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Midterm review of the UNICEF integrated budget, 2014-2017

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered an advance version of the report on the midterm review of the integrated budget, 2014-2017 for the United Nations Children's Fund (UNICEF) (E/ICEF/2016/AB/L.2).[1] During its consideration of the report, the Committee met with the Deputy Executive Director for Management and other representatives of UNICEF, who provided additional information and clarification, concluding with written responses dated 24 May 2016.

2. In accordance with UNICEF financial regulations 9.5 and 9.10, the proposed institutional budget and amendments are transmitted to the Advisory Committee for examination and reporting to the Executive Board. In that regard, the Committee's comments and observations mainly relate to the institutional component of the integrated budget.

II. Midterm review of the UNICEF integrated budget, 2014-2017

Background and presentation

3. The Advisory Committee recalls that subsequent to the budget harmonization exercise undertaken by UNDP, UNFPA and UNICEF pursuant to related decisions made by the Executive Boards, UNICEF adopted the integrated budget for 2014-2017, which for the first time covers the same four-year period as its strategic plan; follows

* E/ICEF/2016/5/Rev.1.

[1] An updated version of the document was subsequently issued (E/ICEF/2016/AB/L.2/Rev.1).

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the results-based approach in the harmonized format with a harmonized cost classification framework;[2] and applies the harmonized cost recovery methodology (see para. 23). The Committee welcomed the progress achieved, including the improved alignment between resources and the strategic plan (E/ICEF/2013/AB/L.6, paras. 2-4 and 8-11).

4. The report on the midterm review of the UNICEF integrated budget, 2014-2017 (E/ICEF/2016/AB/L.2) provides updates to the integrated resource plan, the integrated results and resources framework, the institutional budget and the cost recovery (sects. II-V). The draft decision for consideration by the Executive Board is provided in paragraph 93 of the report. Upon enquiry, the Advisory Committee was informed that proposals related to the institutional budget are contained in paragraphs 3 (b), 3 (c), 8 and 9 of the draft decision relating to the midterm review of the integrated budget. **The Advisory Committee is of the view that the presentation of the draft decision on the integrated budget should be improved by clearly indicating those elements related to the institutional component in the draft decision.**

5. Concerning reporting on the implementation of the integrated budget, UNICEF indicates that given its reliance on voluntary contributions, it has established regular internal reporting processes that include continuous and rigorous review of the income and expenditure projections that form the basis of the integrated resource plan. UNICEF will continue to report to the Executive Board as follows (ibid., paras. 90-92):

(a) At its annual session, on the fulfilment of the results articulated in the Strategic Plan in the annual report of the Executive Director;[3]

(b) At its annual second regular session, on actual financial performance in the annual revision of the UNICEF Strategic Plan: updated financial estimates;

(c) Since 2012, summary financial reporting, which is based on the statement of comparison of budget and actual amounts and in compliance with International Public Sector Accounting Standards, has also been included in the UNICEF financial statements.

Change from the biennial to the quadrennial budget and lessons learned

6. Upon enquiry, the Advisory Committee was informed that the move from the biennial to the quadrennial integrated budget was driven by requests from the Executive Boards of UNDP, UNFPA and UNICEF, with a view to aligning and strengthening the linkage between the results contained in the medium-term Strategic Plan (four-years) and related resources (the integrated budget), and that the overall experience of this move had been positive. According to UNICEF, the quadrennial integrated budget is helpful in planning activities which cover the matching duration

[2] The harmonized cost classification includes (a) development (programmes and development effectiveness); (b) United Nations development coordination; (c) management (recurring and non-recurring); and (d) special purpose (capital investments, private sector fundraising and other) (see also E/ICEF/2016/AB/L.2, tables 1 and 2).

[3] To be submitted to the forthcoming session of the Executive Board are documents E/ICEF/2016/6 and Add.1 and 2, covering reports related to the midterm review of the Strategic Plan, the implementation of the quadrennial comprehensive policy review and the revised results framework of the Strategic Plan.

of the Strategic Plan and is more in line with support to the Sustainable Development Goals set out in the 2030 Agenda for Sustainable Development (see para. 28). It also provides more flexibility to reallocate resources across the years to match with progress in the implementation of activities and the delivery of results. Furthermore, the Committee was informed that, as the approved integrated budget for 2014-2017 was based on assumptions associated with anticipated revenue and expenditure over a longer period of time (four years compared with the previous two years), it required closer monitoring and validation of the underlying assumptions and subsequent revisions to estimates made earlier.

7. It was indicated to the Advisory Committee that, given that this was the first presentation of a midterm review of the integrated budget, feedback received from the Advisory Committee as well as from the Executive Board would serve as inputs in the presentation of subsequent midterm reviews of the integrated budget**. The Advisory Committee is of the view that the secretariat of UNICEF, in consultation with those of UNDP and UNFPA, should conduct a lessons-learned exercise on the implementation of the first harmonized quadrennial integrated budget, and report to their respective Executive Boards in the context of the submission of the next strategic plan and integrated budget.**

Information on expenditures by category

8. Upon request, the Advisory Committee received information on the expenditures by category of the institutional budget for 2014-2015. The Committee notes from the information that expenditures for 2014-2015 under travel and operating expenses were 54 per cent of the total amounts approved for the 2014-2017 period. Upon enquiry, the Committee was informed that the expenditure levels reflected the mix and volume of inputs for 2014-2015 to deliver results while remaining within the overall approved budget. The variance of expenses was a combination of addressing unexpected factors, such as emergencies, and, in some cases, revised inputs to achieve planned results compared with the initial plan.

9. **While recognizing that UNICEF has incorporated the results-based budgeting approach in its integrated budget as approved by the Executive Board, the Advisory Committee, nonetheless, reiterates its request that UNICEF provide to the Committee information on major items of expenditure under post and non-post resources, as supplementary information, to facilitate its future consideration and better analysis of the institutional component of the integrated budget (E/ICEF/2013/AB/L.6, para. 4). The Committee is of the view that the supplementary information should include a comparison of expenditures against planning estimates and an analysis of variances.**

Revised integrated resource plan

10. UNICEF has revised its integrated resource plan for 2014-2017, taking into account actual revenue and expenditures for 2014, provisional estimates for 2015 and revised estimates for 2016-2017. Table 1 (integrated resource plan, 2014-2017) provides information on the use of resources by cost classification category, while table 2 (integrated results and resources framework, 2014-2017) identifies how total resources available to the organization were initially planned and subsequently revised for each of the outcomes and results.

11. Within the framework of the revised resource plan and taking into account the projected increase in total revenue of 15 per cent (from $16.3 billion to $18.8 billion), UNICEF proposes increasing the planned expenditure for programmes by 15 per cent from $14.8 billion to $17.1 billion, while maintaining the institutional budget at the initially approved level of $2,094.5 million for 2014-2017 (see paras. 16-22 below). Consequently, the proportion of total resources used for programmes will increase from 84.5 per cent to 86.0 per cent (ibid., summary and paras. 6-9).

12. Compared with the projected total resources available in the originally approved plan ($18.6 billion, comprising $6.2 billion in regular resources (RR) and $12.4 billion in other resources (OR)), the revised plan for 2014-2017 projects total available resources of $21.1 billion ($5.6 billion in RR and $15.5 billion in OR). UNICEF indicates that the 13 per cent growth ($2.5 billion) in total available resources reflects a decrease of 10 per cent ($0.6 billion) in RR, offset by an increase of 25 per cent in OR ($3.1 billion) (ibid., para. 11).

13. In this connection, the Advisory Committee was informed upon enquiry that the Secretary General's reports on the implementation of the quadrennial comprehensive policy review (QCPR) continued to emphasize the growing imbalance between core and non-core resources as a risk for operational activities for development of the United Nations system. In response to this risk, UNICEF was undertaking specific measures as follows: (a) the report on the midterm review of the Strategic Plan (E/ICEF/2016/6) would be used as an advocacy tool for partnership development and resource mobilization; (b) UNICEF continued to engage in a dialogue with other United Nations agencies and Board members on "critical mass", a concept that aimed to highlight the need for a minimum level of core resources to permit agencies to function effectively; (c) UNICEF was also investing in systems to further strengthen currency management and reduce the negative impact of exchange rate fluctuations (see para. 15); and (d) UNICEF would continue to introduce further efficiencies to allow a greater proportion of regular resources allocation towards programmes and to strengthen managing for results to demonstrate its cost effectiveness.

14. **The Advisory Committee commends UNICEF for increasing the proportion of its total resources for programmes. Noting the growth in the overall level of resources with decreases in regular resources and increases in other resources, the Committee encourages UNICEF to continue its efforts to secure regular resource funding.**

15. Concerning the impact of exchange rates on the resources, UNICEF indicates that volatility in the currency markets has impacted on the level of resources recorded in the past two years. The strengthening United States (US) dollar has negatively impacted the absolute levels of revenue recorded on non-US-dollar-based contributions. In 2015, due to the stronger US dollar, the impact on private-sector contributions was approximately 15 per cent less US dollar revenue recorded (E/ICEF/2016/AB/L.2, para. 12). Upon enquiry, the Advisory Committee was informed that the initial four-year budget was based on the May 2013 exchange rate and that the average 2015 exchange rate had been used in the midterm review for recosting for 2016-2017. The Committee was also informed that total foreign exchange loss of $84.2 million was recorded in 2015, compared with the loss of $138.5 million recorded for 2014.

III. Institutional budget for 2014-2017[4]

16. UNICEF proposes to maintain the institutional budget at the initially approved level of $2,094.5 million for 2014-2017, with $1,039.3 million funding from regular resources, $938.8 million from cost recovery, as well as $116.4 million from other resources, subject to the receipt of contributions under other resources (ibid., paras. 20 and 93). Compared with the initially approved plan, the proportion of the total resources utilized for the institutional budget would decrease from 11.9 per cent to 10.5 per cent in the revised integrated resource plan for 2014-2017 (ibid., summary).

17. With respect to post changes, it is indicated that the total number of posts funded in the institutional budget has increased by 187 since 2014, from 2,792 to 2,979 posts, as a result of emerging priorities in UNICEF operations and in response to increasing humanitarian crises and emergencies. Furthermore, UNICEF is requesting that the Executive Board grant authority to the Executive Director for the establishment of 10 additional senior-level positions, to be funded from within the approved institutional budget for 2014-2017 (ibid., paras. 83 and 93). Upon request, the Advisory Committee was provided information relating to the gender and geographic distribution of UNICEF international professional staff in 2015 (see annex).

Proposed reserve of 10 Director-level posts

18. It is indicated that the flexibility to establish 10 additional posts at the Director ("D") level is sought by UNICEF in order to provide the Executive Director with the means to swiftly address the organization's emerging business needs in two areas: (a) the ability to respond to changing circumstances in programme countries by allowing for the upgrade of Representative posts when the increasing complexity of the portfolio warrants (such as in complex emergency situations); and (b) the ability to create a cadre of highly technical D-level posts in UNICEF core business areas, such as health, education, WASH and child protection, in order to attract and retain senior-level expertise for these critical functional areas (ibid., para. 84).

19. Upon enquiry, the Advisory Committee was informed that the flexibility requested would allow UNICEF to have a reserve of senior-level posts to be available in a timely and efficient manner where and when needed in its dynamic operations, and that the need for this flexibility was immediate and could not be delayed until the submission of the 2018-2021 integrated budget. Upon request, the Committee was provided with information on the evolution of senior positions and ratios of senior-level posts to the total posts of UNICEF over the past decade (see table 1).

[4] The institutional budget comprises development effectiveness, United Nations development coordination, management and capital investments (see cost classification in para. 3 and footnote 2).

Table 1

Budget Period	*USG/ASG*	*D2/D1*	*Total number of senior posts*	*Ratio of senior posts to total posts funded under the institutional budget*
2006-2007	4	103	107	1.3%
2008-2009	4	112	116	1.3%
2010-2011	4	112	116	1.1%
2012-2013	4	108	112	1.0%
2014-2017	5	101	106	0.9%
Requested	5	111	116	1.0%

20. The Advisory Committee notes from table 1 that the ratio of UNICEF senior posts to total posts funded under the institutional budget has decreased from 1.3 per cent for 2006-2007 to 0.9 per cent for 2014-2017, while the request for the 10 senior-level posts would increase the ratio to 1 per cent. Moreover, UNICEF has reported that it continued to expand its efforts in humanitarian situations in 2015, responding to an unprecedented number of such situations, in conjunction with partners. These included protracted conflicts in the Central African Republic, Iraq, South Sudan, the Syrian Arab Republic and Yemen; health emergencies in West Africa and Latin America; earthquakes in Nepal; typhoons in the Pacific; droughts in the Sahel, East Africa and the Americas, exacerbated by El Niño; and the refugee crisis in Europe (E/ICEF/2016/6, para. 11). **Taking into account UNICEF operational requirements and the need for flexibility, in particular those related to the recent unprecedented number of humanitarian situations that UNICEF has responded to, the Advisory Committee recommends that the Executive Board grant the authority to the Executive Director for the proposed reserve of 10 Director-level positions as a pilot exercise for the remainder of the 2014-2017 budget cycle. The Committee is of the view that, if granted such an authority for a pilot exercise by the Executive Board, the Executive Director should report to the Board concerning the experience gained from the exercise and make a request for such an authority beyond 2017, if needed, in the context of the submission of the UNICEF integrated budget for 2018-2021.**

Potential review of the funding model

21. As indicated in paragraph 11, the programme expenditure will be increased by 15 per cent, while the institutional budget will be maintained at the same level in the revised integrated budget for 2014-2017. UNICEF indicates that there is a recognition that the current institutional budget funding model needs to be revisited, since it does not allow UNICEF to expand its corporate support structure capacity to strengthen oversight, risk management and technical guidance to adequately accompany the growth in programme delivery (ibid., paras. 81 and 82). UNICEF further indicates that, in preparation for the Strategic Plan, 2018-2021 and integrated budget, it will review the current funding model of the institutional budget and build on the experience of UNDP, UNFPA and WFP, including looking at ways to further enhance results-based budgeting.

22. Upon enquiry, the Advisory Committee was informed that the delivery of results with the significant increase of resources in the programme and management of related risks would require UNICEF to have the flexibility to adjust capacities in

UNICEF country and regional offices and at headquarters. However, UNICEF was not able to flexibly increase institutional capacity, as the institutional budget that funded such capacities was capped at the consolidated level funded from regular resources and cost recovery. In addition, the Committee was informed that a joint external and independent assessment of the current cost-recovery methodology would also inform the development (including funding) of the 2018-2021 integrated budget (see para. 26).

IV. Cost recovery

23. The integrated budget for 2014-2017 was prepared using the cost-recovery methodology and rates approved in Executive Board decision 2013/5,[5] which aimed to improve the proportional use of regular resources and other resources to fund management activities and related costs (E/ICEF/2016/AB/L.2, para. 85). The Advisory Committee recalls that it welcomed the positive trend by which an increasing percentage of the institutional budget was being funded from cost recovery, freeing more resources for allocation to programme activities (E/ICEF/2013/AB/L.6, para. 17).

24. Of the $2,094.5 million institutional budget for 2014-2017, $938.8 million from cost recovery from OR is proposed (see also para. 16). It is indicated that, compared with the approved budget for 2014-2017, the proportion of management activities funded from cost recovery will increase from 54.8 per cent to 63 per cent in the revised budget.

25. Table 3 in the report on the midterm review of the integrated budget provides information on the approved and actual proportional use of regular resources and other resources to fund the institutional budget for 2014-2015, as well as the cost-recovery rates (E/ICEF/2016/AB/L.2, paras. 86 and 87). As shown in table 3, the effective cost-recovery rate of 6.4 per cent for 2014-2015 is lower than the projected rate of 7.6 per cent for 2014-2017. UNICEF indicates that this is expected, given: (a) the Executive Board approval of differentiated cost-recovery rates, including for thematic and private sector contributions; and (b) the fact that a higher proportion of expenditure in 2014-2015 was against contributions received and agreements signed prior to the introduction of the new cost-recovery rates (ibid., paras. 85-87).

26. UNICEF further indicates that an independent and external assessment on the consistency and alignment of the cost-recovery methodology, as requested in Executive Board decision 2013/5, will provide further information on the application of the cost-recovery methodology and rates. A joint report will be presented at the 2016 second regular session of the Executive Boards of UNDP, UNICEF, UNFPA and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women).

[5] The Executive Board endorsed, inter alia, harmonized cost-recovery rates including (a) a general rate of 8 per cent for non-core contributions, as of 1 January 2014, that would be reviewed in 2016; (b) a harmonized 1-per-cent reduction for the thematic contributions; and (c) maintaining the existing preferential rates for government cost-sharing, South-South contributions and private-sector contributions.

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

V. Other matters

2030 Agenda

28. The Advisory Committee was informed upon enquiry that UNICEF had identified from the 2030 Agenda additional work it needed to carry out, including that related to climate change, urbanization, early childhood development, adolescence and migrant and refugee children. The midterm review of the Strategic Plan and the integrated budget had provided an opportunity for UNICEF to reprioritize some activities and funds within the existing approved budget levels in order to support the work related to the 2030 Agenda. The Committee was further informed that the implications of the 2030 Agenda were discussed in detail in the report on the midterm review of the Strategic Plan, 2014-2017 (E/ICEF/2016/6), and that further work would be elaborated as part of the next strategic plan and integrated budget.

29. The Advisory Committee recalls that in its latest report on the 2030 Agenda and the Addis Ababa Action Agenda (A/70/883), it recommended that the General Assembly request the Secretary-General to submit, no later than at the main part of the seventy-first session, a comprehensive proposal that addressed the effective and efficient delivery of mandates in support of the two Agendas, together with a request for appropriation. **In this regard, the Advisory Committee trusts that UNICEF will work with other United Nations system entities to ensure an integrated approach to the implementation of the 2030 Agenda and the Addis Ababa Action Agenda.**

Fundraising activities of UNICEF National Committees

30. It is indicated that budgetary provisions for private sector fundraising (PSFR) under special purpose activities comprise the direct costs and investment costs supporting the fundraising and marketing activities of the National Committees for UNICEF and UNICEF country offices (E/ICEF/2016/AB/L.2, paras. 21 and 22). The appropriation for these resource requirements is presented for approval by the Executive Board on an annual basis, in conjunction with the Private Fundraising and Partnerships workplan and budget. In response to a 2013 external audit recommendation to "consider presenting and reporting the budget for the PSFR activities of its country offices in an integrated manner", a provision of $86 million funded from OR is included in the revised integrated resource plan for 2016 and 2017, of which a provision of $43 million for 2016 is included as part of its annual budget submission to the Executive Board in document E/ICEF/2016/AB/L.1.

31. Upon enquiry, the Advisory Committee was informed that in the 2015 unaudited financial statements (to be published in September 2016), UNICEF had recognized voluntary contributions of $1,123 million as the resources mobilized by the National Committees for UNICEF. In addition, the National Committees retained 23 per cent ($333.64 million) of the resources mobilized, which was below the recommended 25 per cent target, as the income recognized in their respective financial statements in line with the joint strategic plans in place. A breakdown of the contributions from the National Committees by country is contained in the UNICEF 2015 Annual Report.

Global Shared Services Centre

32. UNICEF reports that in the past two years, substantive changes have been made in areas such as realigning headquarters functions, confirming responsibilities of field offices, strengthening regional office capacities, simplifying work processes and establishing the Global Shared Services Centre. Upon enquiry, the Advisory Committee was informed that leveraging from its enterprise resource planning system and other technologies, UNICEF has established a Global Shared Services Centre in Budapest, Hungary. Operational since the third quarter of 2015, the centre has gradually started to take over transactional and support functions in the areas of finance and human resources and the information and communications technology Global Help Desk. **The Advisory Committee notes the establishment of the UNICEF Global Shared Services Centre and looks forward to receiving information on progress at the Centre, including a cost and benefit analysis, in the context of the submission of the next integrated budget.**

Vehicle ratios

33. The Advisory Committee enquired about the standard ratios for vehicle holding at UNICEF offices and the related policy. The Committee was informed that Regional Directors and Country Representatives, or the designated officers in charge, were the only staff members to whom a vehicle could be individually assigned for official purposes. Other than this, UNICEF did not have a recommended vehicle-to-staff ratio. In country offices, vehicles were purchased primarily to support programme activities and the number of vehicles was dependent on the nature of the country programme. The Committee was also informed that title of vehicles purchased was normally transferred to implementing partners and that title was retained in the name of UNICEF only under exceptional circumstances where implementing partners did not have the capacity to safeguard and maintain these assets. **The Advisory Committee encourages UNICEF to consider formulating a vehicle holding ratio policy that will cover all staff in the field to the extent applicable.**

VI. Recommendation

34. The proposals with respect to the institutional component of the revised integrated budget for 2014-2017 are set out in paragraphs 3 (b), 3 (c), 8 and 9 of the draft decision contained in the report on the midterm review of the integrated budget, 2014-2017 (E/ICEF/2016/AB/L.2 and Rev.1). **Subject to its comments and recommendations above, the Advisory Committee recommends that the Executive Board approve the institutional component of the revised integrated budget for 2014-2017 for UNICEF.**

Annex

Gender and regional distribution of international professional staff in 2015

Regional		*2015*	
Staffing distribution	*Gender*	*Number of staff*	*%*
CEE/CIS	Female	40	56%
2%	Male	31	44%
EAPR	Female	115	50%
8%	Male	114	50%
ESAR	Female	263	45%
19%	Male	316	55%
LACR	Female	62	53%
4%	Male	54	47%
MENA	Female	122	41%
10%	Male	175	59%
ROSA	Female	112	52%
7%	Male	104	48%
WCAR	Female	246	42%
19%	Male	340	58%
Other HQ	Female	188	57%
11%	Male	145	44%
NYHQ	Female	329	55%
20%	Male	273	45%
Total	**Female**	**1 477**	**49%**
	Male	**1 552**	**51%**
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