direction, the integrated budget reflects an increase in the share of regular resources allocated to programming activities, resulting in a \$2,240 million allocation to programmatic components of the integrated budget (discussed in chapter III), and a \$1,360 million allocation to the institutional component of the integrated budget (discussed in chapter IV). This is accomplished through the largest reduction in recent UNDP history of the regular resources allocation to management activities. Hence, \$173.5 million in real reductions is proposed for the first two years of the four-year planning period, followed by an additional \$66.4 million in reductions for the second two years of the four-year planning period.

The quadrennial comprehensive policy review calls for a strong United Nations development system, which is strategically relevant, nimble, and ready and able to help deliver sustainable development results. A stable, predictable, and critical mass of regular resources enables UNDP to fulfill its mandate; be strategic and responsive; provide high-quality development support; reliable, differentiated services across programme countries; and finance long-term development expertise. It also enables UNDP to respond to emerging crises; preserve its multilateral, impartial and universal character; finance its management and oversight functions; and support the resident coordinator system and the effectiveness and coherence of the United Nations development system as a whole.



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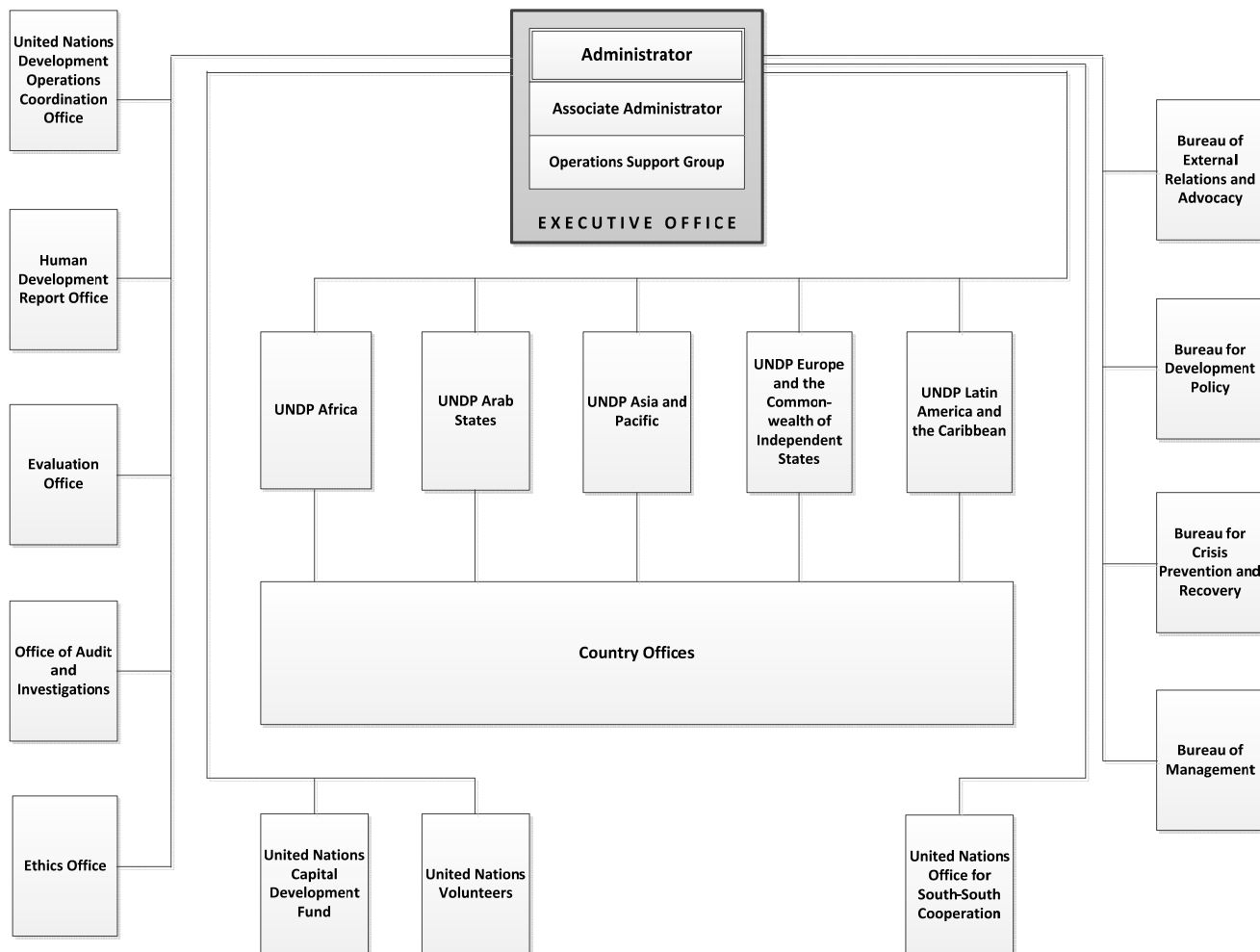
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Organizational chart ¹

¹ Current structure of UNDP. A structural review is under way, which may affect this chart.

I. Strategic context

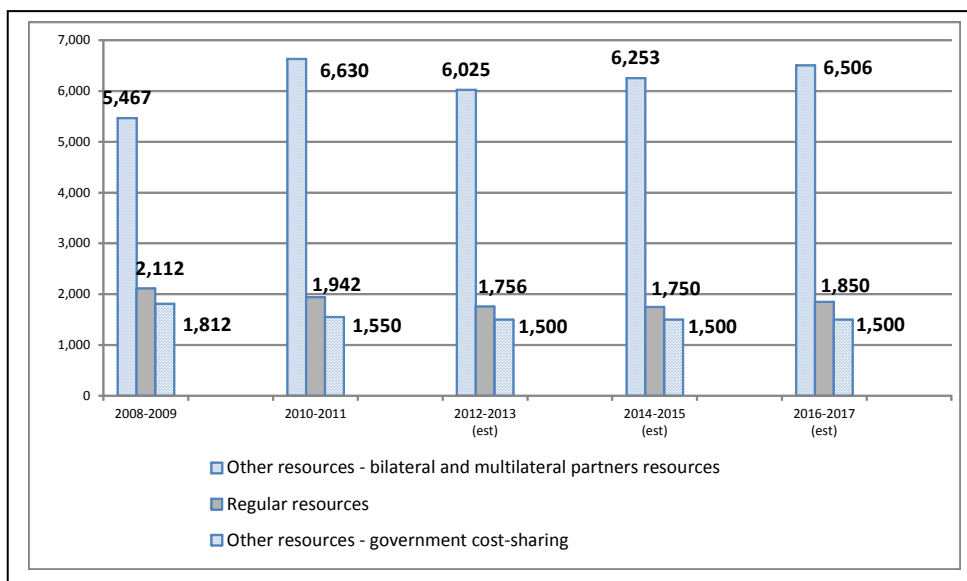
1. The present document is an integral complement to the strategic plan, 2014-2017. It provides more information on the resources estimates, which will be used in the integrated results and resources framework of the strategic plan.
2. The proposals made in the strategic plan are essential to the implementation of an ambitious programme to transform institutional effectiveness. Building on the improvements made under the agenda for organizational change, three interrelated strategies will be taken forward: (a) higher-quality programmes through results based management; (b) greater organizational openness, agility and adaptability to harness knowledge, solutions and expertise; and (c) improved management of financial and human resources in pursuit of results in a sustainable manner within projected resource flows. The proposals take those strategies into account.
3. The presentation follows a budget harmonization exercise within the context of a road map to an integrated budget from 2014 onwards, conducted with UNICEF, UNFPA and UN-Women and covering a harmonized cost classification framework (decision 2010/32), a harmonized conceptual cost recovery methodology, and harmonized cost recovery rates (decisions 2012/27 and 2013/9). It incorporates the results-based budgeting approach approved in decision 2011/10, including: (a) improved results focus and linkage with the strategic plan; and (b) harmonized budget tables with respect to the integrated resource plan (tables 1a and 1b); a comparison of planned and actual and estimated expenditures (summary table); and an integrated results and resources framework (annex 1) aligned with the strategic plan.
4. Executive Board decision will be sought within the framework of a single integrated presentation, on all regular resources-funded budget items – areas previously legislated through two distinct funding instruments, the institutional budget and the programming arrangements. This approach acknowledges the synergies and linkages between development and institutional results at country, regional and global levels, and the associated resource requirements. It recognizes that institutional activities represent essential strategic enablers for the achievement of development results. This will facilitate the process of continuous realignment of institutional capacities required to help programme countries achieve development results within the remit of the strategic plan.
5. The integrated budget covers the same four-year period as the strategic plan – a change from the previous practice of two-year institutional budgets and four-year programming arrangements frameworks. This is in line with Executive Board decision 2012/27, which also supports a midterm review focusing on the institutional components of the integrated budget, if adjustments are required due to a need for realignment of resources and results, or major changes in the overall financial framework. This is done in conjunction with the biennial update on programmatic components of the integrated budget described in annex 2, in line with decision 2012/28. Accordingly, the resource projections in this document cover a four-year period, with more detailed tables covering the first two years of the planning period.

II. Financial context

6. This document is premised on UNDP financial regulations and rules and relevant Executive Board decisions. This chapter focuses on the overall financial context, while chapters III and IV discuss programmatic and institutional components, respectively.
7. Figure 1 provides an overview of actual and estimated contributions, by funding category. Total contributions for 2014-2015 are estimated at \$9.5 billion, \$0.22 billion (2.4 per cent) more than 2012-2013 estimates of \$9.3 billion. For 2016-2017, total contributions are estimated at \$9.9 billion. In nominal terms, regular resources are projected at \$1.75 billion for 2014-2015 and \$1.85 billion for 2016-2017. Contributions

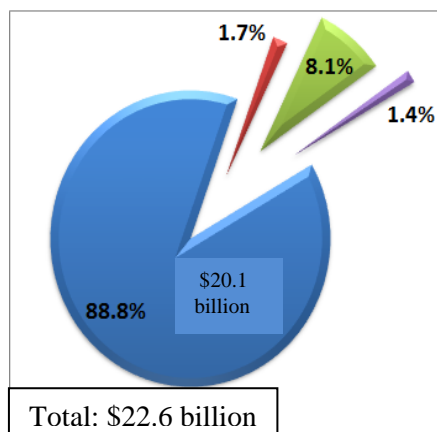
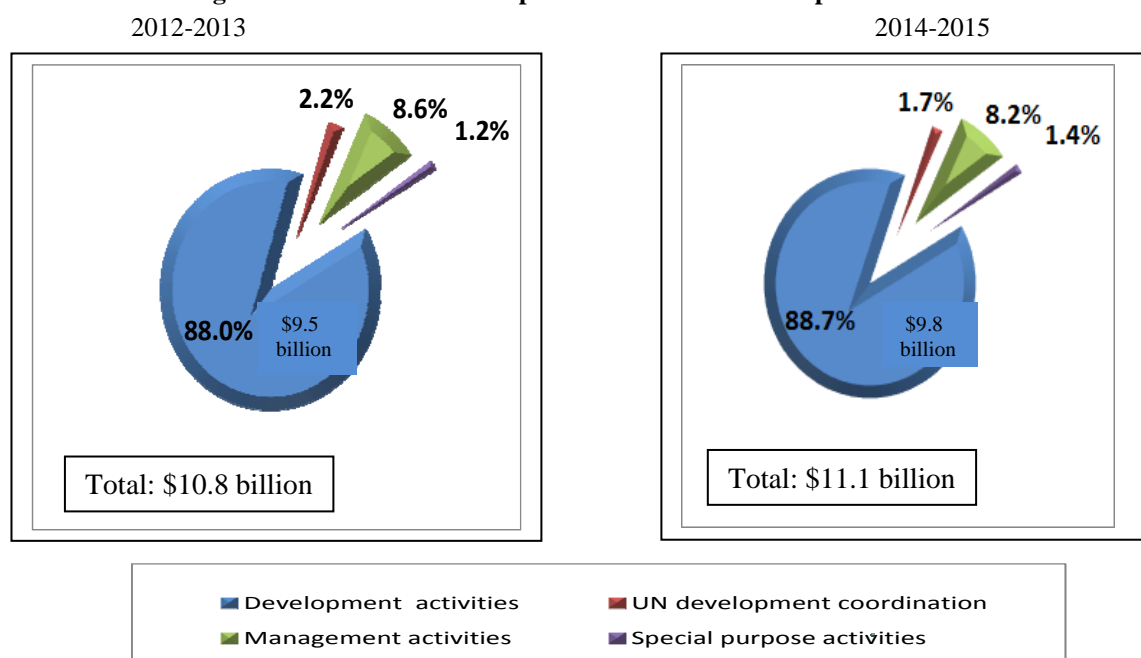
from bilateral and multilateral partners are estimated to increase by about \$0.23 billion from current estimates of \$6.02 billion for 2012-2013, to \$6.25 billion for 2014-2015 and \$6.51 billion for 2016-2017. Local resources (including contributions for South-South cooperation) provided by host governments are expected to remain at \$1.5 billion – the same level as latest estimates for 2012-2013.

Figure 1. Contributions by funding category, 2008-2009 to 2016-2017
(in millions of dollars)



8. Figures 2a and 2b provide an overview of estimated expenditures. Figure 2a presents estimated expenditure for 2014-2017 of \$22.6 billion, of which 88.8 per cent is for development activities; 1.7 per cent for United Nations development coordination activities; 8.1 per cent for management activities; and 1.4 per cent for special purpose activities. Figure 2b includes a comparison of expenditures during the first two years of this period (2014-2015) with comparable¹ activities in 2012-2013. It presents estimated expenditures of \$11.1 billion, of which 88.7 per cent will be used for development activities; 1.7 per cent for United Nations coordination activities; 8.2 per cent for management activities; and 1.4 per cent for special purpose activities. Planned development expenditures for 2014-2017 of 88.8 per cent (\$20.1 billion) are higher than the 88 per cent estimated during 2012-2013 (88.7 per cent in 2014-2015), after transitional measures discussed in paragraphs 62-65. Similarly, planned management expenditures of 8.1 per cent (\$1.8 billion) are lower than the 8.6 per cent in 2012-2013 (8.2 per cent in 2014-2015), after transitional measures discussed in paragraphs 62-65.

² The comparison is made with the 2012-2013 period, the most recent period where the same cost classification schema was applied, (decision 2010/32). Activities for 2010-2011 were classified differently (decision 2009/22).

Figure 2a. Estimated total expenditure: 2014-2017**Figure 2b. Estimated total expenditure: 2014-2015 compared to 2012-2013**

9. The integrated resources plan presented in table 1a covers regular and other resources for the period 2014-2017. It outlines the UNDP integrated resources framework and reflects cost classification categories approved in decision 2010/32. It contains a separate column for cost recovery, in line with the harmonized format for the integrated resources plan. Cost recovery is discussed in more details in section F, below. The resources plan reflects:

- (a) \$24.3 billion in gross estimated total resources available, comprising an opening balance of \$3.4 billion, contributions of \$19.4 billion, and other income of \$1.5 billion; and
- (b) \$22.6 billion in estimated expenditure, comprising development activities of \$20.1 billion, United Nations development coordination activities of \$0.4 billion, management activities of \$1.8 billion, and special purpose activities of \$0.3 billion.

Table 1a. Integrated resources plan, 2014-2017
(in millions of dollars)

		2014-2017 budget estimates					Total resources
		Regular resources		Other resources d/			
		Regular resources	Regular (other income utilization) resources a/	Bilateral + multilateral partners resources	Government cost-sharing	Cost recovery	
1. Resources available							
	Opening balance b/	250.1	-	2,574.7	567.3	-	3,392.1
	Income and adjustments						
	Contributions	3,600.0		12,759.0	3,000.0	-	19,359.0
	Other, including reimbursements for services to other UN organizations, and cost recovery c/		150.8			1,358.5	1,509.3
Total 1. Resources available		3,850.1	150.8	15,333.7	3,567.3	1,358.5	24,260.4
2. Estimated expenditures							% of Total
I. Development activities							
	I.A - Programme	2,070.8	-	14,071.6	3,270.0	-	19,412.4
	I.B - Development effectiveness	437.4	-	78.0	2.0	181.8	699.2
	Total - I. Development activities	2,508.2	-	14,149.6	3,272.0	181.8	88.8%
Total - II. UN Development Coordination activities		370.0	0.6	-	-	-	1.7%
III. Management activities							
	III.A - recurring activities	632.9	136.8	-	-	1,056.6	1,826.3
	III.B - non-recurring activities	10.0	-	-	-	-	10.0
	Total - III. Management activities	642.9	136.8	-	-	1,056.6	8.1%
IV. Special purpose activities							
	IV.A - Capital investments	18.3	-	-	-	40.9	59.2
	IV.B - Non-UNDP operations administered by UNDP	60.6	13.4	-	-	190.0	264.0
	Total - IV. Special Purpose activities	78.9	13.4	-	-	230.9	1.4%
Total institutional components		1,359.6	150.8	-	-	1,469.3	2,979.7
Total programmatic components		2,240.4	-	14,149.6	3,272.0	-	19,662.0
Total 2. Estimated expenditures (I + II + III + IV)		3,600.0	150.8	14,149.6	3,272.0	1,469.3	100.0%
3. Balance of resources		250.1	-	1,073.2	295.3	-	1,618.6
a/ Includes government contributions towards local office costs (GLOC), income the United Nations Volunteers programme derives from providing volunteers to the United Nations organizations, and an accounting linkage to off-set the costs of reimbursing income taxes paid by United Nations staff on their salaries.							
b/ Opening balance for 2014/2015 reflects estimated closing balance for 2012-2013. Following the harmonized format for the integrated budget presentation, cost recovery balances are commingled with bilateral and multilateral partners resources and government cost sharing balances							
c/ Includes interest, miscellaneous income and adjustments related to foreign exchange gain/loss, opening reserve increases/ decreases, and miscellaneous expenditures.							
d/ Following the harmonized format for the integrated budget, the balance of total resources available (\$24.3 billion) and total estimated expenditures (\$22.6 billion) are presented on a gross basis, i.e. for bilateral and multilateral partners resources and government cost sharing resources the cost recovery portion is included in both – resources available balance and estimated expenditures.							
Summary institutional components (regular resources):		2014-2017					
Development effectiveness activities		331.8					
UN development coordination activities		306.0					
Management - recurring activities		632.9					
Management - non-recurring activities		10.0					
Special purpose activities		78.9					
Total:		1,359.6					

10. Table 1a presents information for 2014-2017. A comparative analysis follows on the first two years of this period (2014-2015) with the preceding comparable period (2012-2013), referencing the integrated resource plan contained in table 1b. With respect to other resources, the integrated resources plan reflects an acceleration of delivery on resources for development activities, noting that partners contribute resources to UNDP for present and future years. For bilateral and multilateral partner resources – 78 per cent, or \$6.9 billion, is estimated to be delivered out of \$8.8 billion in available resources – an increase from 71 per cent or \$6.4 billion out of \$9 billion in available resources estimated to be delivered in 2012-2013. Similarly, for government cost-sharing resources – 79 per cent, or \$1.6 billion, is estimated to be delivered out of \$2.1 billion in available resources – an increase from 77 per cent, or \$1.9 billion out of \$2.5 billion in available resources estimated to be delivered in 2012-2013.

11. The integrated resources plan reflects a regular resources contribution estimate of \$1.75 billion for 2014-2015. While this represents a similar level of contributions compared to 2012-2013 income estimates, it reflects a nominal reduction of \$0.4 billion compared to initially planned regular resources contributions of \$2.15 billion. In real terms, when stated in constant 2012 dollars, 2014-2015 contributions reflect a \$0.48 billion reduction compared to 2012-2013.

12. The integrated budget reflects an increase in the share of regular resources allocated to programmatic activities in response to the quadrennial comprehensive policy review and subsequent Executive Board decisions. This results in the retention of a minimum \$540 million annual core programming level (a total of \$1,080 million in 2014-2015), estimated to increase to \$600 million annually for 2016-2017, due in part to the reduction in transitional funding for core management activities discussed in paragraphs 62-65. Projected UNDP resource planning should result in compliance with the stipulated minimum three months' regular resources liquidity during the integrated budget period.

13. The relative share of regular resources allocated to programmatic components of the integrated budget will increase in 2014-2015, through the requisite reduction in institutional components of the integrated budget. Following the \$120.1 million (12.3 per cent) in volume reductions in the 2012-2013 institutional budget approved in decision 2011/32, UNDP proposes further real volume reductions of \$173.5 million (18.6 per cent). These reductions offset \$25 million (2.7 per cent) in non-discretionary cost increases and \$5 million (0.5 per cent) in proposed institutional investments, resulting in net nominal budget reductions of \$143.5 million (15.4 per cent). In gross terms, a \$788.4 million institutional component is proposed for 2014-2015, with projected income offsets of \$75.4 million, resulting in a proposed net institutional component of the integrated budget, 2014-2015, of \$713 million. Summary institutional components, by cost classification category, for 2014-2015 totaling \$713 million, compared to the 2012-2013 period, totaling \$776.4 million, are shown in table 1b.

14. While UNDP proposes reducing the institutional component of the integrated budget to support an increased allocation of resources to programmatic components, there is a limit to the level of reductions to regular resources that UNDP can bear. UNDP needs a stable, predictable, and critical mass of regular resources to fulfill its mandate, be strategic and responsive, provide high-quality development support and predictable, differentiated services across programme countries, and finance long-term development expertise. This enables UNDP to respond to emerging crises; preserve its multilateral, impartial and universal character; finance its corporate management and oversight functions; and support the resident coordinator system and the effectiveness and coherence of the United Nations development system as a whole.

15. The strategic plan provides the overarching strategic framework for UNDP activities and contains the results and resources framework, which is directly linked to the integrated budget. That linkage is explained in annex 1.

16. Regular resources for programmatic components of the integrated budget are discussed in chapter III. Proposals and cost implications of the institutional components of the integrated integrated budget are presented in chapter IV.

Table 1b. Integrated resources plan, 2014-2015 compared to 2012-2013
(in millions of dollars)

2012 (actuals) + 2013 (estimates)							
	Regular resources		Other resources			Total resources	
	Regular resources	Regular (other income utilization) resources a/	Bilateral + multilateral partners resources	Government cost-sharing	Cost recovery		
1. Resources available							
Opening balance b/	333.2	-	2,969.2	948.7	-	4,251.1	
Income and adjustments						-	
Contributions	1,756.0	-	6,025.0	1,500.0	-	9,281.0	
Other, including reimbursements for services to other UN organizations, and cost recovery c/	-	75.4			600.7	676.1	
Total I. Resources available	2,089.2	75.4	8,994.2	2,448.7	600.7	14,208.2	
2. Estimated expenditures							% of Total
I. Development activities							
I.A - Programme	987.8		6,353.4	1,877.6		9,218.8	
I.B - Development effectiveness	171.9		9.0	-	119.1	300.0	
Total - I. Development activities	1,159.7	-	6,362.4	1,877.6	119.1	9,518.8	88.0%
UN Development Coordination activities	157.8	0.3	24.9	-	51.3	234.3	2.2%
III. Management activities							
III.A - recurring	479.4	68.4	-	-	371.3	919.1	
III.B - non-recurring	10.0	-	-	-	-	10.0	
Total - III. Management activities	489.4	68.4	-	-	371.3	929.1	8.6%
IV. Special purpose activities							
IV.A - Capital investments	-					-	
IV.B - Non-UNDP operations administered by UNDP	32.2	6.7		-	95.0	133.9	
Total - IV. Special Purpose activities	32.2	6.7	-	-	95.0	133.9	1.2%
Total institutional components	776.4	75.4	-	-	636.7	1,488.5	
Total programmatic components	1,062.7	-	6,387.3	1,877.6	-	9,327.6	
Total 2. Estimated expenditures (I + II + III + IV)	1,839.1	75.4	6,387.3	1,877.6	636.7	10,816.1	100.0%
3. Balance of resources	250.1	-	2,574.7	567.3	-	3,392.1	

2014-2015 budget estimates						
Regular resources		Other resources			Total resources	
Regular resources	Regular (other income utilization) resources a/	Bilateral + multilateral partners resources	Government cost-sharing	Cost recovery		
250.1		2,574.7	567.3	-	3,392.1	
					-	
1,750.0		6,253.0	1,500.0	-	9,503.0	
	75.4			670.5	745.9	
2,000.1	75.4	8,827.7	2,067.3	670.5	13,641.0	
						% of Total
956.7		6,910.8	1,635.0	-	9,502.5	
214.2		9.0	-	121.9	345.1	
1,170.9	-	6,919.8	1,635.0	121.9	9,847.6	88.7%
185.0	0.3	-	-	-	185.3	1.7%
349.3	68.4	-	-	483.1	900.8	
5.0	-				5.0	
354.3	68.4	-	-	483.1	905.8	8.2%
9.5		-		20.1	29.6	
30.3	6.7		-	95.0	132.0	
39.8	6.7	-	-	115.1	161.6	1.4%
713.0	75.4	-	-	720.1	1,508.5	
1,037.0	-	6,919.8	1,635.0	-	9,591.8	
1,750.0	75.4	6,919.8	1,635.0	720.1	11,100.3	100.0%
250.1	-	1,856.9	433.7		2,540.7	

a/ Includes government contributions towards local office costs (GLOC), income the United Nations Volunteers programme derives from providing volunteers to the United Nations organizations, and an accounting linkage to off-set the costs of reimbursing income taxes paid by United Nations staff on their salaries.

b/ Opening balance for 2012/2013 reflects actual amount recorded in the UNDP 2012-2011 Financial Statements. Following the harmonized format for the integrated budget presentation, cost recovery balances are co-mingled with bilateral/multilateral partners resources and government cost sharing balances accordingly.

c/ Includes interest, miscellaneous income and adjustments related to foreign exchange gain/loss, opening reserve increases/decreases, and miscellaneous expenditures.

Summary institutional components (regular resources):	2012-2013	2014-2015
Development effectiveness activities	122.0	165.9
UN development coordination activities	132.8	153.0
Management - recurring activities	479.4	349.3
Management- non-recurring activities	10.0	5.0
Special purpose activities	32.2	39.8
Total:	776.4	713.0

III. Programmatic components of the integrated budget

17. The programmatic components of the integrated budget are governed by the principles and methodologies distributing regular resources to programme activities previously contained in the programming arrangements legislated by the Executive Board (annex 2).

18. Several Executive Board decisions over the past two years have set the framework for the programmatic components of the integrated budget, including: (a) decision 2012/1, on the second review of the programming arrangements, 2008-2013; (b) decision 2012/28, on the programming arrangements, 2014-2017; (c) decision 2013/4, on the informal note on the programming arrangements presented at the first regular session 2013; and (iv) decision 2013/18, on the UNDP response to decision 2013/4.

19. The programmatic components are underpinned by interrelated principles with respect to predictability, universality, and progressivity, reaffirmed in decision 2012/1. Predictability relates to the availability of sufficient regular resources to sustain the multilateral and universal character of UNDP. Universality ensures that UNDP development resources and activities are available to support all eligible countries; progressivity focuses the distribution of regular programme resources to low-income and least developed countries.

20. Predictability and availability of regular resources, and flexibility in their allocation, are prerequisites to responding to the dynamic needs of programme countries. UNDP proposes allocating resources to programmatic activities on the basis of a \$540 million annual core programming level during 2014-2015, estimated to increase to \$600 million annually during 2016-2017 – in part due to the reduction of transitional funding for management activities discussed in paragraphs 62-65. This is in line with voluntary contribution estimates discussed in chapter II.

21. Table 2, below, shows the proposed allocation of regular resources to programmatic activities at the respective \$540 million and \$600 million annual levels. A discussion of the programme lines follows.

22. Global and regional programmes, discussed in paragraphs 30-31, will be designed in line with the strategic plan and the results and resources framework, which will be formally discussed at the second regular session 2013. Further details will be discussed with the Executive Board at its first regular session 2014.

Table 2. Proposed annualized programming financial framework covering 2014-2017²

(in millions of dollars)

I - Development Activities							
Programmes	at \$540m base per year			at \$600m base per year			2014-2017 total
	2014	2015	2014-2015 subtotal	2016	2017	2016-2017 subtotal	
Country window							
TRAC-1	256.4	256.4	512.8	256.4	256.4	512.8	1,025.6
TRAC-2	135.5	135.5	271.0	180.8	180.8	361.6	632.6
TRAC-3	35.5	35.5	71.0	39.5	39.5	79.0	150.0
Programme of Assistance to the Palestinian People (PAPP)	2.4	2.4	4.8	2.7	2.7	5.4	10.2
Subtotal Country window	429.8	429.8	859.6	479.4	479.4	958.8	1,818.4
Regional window							
Regional Programme	44.4	44.4	88.8	49.3	49.3	98.6	187.4
Global window							
Global programmes (includes ODS)	15.2	15.2	30.4	16.9	16.9	33.8	64.2
Human Development Report Office (HDRO)	5.1	5.1	10.2	5.7	5.7	11.4	21.6
Subtotal Global Window	20.3	20.3	40.6	22.6	22.6	45.2	85.8
Subtotal - Programmes	494.5	494.5	989.0	551.3	551.3	1,102.6	2,091.6
II - Development Effectiveness							
South-South cooperation programme	3.5	3.5	7.0	3.8	3.8	7.6	14.6
Development support services (DSS)	5.3	5.3	10.6	5.9	5.9	11.8	22.4
Economists' programme	6.0	6.0	12.0	6.7	6.7	13.4	25.4
Gender mainstreaming	2.4	2.4	4.8	2.7	2.7	5.4	10.2
Policy advisory services	10.8	10.8	21.6	12.1	12.1	24.2	45.8
United Nations Capital Development Fund	1.5	1.5	3.0	1.5	1.5	3.0	6.0
Subtotal - Development Effectiveness	29.5	29.5	59.0	32.7	32.7	65.4	124.4
Subtotal - Development	524.0	524.0	1,048.0	584.0	584.0	1,168.0	2,216.0
II - UN Development Coordination							
Support to the RC	16.0	16.0	32.0	16.0	16.0	32.0	64.0
Grand total (I + II)	540.0	540.0	1,080.0	600.0	600.0	1,200.0	2,280.0

Programmes – Country window

The TRAC system

23. Regular resource allocations for country-level programme activities are made within the framework of targets for resource assignments from the core (known as 'TRACs'). In this three-tiered system, TRAC-1 and TRAC-2 resources are linked in a combined pool, while TRAC-3 resources are made available through a separate pool focused on quick, flexible responses to the development needs of countries affected by conflicts or natural disasters. TRAC allocations form the financial foundation for UNDP's programmatic presence on the ground.

24. *TRAC-1* refers to the annual level of regular programme resources for an individual programme country, allocated according to eligibility and other criteria approved by the Executive Board (decision 2012/28). Decision 2013/4 endorsed shielding TRAC-1 resource allocations, reflected in table 2 at the annual level of \$256.4 million.

² The \$2,280 million allocation corresponds to \$2,240 million in estimated expenditure in table 1a, taking into account historical delivery rates and time-shifting of expenditure within multi-year approved programmes.

25. *TRAC-2* provides UNDP with the flexibility to allocate regular resources to high-impact, high-leverage and high-quality programme activities. Decision 2013/4 approved the *TRAC-2* resource facility, which uses non-formula based criteria, with priorities and incentives built in to enhance the ability of UNDP to respond to country needs.

26. Following discussions with the Executive Board at its first regular session 2013, UNDP proposes that *TRAC-2* resources continue to be allocated in line with existing percentage allocation ranges: 85 per cent to 91 per cent to low-income countries; 9-15 per cent to middle-income countries, and at least 60 per cent to least developed countries. UNDP also proposes continuing to allocate *TRAC-2* resources in line with regional *TRAC-1* distributions and retaining the flexibility of up to 10 per cent of *TRAC-2* resource assignments between regions. Finally, UNDP proposes prioritizing the *TRAC-2* facility to finance programmatic accelerators across the areas of work outlined in the strategic plan.

27. *TRAC-3* provides UNDP with the capacity to respond quickly and flexibly to the development needs of countries affected by conflicts and natural disasters. Frequent and severe natural disasters, and the challenge of conflict and armed violence in many developing countries, risk bringing significant damage to nations, lives and livelihoods. The strategic plan aims to refocus efforts, helping countries build resilience so that they can sustain their development gains despite external shocks. UNDP must be well-positioned to analyze early warnings, advocate for and influence policies for crisis risk reduction and conflict prevention, and implement early recovery interventions as early in the humanitarian phase as possible.

28. With the erosion of its regular resources contributions, the ability of UNDP to engage in crisis contexts effectively, predictably, and sustainably is threatened. *TRAC-3* is the only core facility for immediate action in these contexts. *TRAC-3* is a demand-driven mechanism that enables the organization to quickly bring policy advice, technical expertise, and catalytic programmatic funding to the country level for a comprehensive, coherent response. Following the calculation of regular programme resource allocation levels approved in decision 2007/33, UNDP proposes maintaining the level of *TRAC-3* in line with the principle of the 7.2 per cent calculation of its variable core programming lines, described in annex 2. Table 2 reflects an annual allocation of \$35.5 million during 2014-2015, and \$39.5 million during 2016-2017. UNDP also proposes that *TRAC-3* allocations be shielded from the potential effect of core programming levels falling below \$540 million.

Other lines

29. The *Programme of Assistance to the Palestinian People* is a unique programme with funding arrangements that cover programmatic activities to support a specific group of people, in contrast to traditional country or regional programmes.

30. The *regional window* provides support for inter-country cooperation in all five regions in response to development priorities and challenges. These resources help countries learn from each other's experiences, and address problems that transcend national boundaries, contributing to the achievement of national development priorities.

31. The *global window* is comprised of two resource facilities that:

- (a) Support programme countries at the global level with respect to global public goods, helping apply global diagnoses and perspectives to development challenges, catalysing development solutions, and ensuring that development experience, innovation and good practices are shared; and
- (b) Finance the *Human Development Report Office*, which supports global advocacy for human development by helping programme countries incorporate human development into programmes and policies. UNDP proposes that these allocations be shielded from the potential impact of core programming levels falling below \$540 million, reflected at annual levels of \$5.1 million in 2014-2015 and \$5.7 million in 2016-2017.

Development effectiveness activities

32. UNDP development effectiveness activities, together with programmes, are essential in achieving development outcomes identified in the strategic plan. They are financed from different funding sources and form part of both institutional and programmatic components of the integrated budget. The components enumerated below support programme quality, coherence and alignment and relate to results in South-South cooperation, gender mainstreaming, and cross-cutting support at country and regional levels, through: (a) in-country catalytic support, through development support services; and (b) in-country strategic economic advisory support, through the economists programme; complemented by (c) regional advisory support, through policy advisory services. They are supplemented by programmatic support through the proposed UNCDF line.

33. *South-South cooperation* focuses on sharing South-South experiences, expertise and knowledge as an integral part of country, regional and interregional programmes, while introducing cost-effective modalities. The importance of promoting, facilitating and strengthening South-South and triangular cooperation for development globally is emphasized in the strategic plan. UNDP proposes that allocations for South-South cooperation be shielded from the potential impact of core programming levels falling below \$540 million. Table 2 reflects annual South-South cooperation allocations of \$3.5 million in 2014-2015, at the \$540 million programming level, and \$3.8 million in 2016-2017, at the \$600 million programming level.

34. *Development support services* provide a strategic capacity for rapid response and support to upstream initiatives in UNDP areas of work. Resources for the services are instrumental in supporting innovation and spearheading new approaches and business solutions. Although small in volume, these resources and activities provide UNDP with leveraging and catalytic support in emerging business areas.

35. The *Economist Programme* provides substantive, strategic, economic advisory services supporting the formulation of pro-poor policies and inclusive, equitable growth strategies. Most of the economists are from programme countries, reflecting the diversity and empowerment of candidates from developing countries, including least developed countries. They spearhead innovative, integrated approaches to sustainable human development in complex development environments, providing high-quality, evidence-based policy advice and influencing national policymaking by opening up choices and widening options. Their work improves people's lives, nurtures national capacities, strengthens countries' resilience, and fights poverty, social inequality and regional disparities. The economists provide critical, substantive inputs to the United Nations system, through the resident coordinator system, on the formulation of United Nations Development Assistance Frameworks and joint programmes, supporting UNDP in its role as convener and knowledge-broker in the United Nations family. Recognizing the pivotal role of the programme, table 2 reflects annual allocations of \$6 million in 2014-2015 and \$6.7 million in 2016-2017, representing an allocation slightly above the levels issued in 2011 and the \$5.4 million annualized allocation in 2012-2013.

36. *Gender mainstreaming* is a cross-cutting activity and an integral part of global, regional and country-level programming, for which UNDP provides thought leadership, policy advisory services and programmatic support to partners through systematic mainstreaming in all aspects of its work.

37. *Policy advisory services* relate to services provided through a regional network of development policy advisors connected to the UNDP global development network, to provide an enabling environment with respect to cross-cutting areas in the context of the strategic plan. These services ensure programme quality, coherence and effectiveness.

38. *UNCDF* provides grants, loans and guarantees to least developed countries, complemented by strong capacity-building and upstream policy advisory services that support the design and implementation of national policies and action plans in local development finance and inclusive finance. Rooted in complementarity, the UNDP-

UNCDF partnership aims at simplicity, coherence and effectiveness, leading to greater development impact in the least developed countries.

39. The Executive Board, in decision 2013/4, approved the inclusion of UNCDF in the programming arrangements. The integrated budget reflects a proposed annual programme line allocation of \$1.5 million in 2014-2015 and \$1.5 million in 2016-2017. This is based on the most recent resource allocation levels, noting that the financial situation of UNCDF has improved.

United Nations development coordination activities

40. *Support to the resident coordinator* is aimed at country-level coordination, allowing resident coordinators to respond quickly and effectively to opportunities for United Nations system collaboration and serve as catalysts for country coordination initiatives. Decision 2013/4 endorsed shielding these resource allocations. The integrated budget reflects a proposed annual allocation of \$16 million in 2014-2015 and 2016-2017 (see table 2). United Nations development coordination activities are discussed further in paragraphs 66-70.

IV. Institutional components of the integrated budget

41. The integrated budget covers the same four-year period as the strategic plan. A more detailed discussion follows on the first two years of this period (2014-2015), facilitating comparison with comparable activities in the 2012-2013 institutional budget. Estimates for the 2016-2017 period of the integrated budget are premised on 2014-2015 estimates, with adjustments related to reduced financing for management activities as discussed in section F, on transitional measures.

42. UNDP proposes an institutional component of the integrated budget that reflects \$173.5 million or 18.6 per cent in real volume reductions in comparison to the 2012-2013 gross institutional budget of \$931.9 million. The reductions offset \$25 million (2.7 per cent) in non-discretionary cost increases and \$5 million (0.5 per cent) in the proposed investments described below. The proposals result in a net budget reduction of \$143.5 million, or 15.4 per cent. Consequently, an institutional component of the integrated budget of \$788.4 million, in gross terms, is proposed for 2014-2015, against which income offsets of \$75.4 million are projected, resulting in a net amount for 2014-2015 of \$713 million. An overview of the proposed institutional component of the integrated budget by cost classification category for 2014-2015 and 2016-2017 is presented in table 3. A summary of the main areas of increase and decrease in 2014-2015 compared to 2012-2013 is presented in table 4.

43. The proposals reflect an overall and deliberate reduction in the proportion of regular resources allocated to the institutional component of the integrated budget in favor of programmatic components. They also reflect a broad rebalancing of resources within the institutional component of the integrated budget by decreasing the proportion allocated to management activities, and increasing the proportion allocated to development effectiveness and United Nations development coordination activities, as well as a reclassification of select management activities to the 'special purpose activities' category discussed in paragraph 78.

44. In addition, following prior practice, UNDP requests exceptional authority during 2014-2017 to disburse up to \$30 million in regular resources for security measures, the use of which would be limited to new and emerging security mandates as defined in United Nations Department of Safety and Security directives. UNDP will report on this as and when such would occur.

Table 3. Comparison of the institutional components of the integrated budget, 2012-2013 approved, 2014-2015 estimates and 2016-2017 notional estimates
in millions of dollars

Summary institutional components (regular resources):	2012-2013 approved budget	2014-2015 budget estimates	2016-2017 notional estimates
Development effectiveness activities	134.5	165.9	165.9
UN development coordination activities	146.5	153.0	153.0
Management - recurring activities	529.9	349.3	283.6
Management - non-recurring activities	10.0	5.0	5.0
Special purpose activities	35.6	39.8	39.1
Total:	856.5	713.0	646.6

Table 4. Summary of main areas of increase/decrease- institutional components of the integrated budget, 2012-2013 and 2014-2015
(in millions of US dollars)

	Total:	% of 2012-2013 approved gross appropriation (\$931.9 million)
I. 2012-2013 net approved institutional budget appropriations	856.5	
II. Cost increases (non-discretionary)		
Estimated inflation on staff entitlements and operating costs	14.1	
Estimated increase of United Nations common system salary scale revisions	9.7	
Estimated impact of currency adjustments	1.2	
Estimated impact of proposed reclassifications	-	
Total cost increases	25.0	2.7%
III. a. Exercising budgetary discipline (volume decreases)		
Alignment with projected voluntary contribution levels	(66.5)	-7.1%
Net changes due to implementation of decision 2013/9 on cost recovery	(97.0)	-10.4%
Reductions due to completion of one-time investments	(10.0)	-1.1%
Total volume decreases	(173.5)	-18.6%
b. Investing in the organization (volume increases)		
Management activities - non-recurring		
Implementing the change agenda	5.0	
Total volume increases	5.0	0.5%
Net volume decreases (III.a + III.b)	(168.5)	-18.1%
IV. Net reductions to institutional component of the integrated budget (II + III)	(143.5)	-15.4%
V. 2014-2015 net appropriation estimates (I + IV)	713.0	
VI. Estimated income to the institutional component of the integrated budget	75.4	
VII. 2014-2015 gross appropriation estimates (V. + VI.)	788.4	

A. Cost increases

45. The net estimated cost increase of \$25 million presented in table 4 represents a 2.7 per cent increase over the 2012-2013 approved gross appropriation and is indicative of the non-discretionary cost increases required to finance UNDP institutional activities. It is on par with the level of cost increases of \$31.1 million during 2012-2013, which represented a 3.1 per cent increase. It also compares favorably with the cost increases during 2010-2011 (10.7 per cent) and 2008-2009 (15.1 per cent). In contrast to prior period budgets, no cost increases are proposed with respect to reclassifications of posts.

B. Volume changes

46. The institutional component of the integrated budget reflects a series of planned real volume reductions totaling \$173.5 million, in line with the following considerations:

- (a) A reduction of \$66.5 million due to the alignment with projected voluntary contribution levels;
- (b) A reduction of \$97 million in line with the implementation of decision 2013/9 on cost recovery. Cost recovery is discussed in more detail in section F, below; and
- (c) A reduction of \$10 million associated with the completion of non-recurring investments introduced in 2012-2013 related to the enhancement of value-added corporate services, with respect to International Public Sector Accounting Standards implementation, and information, and communications technology activities.

47. The institutional component of the integrated budget also reflects a limited amount of planned real volume increases totaling \$5 million to support the implementation of the change agenda. This allocation is proposed to support, inter alia, investments in the development of stronger knowledge systems, country office business models, business analytics, and results based management supported by an improved integrated planning and results management system. In addition, this will be used to support a process of structural change to align headquarters and regional level functions with strategic directions and to become a leaner and more cost effective organization. The broad plan of the structural review is expected to be completed by September 2013, at which time more detailed cost implications of implementing agreed structural changes, within the resources envelopes outlined in the integrated budget, will be identified.

C. Estimated income to the budget

48. The total estimated income to the institutional component of the integrated budget for 2014-2015 is \$75.4 million. This income comes from three sources: government contributions towards local office costs; income derived by United Nations Volunteers (UNV) programme from providing volunteers to other United Nations organizations; and an accounting linkage to voluntary contributions to offset the cost of reimbursing income taxes paid by United Nations staff on their salaries.

49. Host government obligations towards local office costs are estimated to remain at the same level as during 2012-2013, at \$52.6 million. Income relating to UNV is projected to remain at the 2012-2013 level, at \$5.0 million. The offset amount for tax reimbursements is projected to remain at \$17.8 million.

D. Government contributions towards local office costs

50. Table 5 shows 2012 government contributions towards local office costs from direct cash payments, accounting linkage with voluntary contributions, and in-kind contributions broken down by the income category of programme countries. Against a total obligation of \$68.4 million, total contributions in 2012 amounted to \$42.8 million, made up of \$30.2 million in direct cash payments and the accounting linkage with voluntary contributions, with the remaining \$12.6 million representing in-kind

contributions. This represents a 63 per cent compliance rate, compared with a 75 per cent rate in 2010.

**Table 5. Government contributions to local office costs income,
by category of countries, 2012**
(in millions of dollars)

Income category	GLOC obligations, including in-kind contributions	Income received			Percentage received against obligation
		Cash and accounting linkage	In-kind contributions	Total income received	
Low-income countries	19.1	7.0	4.2	11.2	59%
Middle-income countries	39.8	14.7	7.4	22.1	56%
Net contributor countries	9.5	8.5	1.0	9.5	100%
Total	68.4	30.2	12.6	42.8	63%

GLOC = government contributions to local office costs

51. UNDP appreciates improvements made by programme countries toward meeting their obligations with respect to government contributions towards local office costs. Middle-income country compliance remains at a less-than-desirable level. UNDP will maintain the option to withhold part of institutional budget resources for countries with significant deficits, with an emphasis on middle-income countries.

52. Waivers, granted based on respective gross national income levels, are an integral part of calculating programme country obligations. Local costs of a UNDP country office (the basis for the calculation) are reduced by a waiver percentage using the gross national income level. Waivers are reviewed in line with the decision on a new programme period. Table 6, below, presents the new income classifications and waivers for 2014-2015. The gross national income per capita levels presented in the table are based on the average for 2008-2011, as endorsed in decision 2012/28. These will be updated in the biennial update at the mid-point of the integrated budget with the average gross national income per capita for 2010-2013.

**Table 6. Government contributions to local office costs waivers
based on 2008-2011 average gross national income (GNI) per capita**

Based on 2008-2011 average GNI per capita (in dollars)	Programme country waiver percentage	Income category of programme country
\$1,280 and below	75%	Low-income country
\$1,281 to \$2,140	50%	Middle-income country
\$2,141 to \$6,660	25%	Middle-income country

53. In response to paragraph 7 of Executive Board decision 2013/4, UNDP will present a separate paper at the second regular session 2013, focusing on the sources of funding of differentiated physical presence in programme countries with per capita GNI above \$6,660.

E. Positions

54. General Assembly resolution 67/226, and subsequent Executive Board decisions, highlight the principle of full cost recovery, which calls for the alignment of organizational structures with underlying results frameworks and regular and other resources. The integrated budget reflects a strategy for financing positions that recognizes the variety, multiplicity, and complexity of the various UNDP funding streams so as to better respond to the evolving development needs of programme countries within the remit of the strategic plan in an accountable, sustainable and agile manner.

55. The integrated budget incorporates a strategy for financing personnel costs with respect to positions at grade P-5 and below in a manner that more accurately reflects the results framework and the underlying funding sources of the requisite activities by using multiple funding sources. This leads to a more strategic and efficient use of regular resources, allowing UNDP to allocate a greater share to development activities. It results in a more accurate linkage of costs to underlying funding sources.

56. The example below illustrates the change:

(a) Current practice under the institutional budget, 2012-2013, calls for an assistant resident representative-programme (ARR-P) post to be fully core funded even if the ARR-P has responsibilities covering a portfolio of both core and non-core programmes. Furthermore, as the programme portfolio changes, the post continues to be funded from the same core allocation within the budget period.

(b) Under the integrated budget strategy, the same post could, for example – based on the nature of work conducted by the incumbent – be financed from a combination of 70 per cent institutional budget and 30 per cent other resources.

57. With respect to positions at the D-1 and higher grades, table 7 presents regular resources-financed posts, by location, as well as proposed changes in posts and costs for 2014-2015. In a continuing effort to contain costs, and for the third successive biennium, UNDP proposes no increase from the 2012-2013 approved level. UNDP also proposes to retain the present financing approach for these regular resources-funded positions.

58. Thus, rather than a pre-set number of regular resources-funded positions, the integrated budget, 2014-2017, includes a proposed envelope of \$568.7 million in regular resources for 2014-2015 and \$519.9 million for 2016-2017 to finance the D-1 and higher grades, as well as, in combination with other resources, requisite institutional capacities at P-5 and lower grades that fulfil functions in support of the UNDP mandate. The amounts are calculated by applying the ratio of institutional budget resources allocated to the cost of positions in the most recent biennium, to the proposed 2014-2017 institutional component of the integrated budget (that is, 72 per cent times \$788.4 million for 2014-2015 and 72 per cent times \$722 million for 2016-2017) This represents a reduced financing envelope compared to the prior period (\$568.7m in 2014-2015 compared to \$672.5 million in 2012-2013).

Table 7. Regular resources senior posts, by location

	2012-2013 approved posts				Changes (increase/ decrease/reclassification ²)				2014-2015 proposed posts				
	ADM USG ASG	D2	D1	Total	ADM USG ASG	D2	D1	Total	ADM USG ASG	D2	D1	Total	
I. Management													
Country and regional offices	-	42	122	164			-3	-3	-	42	119	161	
Headquarters	10	18	36	64		-3	-6	-9	10	15	30	55	
subtotal	10	60	158	228	-	-3	-9	-12	10	57	149	216	
II. Development effectiveness													
Country and regional offices	-	2	3	5		1	5	6	-	3	8	11	
Headquarters	-	6	9	15		2	4	6	-	8	13	21	
subtotal	-	8	12	20	-	3	9	12	-	11	21	32	
III. United Nations development coordination													
Country and regional offices ¹													
United Nations Development Operations Coordination Office		1	1	2					-	1	1	2	
subtotal	-	1	1	2	-	-	-	-	-	1	1	2	
IV. Special Purpose													
United Nations Volunteers		1	3	4					-	1	3	4	
United Nations Capital Development Fund		1	3	4					-	1	3	4	
subtotal	-	2	6	8	-	-	-	-	-	2	6	8	
Grand total	10	71	177	258	-	-	-	-	10	71	177	258	

¹ All staff resources assigned to country offices shown under the "country and regional offices" categories under the cost classification "I. Management" and "II. Development effectiveness" categories

² In accordance with the harmonized cost classification of activities approved in Executive Board decision 2010/32.

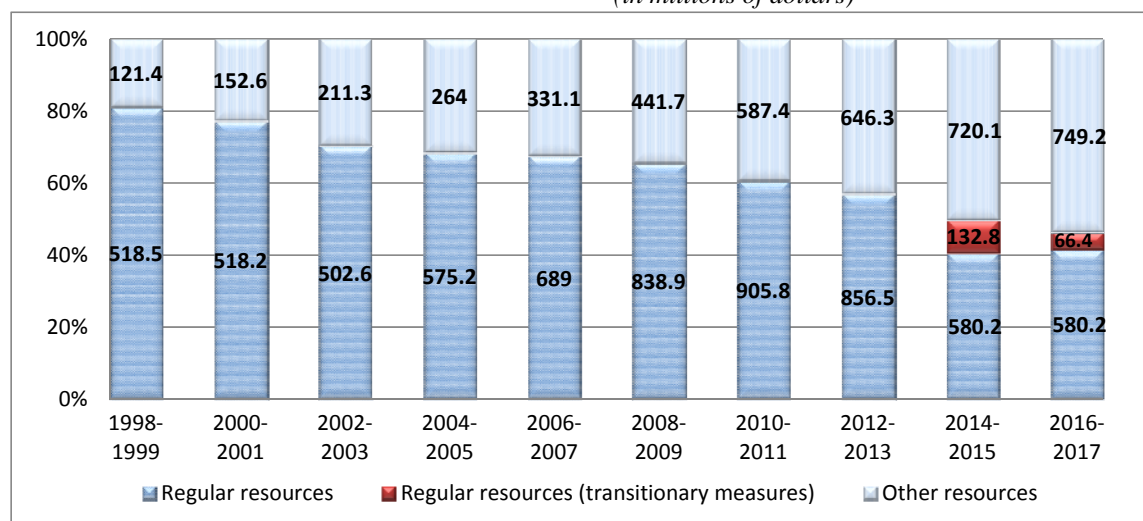
F. Implications of the harmonized cost recovery methodology

59. A number of legislative changes with respect to the cost recovery methodology were recently adopted by the Executive Board³: decision 2010/32 endorsed harmonized cost classification categories covering (a) development activities (both programme and development effectiveness activities); (b) United Nations development coordination activities; (c) management activities; and (d) special purpose activities. Subsequently, decisions 2012/27 and 2013/9 endorsed a harmonized methodology for calculating cost recovery rates, effective 2014. Key implications are outlined below, and the methodology is discussed in more detail in annex 2.

60. The share of cost recovery resources allocated to institutional activities in 2014-2017 has been increased. As shown in figure 3, more than 50 per cent of the institutional component of the integrated resources plan is financed from other resources. During 1998-1999, planned expenditures funded from other resources were estimated at \$121 million, or 19 per cent of total planned expenditures. During 2014-2015 these are expected to increase to \$720.1 million, or 50.3 per cent, and during 2016-2017, to \$749.2 million, or 53.7 per cent.

³ Executive Board decisions were made in the context of the 'joint road map to an integrated budget', an exercise spanning 2010-2013 and conducted jointly by UNDP, UNFPA, UN-Women, and UNICEF,

Figure 3. Funding modalities for institutional activities
planned regular resources and other resources-funded expenditure
(in millions of dollars)



61. Table 8, below, presents cost recovery income and expenditure related to general management services cost recovery on bilateral and multilateral resources, G M S cost recovery on local resources, and other cost recovery-related resources, in a format harmonized with UNICEF, UNFPA and UN-Women. Cost recovery income and utilization estimates are based on projected programme delivery.

Table 8. Cost recovery - estimated income and expenditure,
2012-2013 and 2014-2015
(in millions of dollars)

	2012 (actuals) + 2013 (estimates)				2014-2015 budget estimates			
	GMS - cost recovery on bilateral/multilateral partners resources	GMS - cost recovery on government cost-sharing	Other recovery related resources	Total resources	GMS - cost recovery on bilateral/multilateral partners resources	GMS - cost recovery on government cost-sharing	Other recovery related resources	Total resources
1. Estimated income								
Income, including reimbursements for services to other UN organizations, and cost recovery	363.4	65.0	172.3	600.7	440.1	60.6	169.8	670.5
2. Estimated expenditures								
<i>I. Development effectiveness activities</i>	92.7	14.0	12.4	119.1	97.7	10.1	14.1	121.9
<i>II. UN Development Coordination activities</i>	39.4	7.2	4.7	51.3	-	-	-	-
<i>III. Management activities</i>	263.5	47.6	60.2	371.3	375.0	47.4	60.7	483.1
IV. Special purpose activities								
IV.A - Capital investments				-	18.4	1.7		20.1
IV.B - Non-UNDP operations administered by UNDP			95.0	95.0			95.0	95.0
Total - IV. Special Purpose activities	-	-	95.0	95.0	18.4	1.7	95.0	115.1
Total 2. Estimated expenditures (I + II + III + IV)	395.6	68.8	172.3	636.7	491.1	59.2	169.8	720.1

GMS = general management services

Transitory funding for management activities

62. The proposed integrated budget includes provisions for transitory funding (illustrated in figure, 3 above). These regular resources funded-measures are required due to the transition time needed before the new cost recovery methodology is in full effect and cost recovery resources can be prioritized to finance management activities, particularly bearing in mind (a) the presence of legacy cost recovery rates; (b) cost recovery waivers reported to the Executive Board in the annual financial review; and (c) the need to continue to finance some development effectiveness activities – which in principle should be fully financed from programme resources – from cost recovery resources on a transitory basis. The need for such measures was highlighted in DP/FPA/2013/1, and illustrated during the discussions on cost recovery held at the first regular session 2013 of the Executive Board.

63. In light of the above, the integrated budget reflects a proposed provision for transitory funding of \$132.8 million for 2014-2015, relating to:

(a) Development effectiveness activities expected to require continued cost recovery funding. Cost recovery income that would otherwise have been available to cover management costs under the new cost recovery methodology will not yet be available and must instead, as a transitional measure, be funded from regular resources; and,

(b) Expected shortfalls in cost recovery income due to the presence of legacy cost recovery rates and cost recovery waivers reported in the annual financial review. Cost recovery income that would otherwise have been available to cover management costs under the new cost recovery methodology will not yet be available and must instead, as a transitional measure, be funded from regular resources.

64. The \$132.8 million in transitory funding for 2014-2015 is projected to decrease to \$66.4 million for 2016-2017. This is in line with the expectation that more development effectiveness costs can be funded directly from programme and projects, reducing the need for cost recovery resources – coupled with an expectation that legacy agreements expire and an increased share of the non-core resources portfolio is in line with the 8 per cent cost recovery rate. Both will result in increased allocations of cost recovery to management activities and a shift regular resources allocation from management to development activities.

65. The provision of \$66.4 million covering transitory measures for the 2016-2017 period will be reviewed at the second regular session 2015 of the Executive Board. UNDP will assess progress made in implementing the cost recovery rates endorsed in decision 2013/9, as well as approaches to financing finance development effectiveness activities. This will be factored in to the review of the cost recovery policy in 2016, in accordance with decision 2013/9.

G. United Nations development coordination activities

66. The integrated budget estimates reflect strong stewardship of United Nations development coordination functions. The strategic plan foresees a ‘step change’ in this area. As manager of the resident coordinator system, UNDP intends to focus on a strongly positioned development system in a changing world, reflecting United Nations values and responding to country demands in an effective, strategic manner. Attention will be paid to (a) deepening strategic responses by the United Nations development system at the global level; (b) sharpened country-level focus on delivery, development results, and development effectiveness rather than on internal management processes; (c) clarification of the UNDP role vis-à-vis its partner organizations; (d) greater engagement with partners at the country level; and (e) a strengthened role for the UNDG regional teams.

67. The UNDP approach to strengthening the resident coordinator system is aligned with relevant sections of resolution 67/226, particularly:

“122. *Stresses* that the resident coordinator system, while managed by UNDP, is owned by the United Nations development system as a whole and that its functioning should be participatory, collegial and mutually accountable within that system”; and “124. *Decides* to improve the effectiveness of the resident coordinator system, and in this regard requests the United Nations development system to:

- (a) Improve the way in which individuals are attracted, selected, trained, appraised and retained within the resident coordinator system (...).
- (b) Achieve diversification in the composition of the resident coordinator system in terms of geographical distribution and gender (...); and
- (h) Encourage the United Nations Development Programme to appoint country directors, where cost-effective (...).”

68. In April 2013, in response to resolution 67/226, the undg Principals Advisory Group reached a critical breakthrough agreement on a system-wide cost-sharing of the Resident Coordinator system based on a centralized, predictable funding modality to replace ad hoc arrangements and requests for funds. The agreement provides for core minimum coordination capacity to United Nations country teams based on a typology of countries, the regional undg teams and the Development Operations Coordination Office as the undg secretariat. At the country level, 10 functions were agreed to constitute the essential coordination activities performed by resident coordinators and country teams, which this funding supports, including: strategic positioning of the United Nations in the country, knowledge management and coordination, communication and advocacy, and monitoring and evaluation.

69. United Nations development coordination activities are thus proposed at a level of \$242.3 million for 2014-2015, reflecting an \$8 million increase over the 2012-2013 estimated level of \$234.3 million. The proposed level comprises the following:

- (a) \$185.3 million (contained in table 1b, integrated resources plan) consisting of \$176.3 million to finance the ‘backbone’ resident coordinator system structure at country, regional and global levels plus \$9 million representing the UNDP share of the supplemental costs of the system; and
- (b) \$57 million of supplemental costs of the system that will be cost-shared by other United Nations organizations participating in the cost sharing agreement. These funds will be contributed to and managed by UNDP; however, since they relate to other agencies’ contributions, they are not part of the harmonized resource planning tables (tables 1a, 1b, and the summary table).

70. The \$51.3 million figure representing financing for United Nations development coordination activities (table 1b, under cost recovery resources for 2012-2013) relates to allocation of staff time according to the country office work load survey reported in the United Nations development coordination category in 2012-2013. In that regard, and with the introduction of harmonized cost classification categories (decision 2010/32) and the harmonized cost recovery methodology and cost recovery rates (decisions 2012/27 and 2013/9), from 2014-2015 onwards these costs are more appropriately allocated to the underlying management and development effectiveness cost categories⁴. This reflects increased rigour in applying the cost classification system and the cost recovery methodology and harmonization with partner agencies, particularly where cost recovery resources are no longer to be allocated to United Nations development coordination activities. This does not represent a reduction in financing for the coordination function,

⁴ Of the \$51.3 million in estimated cost recovery expenditure shown in 2012-2013, \$2.8 million would be allocated to development effectiveness activities and the balance would be allocated to management activities, thus improving the allocation of cost recovery resources to help offset management costs.

but a change in planning, budgeting and accounting in light of decisions 2012/27 and 2013/9.

H. Special purpose activities

71. Special purpose activities, including non-UNDP operations administered by UNDP and capital investments, are proposed at \$323.2 million for 2014-2017, comprising \$92.3 million in regular resources and \$230.9 million in other resources. Non-UNDP operations administered by UNDP include UNV and UNCDF.

UNV

72. The UNV programme, established by the General Assembly to mobilize volunteers on behalf of the United Nations system, is administered by UNDP. During 2014-2017, UNV will expand volunteering opportunities for young people, as outlined in the 5-year action agenda of the Secretary-General. UNV will continue to diversify volunteer modalities, including those involving South-South cooperation, regional approaches, the diaspora, and private-sector volunteer opportunities.

73. UNDP considers UNV a good 'fit' with its upstream policy work, seeing it as a key resource for community-level presence, organization and action. It reinforces social cohesion through volunteers and voluntary work; develops volunteerism in local-level service delivery; includes aspects of South-South and triangular cooperation based on exchanges of skilled people to close critical gaps (in local governance institutions in post-disaster and post-conflict settings, for example); reaches out with online volunteerism; and creates volunteering opportunities for youth. Its strategic framework and results for 2014-2017 fit under the umbrella of the UNDP strategic plan.

UNCDF

74. UNCDF is a voluntarily funded organization established by the General Assembly and administered by UNDP. Its mandate is to promote economic development in least developed countries by providing seed capital and technical assistance to promote sustainable, inclusive growth.

75. Emphasis is placed on leveraging UNCDF programmatic contributions in the context of the UNDP strategic plan with respect to decentralized local development and micro-financing activities. For 2014-2017, UNDP will rely on the UNCDF financial mandate in areas of shared focus in least developed countries. The main opportunities fall into six clusters: analysis, using UNCDF diagnostic tools; local development initiatives; inclusive financial services; energy access for the poor; local-level responses to climate change; and delivery mechanisms for social protection schemes. The UNCDF strategic framework and results for 2014-2017 fit with the UNDP strategic plan.

76. UNDP proposes to provide development and institutional support to UNCDF during the 2014-2017 period. Pursuant to decision 2013/4, a line for UNCDF activities has been introduced in the development effectiveness category (see paragraphs 38-39).

Capital investments

77. UNDP's budget estimates for 2010-2011 (DP/2010/3) introduced capital budgeting on a limited scale. With its implementation of International Public Sector Accounting Standards in 2012, a broader application will ensure organizational capacity and plan and account for anticipated capital expenses over a four-year period. Two high-priority capital expense plans must be provisioned for: one for information and communications technology upgrades and optimizations, and another for leasehold improvements.

78. In line with harmonized cost classification definitions, \$59.2 million (comprised of \$18.3 million in regular resources and \$40.9 million in other resources) is reclassified from the management category to the special purpose category with respect to capital investments.

Summary table –Comparison of 2012-2013 resources plan with actuals/estimates
(in millions of dollars)

	2012-2013 (planned, from DP/2011/34)						2012 (actuals) plus 2013 (estimates)					
	Regular resources		Other resources			Total resources	Regular resources		Other resources			Total resources
	Regular resources	Regular (other income utilization) resources a/	Bilateral + multilateral partners resources	Government cost-sharing	Cost recovery		Regular resources	Regular (other income utilization) resources a/	Bilateral + multilateral partners resources	Government cost-sharing	Cost recovery	
1. Resources available												
Opening balance b/	263.0		2,171.0	728.3	-	3,162.3	333.2	-	2,969.2	948.7	-	4,251.1
Contributions	2,150.0		5,482.0	1,500.0	-	9,132.0	1,756.0		6,025.0	1,500.0	-	9,281.0
Other, including reimbursements for services to other UN organizations and cost recovery c/	(72.0)	75.4	99.7	22.2	468.0	593.3	-	75.4			600.7	676.1
Total 1. Resources available	2,341.0	75.4	7,752.7	2,250.5	468.0	12,887.6	2,089.2	75.4	8,994.2	2,448.7	600.7	14,208.2
2. Estimated expenditures												
I. Development activities												
I.A - Programme	1,141.4		7,494.4	1,391.5	-	10,027.3	987.8		6,353.4	1,877.6		9,218.8
I.B - Development effectiveness	192.2		11.0	-	103.6	306.8	171.9		9.0	-	119.1	300.0
<i>Subtotal - I. Development activities</i>	<i>1,333.6</i>		<i>7,505.4</i>	<i>1,391.5</i>	<i>103.6</i>	<i>10,334.1</i>	<i>1,159.7</i>		<i>6,362.4</i>	<i>1,877.6</i>	<i>119.1</i>	<i>9,518.8</i>
II. UN Development Coordination activities	171.5	0.3	30.0	-	61.6	263.4	157.8	0.3	24.9	-	51.3	234.3
III. Management activities												
III.A - recurring activities	529.9	68.4	-	-	407.7	1,006.0	479.4	68.4	-	-	371.3	919.1
III.B - non-recurring activities	10.0		-	-		10.0	10.0		-	-	-	10.0
<i>Subtotal III. Management activities</i>	<i>539.9</i>	<i>68.4</i>	<i>-</i>	<i>-</i>	<i>407.7</i>	<i>1,016.0</i>	<i>489.4</i>	<i>68.4</i>	<i>-</i>	<i>-</i>	<i>371.3</i>	<i>929.1</i>
Subtotal IV. Special purpose activities												
IV.A - Capital investments						-						-
IV.B - Non-UNDP operations administered by UNDP	35.6	6.7			73.4	115.7	32.2	6.7			95.0	133.9
<i>Subtotal - IV. Special purpose activities</i>	<i>35.6</i>	<i>6.7</i>	<i>-</i>	<i>-</i>	<i>73.4</i>	<i>115.7</i>	<i>32.2</i>	<i>6.7</i>	<i>-</i>	<i>-</i>	<i>95.0</i>	<i>133.9</i>
Total institutional components	856.5	75.4	-	-	646.3	1,578.2	776.4	75.4	-	-	636.7	1,488.5
Total programmatic components	1,224.1	-	7,535.4	1,391.5	-	10,151.0	1,062.7	-	6,387.3	1,877.6	-	9,327.6
Total 2. Estimated expenditures (I + II + III + IV)	2,080.6	75.4	7,535.4	1,391.5	646.3	11,729.2	1,839.1	75.4	6,387.3	1,877.6	636.7	10,816.1
3. Balance of resources	260.4	-	138.3	759.7	-	1,158.4	250.1	-	2,574.7	567.3	-	3,392.1

a/ Includes government contributions towards local office costs (GLOC), income the United Nations Volunteers programme derives from providing volunteers to the United Nations organizations, and an accounting linkage to off-set the costs of reimbursing income taxes paid by United Nations staff on their salaries.

b/ Opening balance for 2012/2013 actuals/estimates reflects actual amounts recorded in the UNDP 2010-2011 Financial Statements. Following the harmonized format for the integrated budget presentation, cost recovery balances are co-mingled with bilateral and multilateral resources and government cost sharing balances.

c/ Includes interest, miscellaneous income and adjustments related to foreign exchange gain/loss, opening reserve increases/ decreases, and miscellaneous expenditures.

Definitions

Appropriation: A specific amount approved by the Executive Board for the related period with respect to the institutional component of the integrated budget financed from regular resources.

Cost increase/decrease: Any increase or decrease in the cost of a resource input in a budget period compared with the previous budget period, arising from changes in costs, prices and exchange rates.

Cost, mandatory: Cost of a resource input, or any increase thereof during the budget period, mandated by specific decisions legislated by the United Nations General Assembly and/or the Executive Board.

Development activities: Activities associated with ‘programmes’ and ‘development effectiveness’ activities essential for achieving development results.

Development effectiveness activities: Activities of a policy-advisory, technical and implementation nature needed to achieve the objectives of programmes and projects in UNDP areas of focus. While essential to the delivery of development results, they are not included in specific programme components or projects in country, regional, or global programme documents.

Expenditures: Utilization of available financial resources, across harmonized cost classification categories.

Functional cluster: One or more discrete organizational units within a functional area that directly supports the management of the organization.

Institutional budget: The institutional component of the integrated budget covering activities over a period based on a set of defined results from the strategic plan.

Management activities: Activities whose primary function is the promotion of the identity, direction and well-being of an organization. These include executive direction, representation, external relations and partnerships, corporate communications, legal, oversight, audit, corporate evaluation, information technology, finance, administration, security and human resources.

Net budget: For voluntarily funded organizations, the budget that reflects estimates of expected income. This income offsets gross budget estimates.

Other resources: Resources of a voluntarily funded organization that are received for a specific programme purpose (‘other resources relating to programmes’) and for the provision of specific services to third parties (‘other resources relating to reimbursements’).

Other resources relating to programmes: Resources of a voluntarily funded organization received for a specific programme purpose consistent with the aims and activities of the organization. These include voluntary contributions, other governmental or intergovernmental payments, donations from non-governmental sources, miscellaneous income and related interest earnings.

Other resources relating to reimbursements: Resources of a voluntarily funded organization received from third parties to cover the cost of providing specific services not related to carrying out programmes entrusted to it for implementation.

Programmes: Activities traced to specific programme components or projects, which contribute to delivering development results contained in country, regional or global programme documents or other programming arrangements.

Programming arrangements: The legal framework containing the principles and parameters for the distribution of regular resources supporting development activities.

Regular resources: Resources of a voluntarily funded organization that are comingled and untied. These will include voluntary contributions, other governmental or intergovernmental payments, donations from non-governmental sources and related interest earnings and miscellaneous income.

Special purpose activities: Activities and associated costs of (a) capital investments; and (b) non-UNDP operations administered by UNDP.

United Nations development coordination activities: Activities and associated costs supporting the coordination of development activities of the United Nations system.

Volume increase/decrease: Any increase or decrease in resource requirements attributable to changes in the level or nature of activities carried out by an organization during the current budget period, and those proposed for the subsequent budget period. Volume is expressed using the same cost factors applicable to approved appropriations, to permit direct comparison.
