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**UNFPA – Financial, budgetary and administrative matters**

**UNITED NATIONS POPULATION FUND**

**UNFPA integrated budget, 2018-2021**

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

*Summary*

The present report of the Advisory Committee on Administrative and Budgetary Questions on the proposed integrated budget of UNFPA for 2018-2021 was presented to the Acting Executive Director of UNFPA on 9 August 2017.

## I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Executive Director of the United Nations Population Fund (UNFPA) on the proposed integrated budget for 2018-2021 (DP/FPA/2017/10). During its consideration of the report, the Advisory Committee met with the Acting Executive Director and other representatives, who provided additional information and clarifications.

## II. Proposed integrated budget for 2018-2021

2. As stated in the report of the Executive Director, the proposed UNFPA integrated budget for 2018-2021 presents the resources that will contribute to the achievement of the UNFPA integrated results and resources framework. For 2018-2021, UNFPA proposes total contributions estimated at \$3,400 million compared with \$3,963.6 million for 2014-2017. Total resources available during the 2018-2021 amount to \$3,812.8 million, a decrease of \$474.2 million or 11 per cent, compared to the previous cycle. The total institutional budget component of the integrated budget is proposed at \$722.4 million, which represents an increase of \$86.3 million or 13.6 per cent, when compared to the previous period.

### *Integrated resource plan 2018-2021*

3. The proposed integrated budget provides the resources for the development outcomes and organizational effectiveness and efficiency outputs for 2018-2021, including regular and other resources. The integrated budget resource projections cover the four-year period of the strategic plan, 2018-2021.

4. According to the integrated resource plan summarized in table 1 of the report, the total projected resources (regular resources and other resources) for 2018-2021, which include opening balances of \$416.5 million, amount to \$3,812.8 million, reflecting a decrease of \$474.2 million or 11 per cent, compared with the total planned resources of \$4,287.0 million for 2014-2017. For 2018-2021, total regular resources are projected at \$1,396.4 million, reflecting a decrease of \$183.1 million, or 11.5 per cent, compared with \$1,579.5 million for 2014-2017. Other resources are projected at \$2,416.4 million, reflecting a decrease of \$291.1 million, or 10.7 per cent, compared with \$2,707.5 million in 2014-2017.

5. Income from regular resources is estimated at \$1,420.1 million for 2018-2021, reflecting a decrease of \$174.6 million or 11 per cent, compared with \$1,594.7 million for 2014-2017. Income from other resources is estimated at \$2,000 million, reflecting a decrease of \$385.6 million, or 16.2 per cent, compared with \$2,385.6 million for 2014-2017. Based on trends in income during the 2014-2017 period and donor indications for the forthcoming period, UNFPA forecasts a total of \$3,400 million in contributions for 2018-2021, a reduction of 14.2 per cent compared to 2014-2017. The contributions comprise \$1,400 million in regular resources and \$2,000 million in other resources.

6. As regards the use of resources, the total resources projected for 2018-2021 is \$3,586.4 million, of which \$3,005 million will be used for development activities, \$9.4 million will be used for development coordination and \$538.0 million will be used for management activities. The institutional budget, comprising development effectiveness, United Nations development coordination, special purpose, and management activities, is proposed at \$722.4 million. The Advisory Committee notes that UNFPA projects that it will allocate 83.8 per cent of its available resources to development activities in 2018-2021, compared to 87.1 per cent in 2014-2017.

7. The report of the Executive Director reflects that, over the past five years, UNFPA received a higher proportion of its income as other resources contributions. However, the report also indicates that the actual contributions versus the UNFPA resource mobilization targets for the strategic plan (2014-2017) were subject to vulnerabilities, including the overall reduction of official development assistance and exchange rate fluctuations. The Committee was also informed that one of the main factors for the decline is an unprecedented reduction in regular

resources funding from key donors, in particular defunding from one key donor, which resulted in the loss of \$31 million in regular resources and \$38 million in other resources in 2017 compared to 2016. The Committee was further informed that these cuts are expected to result in a \$40 million humanitarian funding shortfall in 2017.

8. Upon enquiry, the Committee was informed that as a result of recent resource mobilization efforts, UNFPA received additional pledges of \$15 million in regular resources funding in an effort to make up the funding gap. The Committee was informed, upon enquiry, that UNFPA still has a \$23 million regular resources funding gap for 2017. The Committee was further informed that without bridging this gap in the current and forthcoming periods, UNFPA will have to initiate additional austerity measures, beyond those already taken in 2016-2017, further scaling back programmes and compromising its mandate and capacity to deliver. **The Advisory Committee expresses its concern over the decrease in regular funding and expects any additional resources mobilized will be prioritized for programmes.**

9. As stated in paragraphs 2 and 4 above, total resources available during 2018-2021 will be \$3,812.8 million, a decrease of \$474.2 million or 11 per cent, when compared to the previous cycle. Upon enquiry, the Advisory Committee was informed that the overall planned decrease in total resources of \$474.2 million during 2018-2021 is based on realistic assumptions, given the vulnerabilities and income reductions experienced in the 2014-2017 cycle.

10. In addition, the Advisory Committee notes that the report of the Executive Director presents two different amounts for the institutional budget for 2014-2017: table 1 of document DP/FPA/2017/10 presents a figure of \$636.1 million, and summary table 2 in annex 1 of the integrated budget, 2018-2021, presents an amount of \$609.9 million. Upon enquiry, the Advisory Committee was informed that the \$636.1 million presented in table 1 presents the restated 2014-2017 budget, which was included in the UNFPA midterm review of the integrated budget (DP/FPA/2016/3), and that this amount now constitutes the basis for comparison with the 2018-2021 integrated budget proposal. The Committee also noted the discrepancies in the amounts presented in the summary table 2 and annex 3 of the integrated budget for 2018-2021, which the report indicates are due to rounding. **The Committee recommends UNFPA utilize one amount for its institutional budget, after the midterm review, as the basis for comparing actual expenditure and the proposed institutional budget for future periods. The Committee also trusts that UNFPA will more accurately present related budget amounts in its future reports.**

### III. Institutional portion of the integrated budget for 2018-2021

11. The institutional portion of the integrated budget amounts to \$722.4 million during 2018-2021, compared to \$636.1 million in 2014-2017, comprising 20.1 per cent of the total use of resources in 2018-2021, compared to 16.2 per cent in 2014-2017. The increase of \$86.3 million or 13.6 per cent, over 2014-2017 levels, is primarily due to three factors: (a) the transfer of \$39.9 million previously in global and regional interventions (GRI); (b) the proposed information and communication technology (ICT) transformation project, estimated at \$24.2 million; and (c) the inclusion of the premises capital plan of \$14.1 million (DP/FPA/2017/10, para 42 and table 5).

12. The Advisory Committee noted the lack of clarity on the large gap between the current budget for 2014-2017 with the proposed institutional budget for 2018-2021. Upon enquiry, the Advisory Committee was informed that the large difference between the proposed institutional budget for 2018-2021 (\$722.4 million) and actual expenses for the current budget 2014-2017 (\$573.3 million) are not directly comparable because estimated implementation for the current period only takes into account one year of the changed budget that was approved in the midterm review. UNFPA further informed the Committee upon enquiry that comparisons are made on a budget-to-budget basis, not to expenditure.

13. The Committee was also informed that cost increases are the result of increases in staff entitlements, inflation, exchange rate fluctuations and other price increases known at the time of the preparation of the budget, and reflect an 8.3 per cent cost increase for the four-year

period, amounting to an average 2.1 per cent per year. The Committee was further informed that for 2018-2021, UNFPA has charged all posts 2 per cent of salary and post adjustment multipliers for learning activities, in line with industry standards, resulting in an increased proposed allocation for Other Personnel Costs.

#### Staff changes

14. The institutional portion of the integrated budget is proposed to finance 1,088.5 posts during 2018-2021, of which 763 will be based in the field and 325.5 will be based at headquarters, compared to 1,051.0 in 2014-2017. The report of the Executive Director proposes a net additional 37.5 posts, 4 in the field and 33.5 at headquarters, and reflects a summary of these proposed changes in table 1 below (table 6, DP/FPA/2017/10).

**Table 1. Summary of post changes**

	2014-2017 approved posts							Changes: increase and (decrease)						2018-2021 proposed posts						
	USG/ASG	D2	D1	Other IP	All other	Total	% of total	USG/ASG	D2	D1	Other IP	All other	Total	USG/ASG	D2	D1	Other IP	All other	Total	% of total
Field		6.0	43.0	171.0	539.0	759.0	72.2%			1.0	6.0	(3.0)	4.0		6.0	44.0	177.0	536.0	763.0	70.1%
Headquarters	3.0	7.0	25.0	156.0	101.0	292.0	27.8%			2.0	25.5	6.0	33.5	3.0	7.0	27.0	181.5	107.0	325.5	29.9%
Total	3.0	13.0	68.0	327.0	640.0	1,051.0	100.0%			3.0	31.5	3.0	37.5	3.0	13.0	71.0	358.5	643.0	1,088.5	100.0%

Note: IP= international professional

15. According to paragraphs 104 (a) and (b) of the report, the bulk of the proposed increases are due to the proposed reclassification of costs from global and regional interventions, and the associated transfer of posts into the institutional budget – a net gain of 41 posts as follows:

- 9 additional posts in the field (7 ‘other international professional’ and 2 ‘all other’ posts);
- 32 additional posts at headquarters, including liaison offices (3 D1 posts; 23 ‘other international professional’ and 6 ‘all other’ posts).

16. Upon enquiry, the Advisory Committee was provided with further information with regard to the location of posts.

**Table 2. Post changes and transfers**

Justification	Headquarters	Field	Total
GRI reclassification of costs	32.0	9.0	41.0
Strengthened corporate evaluation	0.5	–	0.5
Strengthened advocacy, branding, communications and resource mobilization	1.0	–	1.0
Realignment of positions	–	(5.0)	(5.0)
Total	33.5	4.0	37.5

Note: GRI = Global and Regional Interventions

17. The Committee was informed that of the 32 posts in headquarters as a result of the GRI reclassification of costs, 19 relate to the Division of Communications and Strategic Partnerships (DCS), of which 12, including 3 D1-level posts are in the liaison offices. The Committee was further informed that 15 posts are proposed to be transferred in the Programme Division (PD) to better consolidate the development effectiveness functions of that division, and four posts are transferred out of the institutional budget (3 in DGM and 1 in OED) as their work is more focused on the substantive development results areas, partially offset by the transfer of two posts (one each in DMS and MIS).

18. Upon enquiry, the Advisory Committee was informed that the proposed transfer of global and regional interventions posts, currently classified under programme costs, are proposed to move to the institutional budget for 2018-2021, with an overall integrated-budget neutral effect. The Committee was further informed that this proposed change was not related to further centralization, but reflects a reclassification of costs, from ‘programme’ costs into

‘management’ and ‘development effectiveness’ costs. The Committee recalls the total proposed budget increase of \$39.9 million for the global and regional interventions reclassification of costs for 2018-2021, when total resources available and regular funding will be decreasing during the same period. The Committee also notes the increasing number of senior posts at the D1 level and high number of D1/D2 posts relative to the number of international professionals. **The Advisory Committee expresses its concern regarding the proposed increase in the number of posts in the institutional budget for 2018-2021, and encourages UNFPA to further review the overall effectiveness of this proposed staffing change, given the potential cost implications of the post transfers and the currently projected limited income to fund such a change.**

*Non-staff*

19. Upon enquiry, the Advisory Committee was provided with information as of May 2017, reflecting that UNFPA has 1,061 Service Contracts and 160 UN Volunteers, as shown below.

**Table 3. UNFPA non-staff data 2015-2017**

Category	2015		2016		2017	
	Positions	Headcount	Positions	Headcount	Positions	Headcount
Service contracts	1171	930	1068	876	1061	798
UNVs	98	58	92	51	160	88

20. The Committee noted the overall 5.3 per cent increase in the total number of non-staff positions in 2017, when compared to 2016, mainly from the 74 per cent increase in UN Volunteer positions in 2017. Despite the 8.8 per cent reduction in service contract positions in 2016, when compared to 2015, the Committee noted the very minor decrease in such contracts in the 2017 period. The Advisory Committee recalls the recommendations from the Joint Inspection Unit report on the Use of Non-Staff Personnel and Related Contractual Modalities in the United Nations Systems Organizations (JIU/REP/2014/8), which included a recommendation to the executive heads of United Nations system organizations to review the use of non-staff personnel with a view to identifying long-serving non-staff personnel under a de facto employment relationship and establish a plan to terminate the inappropriate prolonged use of non-staff personnel. The Committee expresses its concern that the current total amount of UNFPA non-staff contracts exceeds the amount of posts proposed for the 2018-2021 period. **The Advisory Committee takes note of the limited reductions to non-staff in 2015-2017 and encourages UNFPA to reduce its reliance on non-staff to conduct headquarters and field-based activities.**

*ICT transformation project*

21. According to table 5 of the report, \$24.2 million is proposed for the ICT transformation project, representing a 3.8 per cent increase in resources required from the 2014-2017 period. The report indicates that investment in an enterprise resource planning system is required during 2018-2021 as the current system is an outdated and at-risk enterprise resource planning system that is utilized to support key business operations. The report also indicates that a variety of options for a new system will be assessed, emphasizing the best value for money, including options to utilize other United Nations organization systems, services and solutions where feasible. The ICT transformation process is expected to lower direct ongoing costs for enterprise applications on a steady-state basis, strengthen the internal control framework and reduce the risk of fraud.

22. Upon enquiry, the Advisory Committee was informed of the key components of the proposed ICT transformation project, a large part of which consists of an ERP upgrade project, which is proposed to cost \$14.2 million in additional resources under special purpose costs for 2018-2021. Table 4 below outlines the proposed key components of the ICT transformation project.

**Table 4: Components of the ICT transformation project, 2018-2021**

<b>Initiative</b>	<b>Special purpose costs</b>	<b>Recurrent costs</b>	<b>Grand total</b>
ERP Upgrade Project	14.2	1.2	15.4
Core Enterprise Info Architecture	1.4	0.9	2.3
CRM Solution	1.2	0.7	1.9
Enterprise Hosting and Services	0.3	1.0	1.3
Plan and Programme management Software	1.2	-	1.2
ICT Transformation Support	1.0	-	1.0
Data Warehousing and Business Intelligence	0.4	-	0.4
ICT Security	-	0.4	0.4
Global ICT Support Model	0.2	-	0.2
<b>Grand total</b>	<b>20.0</b>	<b>4.2</b>	<b>24.2</b>

23. The Committee was informed upon enquiry that the proposed UNFPA ICT strategy and related budget will take into account wider-reaching United Nations reform efforts, and will be contingent on what the UNFPA Executive Board decides. **The Advisory Committee recalls that other United Nations Funds and Programmes are planning updates to their ICT infrastructure in the coming four-year period, and encourages UNFPA to collaborate with UNICEF and UNDP when exploring options for its ICT transformation project. Given the complexity of an enterprise resource system upgrade and the financial context currently facing UNFPA, the Advisory Committee recommends that UNFPA further review and provide concrete options for the most cost-effective and appropriate technology to be utilized in the ICT transformation process, which should not result in an increase to the institutional budget for 2018-2021. The Committee looks forward to an update on this matter in the mid-term review of the integrated budget 2018-2021.**

*Cost recovery*

24. According to paragraph 107 of his report, the Executive Director indicates that the estimated amounts of cost recovery for 2018-2021 are included in the integrated budget 2018-2021 and based on the currently approved methodology (Executive Board decision 2013/9). Paragraph 110 of the report indicates that the actual effective cost recovery rate for UNFPA was 7.07 per cent for 2014, 7.10 per cent for 2015 and 7.27 per cent for 2016. The report also suggests that these rates are within the range of the general harmonized rate of 8 per cent, the differentiated rate of 7 per cent for thematic contributions and the 5 per cent preferential rate for government cost-sharing contributions.

25. Upon enquiry, the Advisory Committee was informed that the actual effective rate of cost recovery will always be lower than 8 percent, as it is a net effect of the combination of the various approved rates applied. The Committee was also informed that projects funded from other resources are charged for the recovery of indirect costs only and these costs are difficult to identify. The Committee was further informed that the results of the revised cost-recovery methodology will be submitted to the Executive Board in conjunction with the inter-agency review of the cost recovery. **The Advisory Committee looks forward to receiving updates on changes to the methodology, if any.**

26. **Taking into account the comments and recommendations raised in the paragraphs above, the Advisory Committee encourages UNFPA to apply budgeting methodology approaches that are based on realistic assumptions, given the inherent uncertainties in resource projections and costing assumptions over a four-year period, and looks forward to receiving an updated report on expenditures in the midterm review of the integrated budget for 2018-2021.**