



Activity Based Financial Flows in UN System:

a Study of Select UN Organisations

Volume 1 – Synthesis

Report 9/2011 – Study



Norad
Norwegian Agency for
Development Cooperation
P.O. BOX 8034 Dep, NO-0030 Oslo
Visiting adressRuseløkkveien 26, Oslo, Norge

Tel: +47 23 98 00 00
Fax: +47 23 98 00 99
Photo: GMB Akash
Design: Agendum See Design

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Prepared by: Stefano Migliorisi, Iradj Alikhani, Michel Cramer, Nils Borje Tallroth, Manouchehr Ashouripour, Giorgio di Dio

Cleared by: Michel Cramer and Stefano Migliorisi

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AUTHORS

Stefano Migliorisi

Iradj Alikhani

Nils Borje Tallroth

Michel Cramer

Manouchehr Ashouripour

Giorgio Di Dio

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Acronym	Meaning
ACABQ	Advisory Committee on Administrative and Budgetary Questions
AIDS	Acquired Immune Deficiency Syndrome
ARL	Accounts Receivable Locally
ASHI	After-Service Health Insurance
BOM	Bureau of Management
CERF	Central Emergency Response Fund
CIS	Commonwealth of Independent States
CPAP	Country Programme Action Plan
DAC	Development Assistance Committee
DEV	Development
DFID	Department for International Development
DOC	Direct Operational Costs
DOS	Division for Oversight Services
DSC	Direct Support Costs
DSCAF	Direct Support Cost Advance Facility
EC	European Commission
EMOP	Emergency Operations
ERP	Enterprise Resource Planning
EU	European Union
FACE	Funding Authorization and Certificate of Expenditure
FAO	Food and Agriculture Organisation
FPF	Forward Purchase Facility
GBV	Gender-Based Violence
GEF	Global Environment Facility
GFATM	Global Fund Against Tuberculosis and Malaria
GLOC	Government Contribution to Local Costs
GMS	General Management Support
GNI	Gross National Income
HIC	High Income Countries
HIV	Human Immunodeficiency Virus
HQ	Headquarters
HR	Human Resources
IAPSO	Inter-Agency Procurement Services Office
IATI	International Aid Transparency Initiative
ICPD	International Conference on Population and Development
ICT	Information and Communications Technology
IDA	International Development Association
IEFR	International Emergency Food Reserve
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standard
ILO	International Labour Organisation
IMF	International Monetary Fund
IOM	International Organization on Migration
IP	Implementing Partners
IPSAS	International Public Sector Accounting Standards
IRA	Immediate Response Account
ISC	Indirect Support Costs
ITC	International Trade Centre
JPO	Junior Professional Officer

Acronym	Meaning
LDC	Least Developed Countries
LTSH	Landside transport, shipping and handling
MDG	Millennium Development Goals
MDRI	Multilateral Debt Reduction Initiative
MENA	Middle East and North Africa
MOPAN	Multilateral Organisation Performance Assessment Network
MTSP	Medium-Term Strategic Plan
NEX	National Execution
NGO	Non-Governmental Organisation
NIM	Nationally Implemented
NORAD	Norwegian Agency for International Development
ODA	Official Development Assistance
ODOC	Other Direct Operational Costs
OECD	Organisation for Economic Co-operation and Development
OR	Other Resources
OR-E	Other Resources Emergency
OR-R	Other Resources Regular
PCCS	Programme Country Cost-Sharing
PEFA	Public Expenditure Financial Accounting
PRRO	Protracted Relief and Recovery Operation
PSA	Programme Support and Administrative
PSAEA	PSA Equalization Account
RC	Resident Coordinator
RR	Regular Resources
SMART	Specific, Measurable, Accurate, Relevant and Time-Bound
SO	Special Operations
SRH	Sexual and Reproductive Health
STI	Sexually Transmitted Infection
TA	Technical Assistance
TF	Trust Fund
TOR	Terms of Reference
TPA	Third Party Agreement
TPCS	Third Party Cost-Sharing
TRAC	Target Resources Assignment from Core
TTF	Thematic Trust Fund
UK	United Kingdom
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UN BOA	UN Board of Auditors
UNCDF	United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UNDAF	United Nations Development Assistance Framework
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNEG	United Nations Evaluation Group
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees'

Acronym	Meaning
UNHRD	United Nations Humanitarian Response Depot
UNICEF	United Nation Children's Fund
UNIDO	United Nations Industrial Development Organisation
UNIFEM	United Nations Development Fund for Women
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNODC	United Nations Office on Drugs and Crime
UNRWA	United Nations Relief and Works Agency
UNSAS	United Nations System Accounting Standards
UNV	United Nations Volunteers
US\$	United States Dollars
USA	United States of America
VAM	Vulnerability Analysis and Mapping
WFP	World Food Programme
WHO	World Health Organisation

Important Note to the Reader

The present study describes financial flows to and from five UN agencies. Its main objective is to describe how funds were utilized during the last decade. It is largely **based on a compilation of existing public documents, complemented by interviews** at headquarters of agencies concerned and two country visits.

The study is **not intended to be a review of efficiency or effectiveness of UN agencies**. However, it makes certain observations and suggests further analysis that might be useful inputs into such future analysis. Similarly, the study is **not an independent audit**. Coverage of audit issues in the report is based on public documents presented and discussed by the agencies' boards and used to highlight the reliability of financial information.

As in any time bound study, **coverage of data and information is limited to documents published between 2000 and 2010**. The UN system has been going through continuous improvements. The authors recognize some of the observations recorded in this report, while valid for the period under consideration, may have been addressed recently or there are plans to do so soon. The report has noted some of these instances, but documenting them all was not feasible. In the interest of being concise, while covering all issues, the present volume (Volume 1) provides a synopsis of the analysis, findings and key sources. The interested reader will find more detailed information, expanded analysis and more extensive explanation of sources in the accompanying Volume 2.

In its summary and conclusions the report makes certain recommendations aimed at accelerating ongoing reforms, reconsidering specific aspects of how agencies conduct their business and areas where further studies may be warranted. However, a critical message that should not be lost in the volume of information provided is that UN agencies, notably but not solely those involved in humanitarian aid, operate at times under extremely difficult circumstances providing support to a population that is largely not served by other donors.

Executive Summary

This study, carried out by IDC SA on behalf of Evaluation Department, Norad, reviewed publicly available information on financial flows and financial planning and budgeting processes of five UN entities that are important partners for Norway. Three agencies are mainly involved in development activities (UNDP, UNICEF and UNFPA) and the other two mainly in humanitarian aid (WFP and UNHCR). Publicly available documents published between 2000 and 2010 were supplemented by exchanges with UN officials at each agency's headquarters and in Uganda and Vietnam. The approach followed to undertake the study is summarized in the Annex.

The study has been prepared following a decade during which the MDGs have provided a set of goals for 2015 for donors and recipient countries alike and donors have shown commitment to increase aid to meet these goals. The fulfilment of these commitments, and limitation in the ability of bilateral agencies to substantially scale-up their activities, resulted in a significant increase in donor flows through multilateral aid agencies, in the form of both untied and tied contributions. As seen in the evolution of revenues, the UN system was a major beneficiary from the scale-up in aid.

Over the decade 2001-2009, the five agencies mobilized resources for almost US\$100 billion at current prices, 73 percent of which were non-core earmarked contributions. Revenues exceeded expenditures for most agencies over the period. By end-2009 unspent funds including mandatory reserves at these agencies are estimated to have exceeded US\$12 billion. Aside from mandatory reserves, much of these balances are from non-core earmarked funds received in advance under signed legal agreements for specific projects/programmes whose implementation extends beyond one financial year. There are several reasons for the presence of these balances, including: (a) multiyear disbursement of resources received in advance; (b) disbursements by donors during the last quarter of the year; (c) dealing with unexpected emergencies or reducing volatility due to fluctuations in income; (d) tight earmarking and thus non-fungibility of funds; and (e) dealing with contingent liabilities (pensions, medical insurance and unused leave). The study did not address the question whether the build-up of unspent balances is indicative of absorptive capacity constraints, particularly in the case of non-core earmarked funds.

The build-up of unspent funds has been discussed by Boards of some agencies. To address this issue the study recommends that Boards of agencies continue to monitor the build-up of unspent funds and ensure their timely draw-down, while maintaining prudent reserves. Further given that non-core resources are to a large extent donor-driven, the relevant donors need to monitor their commitments and disbursements from such resources. Whether and how this is done by the donors has not been addressed in this study. To gain better insights on this issue, the study recommends a review of donor monitoring practices, based partly on analysis of samples of projects.

UN agencies and donors should also engage in a dialogue aimed at agreeing on more flexible use of earmarked resources. Desirable outcomes would include more widespread use in the future of thematic fund and greater ease in allowing agencies to reallocate, using relatively easy and transparent

procedures, earmarked funds to related programmes in similar countries – such an approach has apparently been successful in the case of emergency response.

Tightly earmarked, non-core funds have often been perceived as having a negative impact on the effectiveness of the organizations receiving them and indeed explain in part the build-up of unspent funds mentioned below. For example, UNDP management feels that the increased importance of earmarking affects its ability to pursue a flexible programming approach and to fully address priorities. They also diminish the role of these agencies' boards as priority set for budgetary core resources are often different from those pursued by donors through non-core contributions.

To address these issues, the study suggests considering ways to reduce the lead time for preparing the biennium budget. Each UN agencies should ascertain whether its main donors are likely to decrease core funding in absolute terms or relative to non-core. In such cases, early dialogue with donors may help in managing the risks arising from such changes. In cases where non-core funding is preferred, the aforementioned dialogue could also help emphasise the importance of maintaining flexibility by earmarking themes for broad country groups, as opposed to very specific activities benefitting a single country. Furthermore, the agencies Boards should consider greater oversight over non-core resource to ensure, inter-alia, that priorities (such as relative level of support to poor countries) are not distorted.

The aforementioned earmarking can also generate a free rider problem if the cost recovery fee charged is set too low. Cost recovery rates are increasingly fixed (typically 7 percent), simplified and harmonized between agencies. Nevertheless, for reasons detailed in the concluding section of the report, given the information available for the study it was not possible to determine whether the level of cost recovery was high enough to protect core funding from the risk of cross-subsidization.

To address some of the issues related to cost recovery, donors may wish to consider setting both minimum size and a certain amount of flexibility before initiating non-core programmes. A more detailed study by agencies of cost of administering non-core programmes would help establish thresholds. Small donors of non-core resources could still be accommodated as long as they are prepared to pool their funds with others in the form of multi-donor thematic trust fund. The case for implementation of some programmes by agencies (instead of Governments, NGOs and/or private sector) needs to be revisited.

Increased expenditures by UN agencies has been accompanied by an increase in staffing. The UN system employs nearly 83,000 staff worldwide; nearly two-thirds of UN staff is in the “general service” category; this is also the category of staff that has increased fastest over the past decade. Of the agencies included in the current study, UNDP and UNICEF are the largest employers in terms of staff, each one employing some 6,000 to 8,000 staff. Reflecting the decentralized nature of their services, the vast majority – over 80 percent – work in country offices or in regional offices. The strength of this approach is that it ensures good UN staff presence on the ground, notably in areas not covered very well by other multilateral and/or bilateral agencies. However the aid delivery model whereby UN staff are major providers of advice to governments deserves further scrutiny. The report explains the issue

of retirement affecting senior staff and of ensuring their successors are selected on time have the required expertise to ensure a smooth transition to new managers, as well as need for greater staffing flexibility to maintain and improve skills mix.

The study recommends: (a) review effectiveness of past staffing strategies and realign with the needs of the coming decade; (b) implement HR recommendations already presented to various Boards; (c) consider ways to lighten the burden of staff on the biennial budget of UN agencies; and (d) eventually undertake a study of efficiency and effectiveness in terms of service delivery and cost.

In the aftermath of the 2008 financial crisis, some donor countries are facing significant fiscal constraints that for some may lead to reduction in their expenditures on aid, while others are reallocating funds away from agencies classified less efficient. There is a risk that after 2015 the absence of agreed goals, such as current MDGs, may undermine aid mobilizing efforts. UN agencies may be facing future revenue constraints and competition from other institutions. To alleviate such risks, the study recommends: (a) entering into even more multi-annual agreements with donors in order to stabilize funding; and (b) developing contingency plans in the event resources, especially core, decline or grow less rapidly. The agencies included in this study have also a higher dependency from a small group of donors (which are not identical), as their top 10 donors accounted for 70 to 85 percent of total revenues. The problem of reliance on limited number of bilateral donors should be addressed through improved mobilization of core resources from new sources.

The agencies should get strong recognition for making all Board paper available to the public and organizing them by Board sessions. Nevertheless, external searches nor internal ones easily result in finding the document that best deals with a particular topic and sifting through the information can be a time consuming process. Also some of the detailed data does not seem to be publicly available for all agencies – for instance breakdown of certain expenditures. Finally, reconciliation of data from one board paper to another can be hard due to changing definitions or inconsistent coverage of information. The updating of historical data for some time series is another source of inconsistency.

Most agencies benefit from unqualified audits, which reflect adequate financial management systems. However, the audits do reveal, even if often minor, shortcomings. The adoption of International Public Sector Accounting Standards (IPSAS) has been completed only for WFP, while the other agencies will introduce IPSAS by 2012. IPSAS would address a weakness and avoid repetition of certain problems noted by auditors.

Procurement in the UN system is governed by the established regulations and rules of each UN organization. While such regulations and rules may differ in matters of detail, all organizations are guided by the Common Guidelines for Procurement. The procurement procedures are well documented and follow a clear internal logic.

The study's main recommendations related to the public information, financial management and procurement are as follows: (a) continue improving public information systems, for instance by posting

more project level information and supervision reports; (b) satisfy need for higher-quality, rigorous reporting on UN system-wide funding flows and ensure better comparability of information by using harmonized table with similar and complete coverage of detailed items; (c) review procurement procedures to ensure they conform to current best practice, including on use of country systems; (d) take all necessary measures to ensure that all agencies have adopted in 2012 the international financial accounting standards; and (e) ensure timely follow-up of audit recommendations and clear backlog.

1. Introduction

a. Objective and scope

1. Donors are increasingly concerned with the efficiency and effectiveness of their aid programs, partly in response to the need to accelerate growth and poverty reduction and partly in response to demands from governments facing fiscal constraints and tax payers. In this context, Norad has hired IDC SA to carry out a study to contribute to the understanding of financial flows and current financial planning and budgeting processes of a select group of UN entities that are important partners for Norway.

2. This report contributes to the ongoing debate on aid architecture and aid effectiveness by looking at some key upstream issues relating to the UN development cooperation system. This study is **not intended to be an evaluation of UN development and humanitarian assistance**. Assessment of the development results achieved by the concerned organizations is beyond the scope of this study. Specifically, the main questions asked here are: (1) what is the level of resources mobilization; (2) how are these resources allocated and what are the issues associated with earmarking; (3) what are the outputs (where does the money go?); and (4) as an ancillary question, are the fiduciary systems adequate to promote transparent flows and sound expenditures.

3. The report reviews financial flows to and from **five major UN agencies**, three of which are mainly involved in development activities (UNDP, UNICEF, UNFPA) and the other two mainly in humanitarian aid (WFP and UNHCR). Furthermore, the case studies of Vietnam and Uganda provide a link between agency level and country level programming, while highlighting a number of country level observations, such as inter-agency coordination and budgeting. The approach followed is presented in the Annex.

4. The present report, focused on financial flows, builds primarily on review of publicly available documents supplemented by exchanges with UN officials at each agency's headquarters and in Uganda and Vietnam. While every effort has been made to use the most up-to-date data in the analysis, **the bulk of the analysis of the report was undertaken during January-April 2011 when key data was only available till end 2009 – in finalizing this report and based on feedback from UN agencies the consultants took into account information that became available during the second half of 2011**. The final draft includes updated 2009 figures, with UN's revised time series. This may exacerbate problems of data consistency with details from archived documents, but does not significantly affect major trends and key conclusions. Furthermore, as each agency uses a different terminology for the same concept (e.g. core or non-core) we have as much as possible tried to harmonize the language used in this synthesis report – each agency's own terminology is still used in Volume 2 because of its greater focus on individual institutions.

5. **Volume 1** presents a synthesis of our findings on UNFPA, UNICEF, WFP, UNHCR and UNDP, based on extensive desk work, visits to all agencies involved and to two developing countries,

Uganda and Vietnam. The detailed case studies on each agency as well as the two country reports are included in **Volume 2**.

b. Brief introduction of the Five Agencies mandate

6. The agencies covered by this report are involved in both development and humanitarian aid. Their mission statements help set the particular context in which they operate and are provided here to provide more context to the study:

- a. The United Nations Population Fund (UNFPA) describes its mission – defined mainly by the International Conference on Population and Development in 1994 and the Millennium Development Goals -- as to promote “the right of every woman, man and child to enjoy a life of health and equal opportunity.” In this pursuit, the UNFPA “supports countries in using population data for policies and programmes to reduce poverty and to ensure that every pregnancy is wanted, every birth is safe, every young person is free of HIV and AIDS, and every girl and woman is treated with dignity and respect.” UNFPA provides assistance to 155 countries and territories, employing some 2000 staff worldwide in 2010. A major reorganization in 2008 reinforced UNFPA’s decentralized structure; as a result, today 80 percent of UNFPA’s staff work outside Headquarters. National execution of UNFPA funded projects is a high priority in the current strategic plan. UNFPA shares its Executive Board with the UNDP.
- b. United Nation Children’s Fund (UNICEF) began as a relief organization for children after World War II, but its mandate soon expanded to helping children in developing countries. Today, UNICEF promotes children’s rights to health, clean water, education and protection, and, more recently, also the rights of women. UNICEF increasingly emphasizes its advisory role in enhancing local capacities.¹ Of the 60 indicators of progress towards the Millennium Development Goals, UNICEF contributes to progress in 20 indicators spread across 7 MDGs. UNICEF is active in 190 countries and territories around the world, operating out of 127 country offices and 7 regional offices in addition to its headquarters in New York, Copenhagen and Geneva. It is a decentralized organization with nine out of 10 staff members working in the field². Over 10,000 of the staff, consultants and volunteers are in the field. Unlike development institutions that allocate support based on country performance, UNICEF takes pride in its presence in “orphaned countries”. While this approach may carry with it high overhead costs for the UNICEF, it at the same time ensures monitoring of key indicators on child well-being and rights, as well as provide for a safety net for children and women in these countries and thus complements the policies followed by development institutions.

¹ United Nations Children’s Fund. 28-30 September 2005. The UNICEF medium-term strategic plan, 2006-2009 Investing in children: the UNICEF contribution to poverty reduction and the Millennium Summit agenda http://www.unicef.org/about/execboard/files/05-11_MTSP.pdf

² See <http://www.unicef.org.uk/Documents/Publications/Achievements2010.pdf>

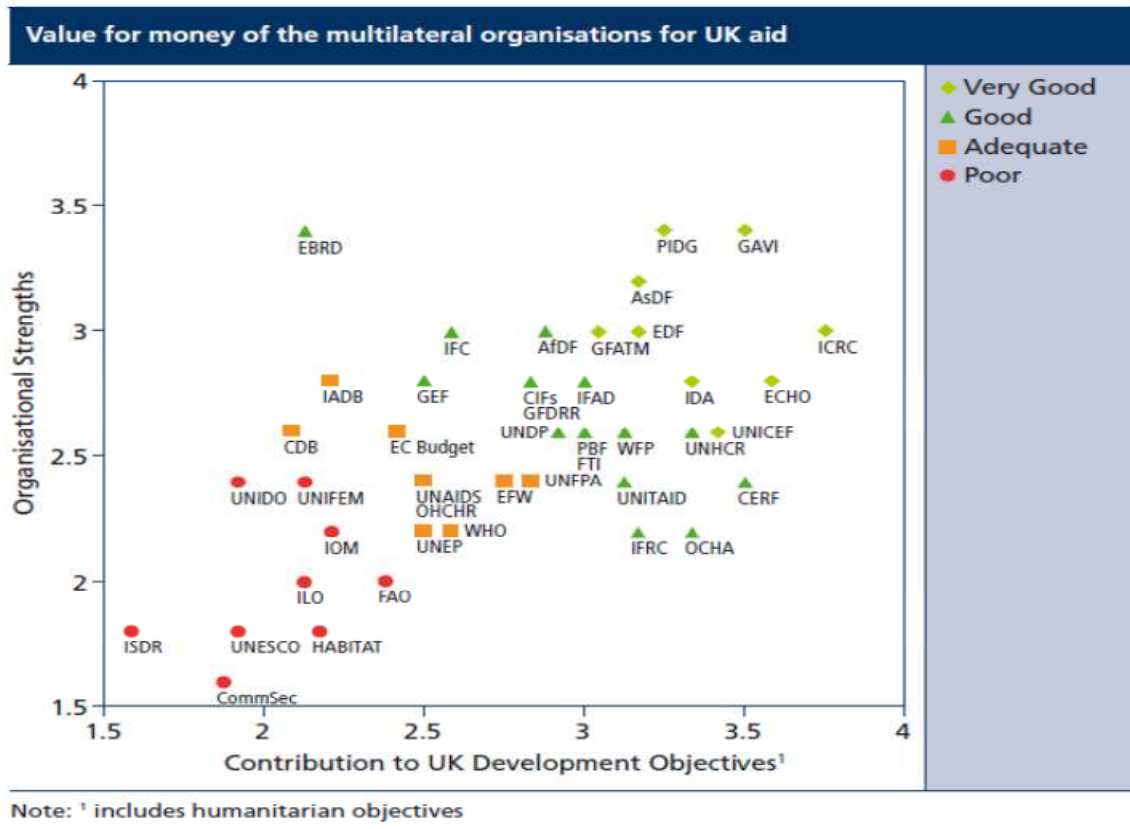
- c. World Food Programme (WFP), established in 1963, is the world's largest humanitarian agency fighting hunger. In emergencies, WFP is on the frontline, delivering food to save the lives of victims of war, civil conflict and natural disasters. After the cause of an emergency has passed, WFP uses food to help communities rebuild their lives. WFP is an autonomous joint subsidiary programme of the United Nations and the Food and Agriculture Organization (FAO). Its policies and budget are determined and approved by the Board, its governing body consisting of 36 Member States. WFP has its Headquarters in Rome, Italy, and conducts activities through 96 offices around the world in 73 countries in six regions and has a presence in an additional five countries where it monitors food insecurity.
 - d. United Nations High Commissioner for Refugees' (UNHCR's) mandate was defined by its Statute as to protect refugees and seek durable solutions to their problems under a 1950 UN Resolution and extended by further resolutions in terms of beneficiaries and assistance . By 2009, its stated objectives were (i) ensuring protection to all persons of concern, (ii) affirming and developing an international protection regime, (iii) realizing the social and economic well-being of people of concern, (iv) responding to emergencies in a timely and effective manner and (v) attaining durable solutions. UNHCR operations are divided into field programmes, mostly geared to specific countries (although classified by region and sub-region) and a smaller amount of "global programmes" for world-wide or regional support of policy priorities and field programmes.
 - e. United Nations Development Programme (UNDP) is the UN's global development network, advocating for change and connecting countries to knowledge, experience and resources to help people build a better life. Its field presence is ensured through 5 regional service centres and 129 full-fledged country offices, working on solutions to global and national development challenges in 166 countries. As countries develop local capacity, they draw on the people of UNDP and wide range of partners. The UNDP network unites and coordinates global and national efforts to reach the Millennium Development Goals by 2015 and covers poverty reduction, democratic governance, crisis prevention and recovery, and environment and sustainable development, as well as cross-cutting themes, such as women empowerment and capacity building.
7. As evidenced by the above statements, there is a degree of overlap between various agencies' goals which has created the need for better coordination and initiatives such as the "One UN". These issues are taken-up later in this report.

c. Independent view of performance

8. As noted at the outset of this report, its purpose is not to evaluate the performance of the five agencies. Furthermore, areas such as cost of doing business and breadth of scope of activities are relevant to this study. Nevertheless, the analysis on financial flows and systems made in this report may be informed by available assessments of efficiency and effectiveness.

9. DFID has recently undertaken a review of multilateral aid, from the standpoint of value for money as measured by contributions to UK aid objectives and institutional strength. UN agencies feature prominently in this report³. As shown in **Figure 1.1** below, the overall rating for UNICEF is “very good” and the agency has been assessed as a strong performer. UNDP, UNHCR and WFP are classified “good”, reflecting strengths as well a few areas for improvement. Finally, UNFPA is classified as adequate, reflecting a number of issues.

Figure 1.1 - Classification of Multilateral Agencies (2011)



10. Another source of information about three of the agencies⁴ covered by this report is the Multilateral Organisation Performance Assessment Network (MOPAN). MOPAN is a network of 16 donor countries with a common interest in assessing the organisational effectiveness of the major multilateral organisations they fund. A synopsis of their latest findings, which are not inconsistent with DFID’s, is provided below. The reviews are based on perceptions of MOPAN members and partners/clients of these organisations and, in some cases, on a complementary review of documentation by independent consultants. Results are presented according to four quadrants: (I)

³ <http://www.dfid.gov.uk/About-DFID/Who-we-work-with/Multilateral-agencies/Multilateral-Aid-Review/>

⁴ UNHCR and WFP are not covered.

strategic management, four indicators; (II) operational management, seven indicators; (III) relationship management, five indicators; and (IV) knowledge management, three indicators.

11. MOPAN's most recent review of UNFPA was issued in January 2011⁵. The document review generally yields lower results than feedback based on perceptions. The latter is also much less variable. The organization scores adequate or below in quadrant IV. The least volatile and best results, adequate or better, are found in quadrant IV. Results for the other two quadrants are more volatile ranging from strong to inadequate. In the document review, UNFPA gets high mark for allocation decisions and country focus. On the other hand, corporate focus on results, managing human resources and performance oriented programming is rated inadequate.

12. MOPAN's most recent review of UNDP was issued in February 2010⁶. It is based on a perception survey. Overall, the UNDP is seen to perform adequately on 14 out of the 18 indicators assessed – one fewer indicator, linking aid management to performance in quadrant II, than for UNFPA. It is seen to perform strongly on two – delegated decision making and contributing to policy dialogue. Two indicators are rated inadequate – using country systems and disseminating lessons learnt. In general, partners have more favourable views than donors on the UNDP's performance in these areas.

13. MOPAN's most recent review of UNICEF was issued in February 2010⁷. Out of the 18 key performance indicators assessed by MOPAN in 2009 through a survey of perceptions, UNICEF received strong ratings on three – country focus on results, delegating decision making and contributing to policy dialogue. There was adequate ratings on fourteen indicators, and an inadequate rating on only one indicator – using country systems. MOPAN members in the field view UNICEF's performance less favourably than donors at headquarters and national partners. There are no notable differences in the performance of UNICEF in "Delivering as One" countries.

⁵ http://static.mopanonline.org/brand/upload/documents/UNFPA_Final-Vol-I_January_17_Issued1.pdf

⁶ http://www.mopanonline.org/upload/documents/UNDP_Final_February_19_issued_.pdf

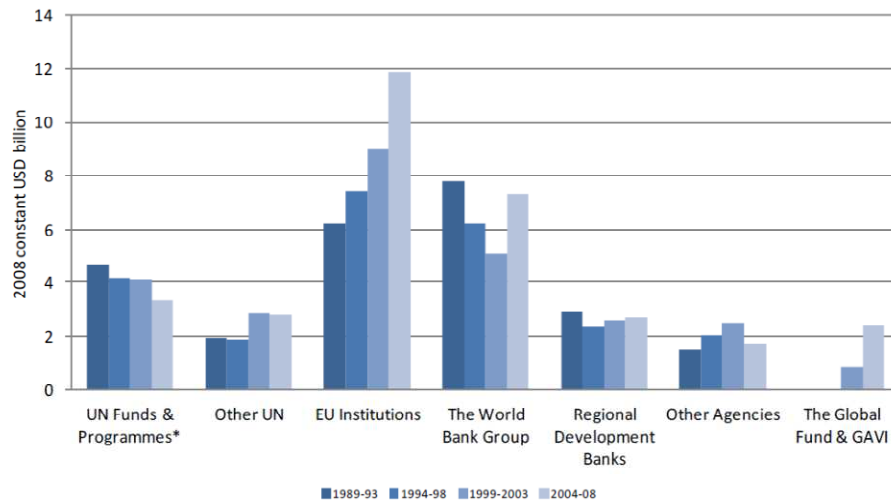
⁷ http://www.mopanonline.org/upload/documents/UNICEF_Final_February_19_issued.pdf

2. Trends in resources

14. The purpose of this section is to present an overview of development contributions (ODA) received by the UN system, to distinguish its core and non-core components (a notion common to all agency but with different names the first being resources agencies can deploy anywhere while the latter are earmarked) and to present recent trends. The details of these revenues together with analysis of expenditures are presented in the next chapters for each agency subject to this study.

15. This report is written at the close of a decade during which the UN system has experienced significant growth in some resources and in its financial ability to tackle its development and humanitarian mandates. Yet, despite this growth, the share of core funds disbursed to the UN system originating from OECD countries has decreased, mainly in favour of EU institution and the World Bank⁸. **Figure 2.1** below illustrates this trend. However, if non-core contributions are considered, the UN System is by far the most important multilateral channel today, well above US\$20 billion/year compared to US\$12 billion of the European Commission. The World Bank receives closer to the European Commission (US\$12 billion/year) when trust funds (except financial intermediary funds) are taken into consideration.

Figure 2.1 - Aid Provided by DAC countries to select multilaterals (5-year average)



Source: DAC Aggregates.

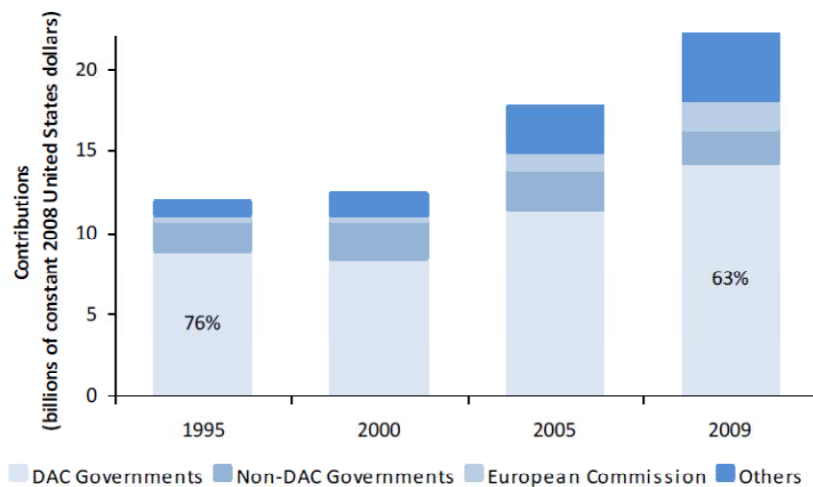
16. A recent (2011) OECD report also presents the outlook for the next few years in terms of aid programming. It concludes that nominal growth of “country programmable aid” from OECD countries is slowing by about 2/3 (from 7 percent to 2.5 percent). This may result in increased competition between multilateral agencies for donor funds and exacerbates the trend noted earlier concerning share

⁸ 2010 OECD-DAC report on multilateral aid. <http://www.oecd.org/dataoecd/15/15/46062737.pdf>

of resources allocated to UN agencies. For these agencies, an important additional factor is not only the amount programmed, but also whether these commitments translate into disbursements. Recent experience varies for three of the agencies covered by the present report, even though figures show a strong correlation between commitments and outturn. The ratio of end-2009 outturn to commitments made two years earlier, the respective figures for UNDP, UNICEF and UNFPA are 97 percent, 111 percent and 111 percent. The latter two agencies thus appear to have successfully mobilized additional resources beyond initial commitments⁹.

17. A recent draft report of the Secretary-General¹⁰: "Analysis of the funding of operational activities for development of the United Nations system for 2009" (May 2011) presents a fuller view of the UN system funding, summarized in **Figure 2.2**. This figure shows that the share of DAC donors in total UN funding has declined from 76 percent in 1995 to 63 percent in 2009, in large part due to increased contribution by EU and others. At the same time funding has increased by about 40 percent in real terms. In spite of these positive trends, the large share of DAC donors implies that slow-down in their contributions growth could impact UN resources.

Figure 2.2 – Source of Funding 1995-2009



Source: UN

18. As indicated in **Table 2.1** UNDP, UNFPA, UNICEF, WFP and UNHCR accounted for a major but slightly declining portion of contributions to UN agencies (from 70 percent in 2004 to 68 percent in 2009). The present report thus covers the bulk of financial flows into UN's development and humanitarian assistance.

⁹ 2010 OECD report on aid predictability survey in donor's forward spending plans 2010 – 2012. P. 3 and 16

¹⁰ http://www.un.org/en/ecosoc/docs/adv2011/11_draft_funding_report.pdf

19. Another important issue taken-up in the study of each individual UN agency and a rising concern amongst UN agencies and some donors, relates to the decreasing ratio of core to total financing (core and non-core). As shown in **Table 2.2**, overall this ratio has held fairly steady below 26 percent between 2004 and 2009, but reaching only 22 percent in 2009. However, in the case of UNICEF and UNFPA the relative amount of core resources are getting smaller, even if the ratios remain above UN agency average. **Table 2.2** also indicates that the five UN agencies covered by this study raised almost US\$100 billion in revenues over the period 2001-2009 at current prices. The revenue growth in nominal terms (at an average of 11.2 percent p.a.) has been very significant.

Table 2.1 - Contributions Received by UN entity: 2004-2009 (Millions US\$)

<i>Contributions to:</i>	2004	2005	2006	2007	2008	2009
UNDP - central funds	3715	4217	4414	4678	4740	4657
UNDP - administered funds	82	78	99	153	248	324
Total UNDP	3796	4295	4513	4831	4988	4981
UNFPA	425	505	518	660	769	732
UNICEF	1969	2742	2753	2979	3340	3233
WFP	3116	2940	2697	2709	5033	4100
UNHCR	990	1134	1109	1266	1632	1756
IFAD	329	158	261	488	278	543
ITC	42	46	45	41	47	47
UNAIDS	188	188	258	283	285	275
UNCTAD	28	36	30	38	31	35
UNEP	154	129	115	165	208	199
UN-HABITAT	73	109	102	137	91	134
UNODC/UNDCP	86	103	124	225	290	227
UNRWA	470	562	590	647	764	900
FAO	531	539	698	849	1070	1080
ILO	343	375	398	441	471	455
UNESCO	451	524	518	547	481	469
UNIDO	217	235	184	238	259	245
WHO	1158	1893	1794	1972	1680	1683
Other Specialized agencies	245	254	293	318	447	443
UNOCHA	112	140	160	173	267	170
UNDESA	37	93	53	90	57	77
Regional commissions	38	65	48	57	61	87
% of total UNDP, UNFPA, UNICEF, WFP and UNHCR	69.6%	68.1%	67.1%	65.0%	69.9%	67.7%
Total Contributions	14798	17067	17260	19155	22550	21872
In constant 2008 US\$ d/	17647	19792	19619	20171	22550	22541

Source: Report of the Secretary-General: "Analysis of the funding of operational activities for development of the United Nations system for 2009" (May 2011). Statistical Annex http://www.un.org/esa/coordination/statistical_annex_2009.xls

Table 2.2 - Revenues of Select UN Agencies, US\$ millions, current prices (2001-2009)

Type of Resource	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total	%	Growth rate (2009/2001)
Core contributions	1,461	1,622	1,781	2,588	2,630	2,821	3,171	3,797	3,149	23,019	22%	10.1%
UNDP	652	663	762	842	915	916	1,108	1,088	1,005	7,951	22%	5.6%
UNFPA	258	250	289	323	351	361	437	429	469	3,167	67%	7.8%
UNHCR	-	-	-	222	258	246	262	308	288	1,584	13%	
UNICEF	551	709	730	796	812	1,056	1,106	1,085	1,066	7,911	36%	8.6%
WFP				405	294	242	257	888	321	2,407	8%	
Non-core contributions	4,897	4,755	6,409	7,187	8,147	7,952	8,670	11,234	10,938	70,190	68%	10.6%
UNDP	1,417	1,387	1,702	2,121	2,543	2,653	2,847	3,093	3,121	20,884	59%	10.4%
UNFPA	124	-	-	-	132	210	286	366	269	1,387	29%	10.20%
UNHCR	779	816	929	768	877	865	1,043	1,321	1,474	10,456	85%	8.3%
UNICEF	674	746	958	1,182	1,949	1,725	1,907	2,305	2,190	13,636	62%	15.9%
WFP	1,904	1,806	2,820	3,116	2,646	2,499	2,587	4,150	3,884	25,412	89%	9.3%
Other income	203	181	289	278	325	565	655	598	677	3,771	4%	
UNDP	213	140	240	200	287	328	458	537	457	2,860	8%	
UNFPA	1	4	1	6	8	18	2	0	13	54	1%	
UNHCR	-11	37	48	14	-28	28	9	15	38	151	1%	
UNICEF										-	0%	
WFP	-	-	-	58	58	191	186	45	168	706	2%	
Interest Income	133	80	68	86	178	303	364	319	199	1,730	2%	
UNDP	86	51	46	53	95	158	185	179	105	958	3%	
UNFPA	14	9	5	7	12	17	27	24	31	145	3%	
UNHCR	5	3	3	2	3	5	12	7	2	42	0%	
UNICEF	28	17	14	24	68	123	140	109	61	584	3%	
WFP										-	0%	
Total	6,897	6,819	8,836	10,417	11,605	12,206	13,515	16,546	15,640	102,481	100%	10.8%
UNDP	2,581	2,381	2,990	3,416	4,127	4,383	5,056	5,434	5,145	35,513	100%	9.0%
UNFPA	396	264	294	335	503	606	752	819	783	4,752	100%	8.9%
UNHCR	773	856	979	1,006	1,110	1,145	1,326	1,651	1,802	12,232	100%	11.2%
UNICEF	1,253	1,472	1,702	2,002	2,829	2,904	3,153	3,499	3,317	22,131	100%	12.9%
WFP	1,904	1,806	2,820	3,579	2,998	2,932	3,029	5,083	4,373	28,524	100%	11.0%

Note: Some totals may not match those in Table 2.1 due to different treatment of trust funds.

WFP does not account for interest revenue separately.

20. Although not always reported separately, interest income has been significant for several agencies, considering the large fund balances many of them hold. Treatment of interest differs from one agency to the next. Some (e.g., UNICEF) record it as Regular Resources, which are used for programme activities defined in UNICEF’s Medium Term Strategic Plan,¹¹ while others (e.g., UNDP) either utilize it for the purpose of the original fund or refund it to the donor – these procedures changed in September 2011.

21. Data in Table 2.2 do not include certain multi-donor trust funds passed through UNDP or UNICEF, or independent funds administered by UNDP (e.g., UNCDF, UNIFEM) managed by the latter that amounted to about US\$2.2 billion in 2009.

22. **The two humanitarian agencies in our study (UNHCR and WFP) relied mostly on non-core contribution**¹². Four fifths of WFP’s revenues are monetary contributions while one fifth is in kind. In contrast, UNFPA benefitted mostly from core contributions, allowing for more flexibility in planning for future activities. UNFPA, UNDP and UNICEF stresses the advantages of core financing; if efforts to solicit such funding are not successful, thematic funding or pooled donor funds are proposed as a “second best” alternative; efforts are made to ensure that earmarked contributions are aligned with the medium term strategy.

23. UNDP and UNICEF are somewhat in between with a significant share of revenues from core contributions of 26 and 33 percent, respectively. However, these shares declined significantly over the period from 32 to 21 percent for UNDP and from 45 to 33 percent for UNICEF. Preliminary data for 2010 for some agencies point to an additional increase of contributions coupled with a further decline in the share of core contributions. Nearly one-third of UNICEF’s income comes from private “National Committees” and other private contributions. Private sector contributions are split between core and non-core income, with US\$492 million given to core activities and US\$533 million given to non-core activities in 2009, even though such split fluctuates over time due to sudden humanitarian crises. Compared to other agencies, UNICEF receives a large number of small contributions (over 80

Box 2.1 - Degree of Earmarking of UNHCR’s contributions

Most contributions to UNHCR are “tightly earmarked” by donors for specific countries and/or activities (e.g. HIV) or “loosely earmarked” to specific regions or sub-regions. “Unrestricted contributions” that UNHCR may freely allocate to needs are a small and stagnating portion, from 19.7 percent of all contributions in 2004 to 17.3 percent in 2009. These unrestricted contributions are even more concentrated, with 97 percent from Governments, 81 percent from the top ten of them and 72 percent from the 8 regular contributors: Netherlands, UK, Denmark, Norway (12 percent), Canada, Spain, Switzerland and France. As such core contributions are critical to complement individual programmes and to follow a consistent strategy, their acute concentration adds to the vulnerability of UNHCR.

¹¹ Interest income reported by UNICEF in annual financial statements.

¹² UNICEF is partly humanitarian as about one fourth of its activities concern humanitarian aid.

percent of the total number of other resources contributions were below US\$1 million in 2005)¹³.

24. **Most contributions are annual although some agencies have successfully introduced multi-annual agreements.** For example, WFP has signed multi-year funding agreements with Australia, Canada, Luxembourg, the Russian Federation and the United States of America. Furthermore, project implementation takes time and resources. It is not clear whether multiyear commitments are fully paid-in at the outset by the donor. However, budgeting processes in donor countries and conflicting priorities would suggest that disbursements are based on annual tranches.¹⁴

25. **Tightly earmarked funds have often a negative impact on the effectiveness of the organizations receiving them.** For example, UNDP management feels that the increased importance of earmarking affects its ability to pursue a flexible programming approach and to fully address priorities. This issue was of concern before and is not new. In 2001, UNDP commissioned an evaluation of non-core resources, which was discussed at its Board¹⁵. This study was motivated by the halving of core funding, while non-core funding had risen rapidly and had become three times larger than core. The main conclusion of the study concurred with by management, was that there was broad alignment between the two sources of funding, and thematic trust funds will further strengthen this alignment. The study also pointed out issues on cost recovery. Finally, the agency felt that core and non-core funding were complementary but not interchangeable. Adequate levels of core funding were therefore essential. Trust funds remain an important source of revenues and the conclusions of the study remain largely valid today.¹⁶

26. The agencies included in this study have often a **higher dependency from a small group of donors than the UN average.** While the top 10 contributors to the United Nations System in 2009 accounted for 55 percent of total contributions, the top 10 donors provided over 85 percent of WFP's contributions in 2010, 82 percent of UNDP's in 2009, 80 percent of UNFPA's in 2008, and 69 percent of UNHCR's over the period 2006-2009. UNICEF has a much wider donor base.

27. Norway was the sixth largest donor with US\$909 million of contributions, almost equally divided between core and non-core. Over the period 2004-2009, Norway gave 47 percent of its contribution as core in line with most other DAC donors. There were however significant differences in this share across the agencies that Norway supported. For example, over 80 percent of Norway's contribution to UNFPA in 2009 was for core expenditures, significantly contributing to increase

¹³ See http://www.unicef.org/about/execboard/files/06-ABL4_costrecovery.pdf para 4, page 4.

¹⁴ This point has not yet been clarified.

¹⁵ <http://www.undp.org/execbrd/archives/sessions/eb/1st-2002/DP-2001-CRP12.pdf>

¹⁶ Some donors (mainly the Nordic countries) are increasingly channelling their non-core contributions into so called thematic funds, which are much more flexible as regards use than common non-core funds. Thematic funds facilitate programme funding in a more strategic manner by increasing flexibility in the allocation of resources to areas of highest programme needs. These funds provide a more flexible, longer and harmonized time-span for using contributions, an arrangement which also helps to reduce transaction costs. They also provide an avenue for directing resources to critically under-funded country programme areas;

flexibility in UNFPA's programme planning. The share for UNHCR was almost 70 percent. Norway, with nearly US\$200 million in contributions, was the second largest donor to the UNICEF in 2009, but only 35 percent of its aid was not earmarked.

28. Revenues have exceeded expenditures for most agencies over the period, leading to a **significant build up in accumulated fund balances** that had reached an estimated amount above US\$12 billion by end 2009 for four agencies (WFP, UNICEF – including earmarked procurement -- UNDP and UNFPA). WFP's fund balances were almost US\$3.8 billion by end 2009. UNICEF by the end of fiscal year 2008/2009 had unspent funds amounting to US\$2.7 billion. UNDP had US\$5.4 billion of accumulated fund balances by end 2009. The main reasons for such unspent funds and reserves are explained separately for each agency in the following paragraphs.

29. UNFPA's reserves and fund balances have been on a steadily rising trend, reaching 443 million by end 2009. The operational reserve, at US\$93.5 million, or 20 percent of contributions to regular resources, was in line with UNFPA financial rules. Fund balances and reserves under other resources, however, were US\$277.9 million in 2009. A reason for the increase in unspent funds, in excess of mandatory funding for e.g. the operational reserve, is that the agencies receive funds, based on binding legal agreements with its partners, in advance of disbursements for the implementation of planned specific activities over several years. Another key factors to be considered is that the bulk of unspent balances have been committed and are not fungible

30. The UNICEF Executive Board has expressed its "*concern* about the increase in total end-year unexpended funds for programme activities, partially with regard to regular resources and in this context requested that it be provided with a report, including recommendations, on efforts to address this issue, including barriers at headquarters and country level to expending funds, and ways to expedite expenditures".¹⁷

31. The estimates of unspent funds are validated by information provided in the audit reports for UNDP and UNHCR, which also provides further details on the origins of unspent funds and statutory reserves. It should be noted that in the case of UNHCR and WFP, the bulk of their resources are non-core and so are their cash balances. As shown in **Table 2.4** below, unspent funds and reserves increased by about 250 percent between 2002/3 and 2008/9. In the case of UNICEF over one-third of the accumulated balances were in the form of regular resources, while in the case of UNDP the figure was about 10 percent.

Table 2.4 – Accumulated cash balances for select UN agencies (US\$ thousands)

¹⁷ [http://www.unicef.org/about/execboard/files/09-ABL3-interim_financial_report-ODS-English\(1\).pdf](http://www.unicef.org/about/execboard/files/09-ABL3-interim_financial_report-ODS-English(1).pdf) UNICEF financial report and the audited financial statements, op.cit.

	2002 - 2003	2004 - 2005	2006-2007	2008-2009
UNICEF				
RESERVES AND FUND BALANCES	1,080,155	1,992,430	2,640,342	2,928,548
OF WHICH: Regular resources	427,050	636,365	1,030,852	1,093,351
Other Resources Regular	439,540	652,190	1,149,079	1,431,615
Other Resources/emergency	213,565	703,876	460,411	403,582
UNFPA				
RESERVES AND FUND BALANCES	191,381	280,975	370,363	442,735
OF WHICH: Regular resources	82,724	123,871	143,402	164,898
Other Resources	108,657	157,104	226,961	277,837
UNDP				
RESERVES AND FUND BALANCES	2,384,717	3,741,260	4,876,746	5,588,887
OF WHICH: Regular resources	297,382	408,080	570,579	577,982
Other Resources	1,988,440	3,219,345	4,130,439	4,686,006
Funds Admin by UNDP	98,895	113,835	175,728	324,899

Source: Agency Audit Reports

32. End-2009 audit reports provide additional details for the following three agencies embedded in notes:

- **UNICEF.** As shown in **Table 2.4**, US\$1,835 million of the fund balance is for Other Resources which, by definition, are earmarked funds. Cash balances are attributed to other resources. There are more than US\$2 billion in short term cash and deposits and about US\$800 million in investments. Unlike UNDP and UNFPA, the audit report does not provide readily available information on mandatory reserve requirements for UNICEF. It provides notes on balances due to insurance, capital assets, separation fund, and procurement services. Combined together this represents US\$267 million.
- **UNFPA.** Reserves include "reserve for field accommodation, which started in 1992-1993 with a US\$5million and gradually has decreased since then (page 147 of 2008-2009 audit, note 17). The purpose operational reserve (audit 2008-2009 page 148, note 18) is to cover temporary fund deficits and to ensure the continuity of programme implementation in the event of fluctuations or shortfalls in resources. The level was set at US\$45 million in 1989. In 1991 it was changed to be 20 percent of regular resources. As of end-2009, reserves amounted to US\$93.9 million.
- **UNDP.** Reserves and fund balances are composed of regular and other resources and funds administered by UNDP. In 1999 the Executive Board approved to change in calculation of UNDP's reserves. Components are: (a) 10 percent average 3-year annual contributions; (b) 2 percent of expenditures; (c) 10 percent of sum of income and expenditure components; (d) one month cash flow needs; and (e) the board also approved establishment of an operational extra budgetary account. On 12/31/2009, UNDP held investments in bonds and notes of US\$3.4 billion. Under Financial

Regulations approved by its Executive Board, UNDP must receive funds, based on signed legal agreements between UNDP and its partners, in advance of any allocation made for the implementation of planned specific UNDP programme activities. The balance at year end 2009 therefore represented funds which were received from donors for both regular and other resources. In case of regular resources, UNDP maintained only the minimum stipulated liquidity. In the case of other resources, funds are provided under signed legal agreements for specific project/programme implementation activities for current and future years. They are not fungible..

33. The agencies' audit reports disclose¹⁸ that part of the reserves are needed to cover any contingent liabilities such as unfunded pensions, health care, end of service benefits etc.

34. The study did not address the question whether the build-up of unspent balances is indicative of absorptive capacity constraints, particularly in the case of non-core earmarked funds. However, a number of points are worth noting. First, this rise is associated with and is correlated with (and possibly caused by) increased share of non-core funding in total income. Second, an informal note¹⁹ circulated by UNDP to its board on June 1, 2011 provides an analysis of cash balances that may also be relevant for other agencies. The note highlights the following: (a) timing of receipt of contribution influences cash at the end of the year: in 2010, 41 percent of non-core contributions were received in the fourth quarter while in the three prior years this percentage ranged from 35 percent to 44 percent; (b) certain donors contribute multi-year commitments in a single year; (c) pattern of contributions to specific large programmes such as Sudan and Afghanistan, mostly took place in the last quarter of 2010; and (d) government cost sharing represented about 20 percent of other resources and these funds have to be held until programming of their use has been completed. These appear to be valid points, which could be strengthened by provision of information on how these patterns have evolved during the past decade. The main conclusion of the note is that: (i) unspent balances are reasonable; (ii) future resource mobilization strategy should bring together better coordination between core and non-core mobilizations; and (iii) UNDP should develop an integrated budget framework that will enable all resources to be considered collectively. Finally, in its feedback to the present report UNDP management has indicated that cash balances are projected to be partly drawn-down during 2012-13. The impact of these actions on cash balances may be assessed in 2013.

35. **Emergency appeals have become more and more important** over the years as a source of funding for UNHCR and WFP. The share of emergency funding in UNHCR's budget has increased

¹⁸ See for example para. 59 of 2010 UNICEF audit. http://www.unicef.org/about/execboard/files/A-65-5-Add2-Financial_report-audited_financial_statements-report_of_Board_of_Auditors.pdf

¹⁹ UNDP cash balances. Informal note for annual regular session.
[http://www.google.com/url?sa=t&rct=j&q=undp%20cash%20balances&source=web&cd=1&ved=0CCYQFjAA&url=http%3A%2F%2Fwww.undp.org%2Fexecbrd%2Fword%2FUNDP%2520Cash%2520Balances%2520-%2520Informal%2520Note%2520\(Final\).doc&ei=ZNPgToKhJcfHsQLWoqDeBg&usg=AFQjCNEoaPN4BZsticCZY54djzVzsd6FQ](http://www.google.com/url?sa=t&rct=j&q=undp%20cash%20balances&source=web&cd=1&ved=0CCYQFjAA&url=http%3A%2F%2Fwww.undp.org%2Fexecbrd%2Fword%2FUNDP%2520Cash%2520Balances%2520-%2520Informal%2520Note%2520(Final).doc&ei=ZNPgToKhJcfHsQLWoqDeBg&usg=AFQjCNEoaPN4BZsticCZY54djzVzsd6FQ)

from 18 percent in 2001 to 39 percent in 2009. This appears to reflect a swifter response to emergencies (e.g., Iraq and Pakistan) by UNHCR, and by its donors - which would then earmark their funding for such emergencies. As discussed later in this report, the earmarking of funding has implications on the way these agencies work that goes beyond the traditional argument on fungibility and lack of flexibility.

36. A final definition point concerning resources is that each agency uses its own terminology for what is called core (un-earmarked) and non-core (earmarked) resources. In the interest of uniformity we have used a single terminology throughout this volume – volume 2 uses the agencies’. **Table 2.5** below indicates how the report’s terminology corresponds to what is used by each agency.

Table 2.5 - Correspondence between present report terminology on contributions and the one used by each agency

Agency	Core Contributions	Non-core contributions
UNDP	Regular resources	Other resources
UNFPA	Regular resources	Other resources
UNHCR	UN Regular Budget Funds	Voluntary contributions (excl. the above)
UNICEF	Regular resources/Unearmarked	Other resources/ Earmarked
WFP	Multilateral Contributions	Directed multilateral or Bilateral Contributions

3. Current planning and budgeting processes

37. Budgeting for UN agencies is a multifaceted, complex process. As opposed to some multilateral institutions such as the World Bank, comingling of funds is possible and most agencies may directly execute programmes benefitting countries and thus fund a portion of their operational cost in this manner. Furthermore, there are two main sources of funding for any agency: donor contributions (both core and non-core), and revenues from other sources such as private contribution, fees, and interest and other income. These in turn fund the support budget, which provides the bulk of sustaining costs, and the programme budget.

38. The biennial budget has two distinct pillars consisting of: (i) a strategic framework; and (ii) a programme budget. The process is quite rigorous as it involves a top-down approach, reflecting overall UN priorities, as well as a bottom-up one, reflecting the agencies' and member states' priorities²⁰.

39. At the country level, the budgeting process involves primarily the programming of activities. This may result in a further tension due to possible shortfalls in the resource envelope for the support budget. Country programmes of cooperation from UN agencies often are co-terminus with the duration of the development cycle of five years for the host country. While the programme budget are based on allocation from the agency (based on formulae such as RR allocation formula in UNICEF or TRAC1 in the case of UNDP), the support budget for the core presence and management and operations are reflected in the respective biennial support budget. The durations of these budget submissions and approvals being different, often pose major challenges for the agencies. . In order to address this issue, the UN system initiated a pilot approach called “delivering as one”²¹. The approach is based on the four principles of one leader, one budget, one programme and one office. The governments of eight countries —Albania, Cape Verde, Mozambique, Pakistan, Rwanda, Tanzania, Uruguay, and Vietnam— volunteered to become “Delivering as One” pilots. The Vietnam example presented later-on helps illustrate some of the strengths and weaknesses of this approach.

a. Strategic Framework

40. The budgeting process of UN Agencies included in this study is usually underpinned by medium term strategic plans. The medium term plans of UNICEF, UNFPA and UNDP, usually covering a four-year period, have all been extended by two years to 2013 as part of the ongoing harmonisation efforts among the three agencies.

41. **UNDP** strategic plan takes its origin in an outline of the agency's strategic priorities. It includes a detailed results framework, with specific targets²². This logical framework states higher

²⁰ A more detailed explanation is provided in The United Nations Budgetary Process.

²¹ See <http://www.undg.org/?P=7>

²² <http://www.undp.org/execbrd/word/dp07-43Add1.doc>

level objectives (i.e., broad developmental goals) to which UNDP contributes, but for which it is not directly accountable. It then lists expected outcome supported by UNDP, output/activities (intermediate results) and related indicators. The results framework includes two types of objectives: (i) development, with 5 goals; and (ii) institutional, with 3 goals.

42. **UNFPA's** Strategic Plan, covering the medium-term period, sets the strategic direction and provides the overall framework for UNFPA's support to assist countries to achieve nationally-owned development objectives. It focuses on the three interrelated areas: (i) population and development; (ii) reproductive health and rights; and (iii) gender equality. Activities within these areas are linked to the Millennium Development Goals as well as to special decisions setting the direction for UNFPA's mission. The plan consists of (a) a development results framework, which outlines goals and outcomes for UNFPA and guides all programme development and monitoring of performance and progress; (b) a management results framework that constitutes the accountability framework for organizational performance at all levels; and (c) an integrated financial resources framework that outlines the estimated financial resource requirements for a given period.²³

43. **UNICEF's** assisted programmes are framed within the context of medium-term strategic plans based on national priorities emerging from the situation analysis of children and women, which estimate core (regular) and non-core (other) resources expected to be available. Projections based on past experience for the use of these resources are stated for a fixed period, usually four years. The Plan identifies five main focus areas as a basis for its projection of programme expenditures. The organizational targets in the plan are 'shared results' based on what the global milestones are likely to be at the end of the plan. As a result of the trend towards increasing share of earmarked contributions in total resources, the targets are not commensurate with the actual funding patterns for the focus areas from either UNICEF or within the country from partners including the government. Moreover, UNICEF at Headquarter level allocates core resources by countries and the country office in consultation with partners allocates these resources by programmes. UNICEF globally does not have any mechanism for allocating core resources between these focus areas. Thus, the Plan's statements about priorities serve as guidelines for country offices, where the *de facto* decisions regarding the allocation of resources are agreed upon with government²⁴. While the total of non-core, or earmarked, contributions may be planned with some accuracy, it is not possible for UNICEF to anticipate the

²³ UNFPA. Strategic plan, 2008-2011: Accelerating progress and national ownership of the ICPD Programme of Action. Report of the Executive Director. The Plan document is succinct, but focused document that also includes a frank section in "lessons learnt", including the need for more clearly defined goals and outcomes and a stronger analysis of attribution. With the adoption by the Executive Board in September 2011 of a Midterm Review, UNFPA no longer has "three focus areas". http://www.unfpa.org/exbrd/2007/secondsession/dpfpa_2007_17_eng.pdf

²⁴ An Executive Board report states that advocacy support for field offices aims at ensuring that e.g. development strategies are child centered, that data gaps are filled, etc. UNICEF's very large expenses for advocacy – US\$400 million in 2009) indicates that reconciling Headquarters and country offices priorities can be very costly. See UNICEF. Executive Board Second regular session 2009 14-16 September 2009 Item 4 (e) of the provisional agenda* Advocacy, programme development and inter-country programmes** [http://www.unicef.org/about/execboard/files/09-PL31-advocacy-ODS-English\(1\).pdf](http://www.unicef.org/about/execboard/files/09-PL31-advocacy-ODS-English(1).pdf)

detailed priorities of these contributions as stipulated by donors. And, as shown above, other resources now account for the dominant part of UNICEF expenditure. Despite these constraints, earmarked funds still match UNICEF priorities.

44. **WFP's** activities are framed within the context of medium-term strategic plans which estimates revenues expected to be available and states priorities for the use of such resources for a period of four years. The current WFP Strategic Plan (2008–2011)²⁵ provides a strong basis from which WFP can address the rapidly changing context of global hunger. The Plan frames WFP's vision, mission and strategic direction based on its Strategic Objectives and aligned goals. Its aim is to support governmental and global efforts to ensure long-term solutions to the hunger challenge. The Management Plan made as a result of the outcome of the Strategic Plan provides an overview of the estimated required resources and planned activities for 2010–2011. The Management Plan represents the biennial comprehensive plan of work approved by the Board, inclusive of planned outcomes and indicators of achievement, together with the WFP Budget.

b. Budget Process

45. In the case of **UNICEF**, a “rolling” financial plan, which estimates the overall core and non-core financial resources that are expected to be available over the coming four years, forms the central part of the Medium-Term Plan. The financial plan provides the basis for the detailed planning of core resources programme expenditure for the coming year. It also provides a basis for the management of UNICEF's liquidity requirements.

46. In contrast to the Medium-Term Plan, the financial estimates are reviewed and updated annually on a “rolling basis” to reflect the most current income estimates. Since it takes into account most recent information, the financial plan is a more useful planning instrument in assessing total resource availability than the Medium-term Strategic Plan exercise. The Executive Board makes appropriations for the funding of core resources programme expenditures for the coming year based on these estimates. The support budget, in contrast, is approved on a biennial basis.²⁶

²⁵ at its 2009 Annual Session, the Board decided to extend the WFP Strategic Plan by two years, until the end of 2013 (decision 2009/EB.A/3)

²⁶ UNICEF. Medium Term Strategic Plan. Planned financial estimates for the period 2009-2012. E/ECEF/2009/AB/L.5. <http://www.unicef.org/about/execboard/files/09-ABL5-MTSP-ODS-English.pdf>. From the perspective of transparency and accountability it can be noted that the Executive Board has felt compelled to request that “the UNICEF to include in the Annual Report of the Executive Director, on a biennial basis; a summary of financial results per biennium versus those originally budgeted for.”

Table 3.1 - UNICEF planning and budgeting process, an overview

The relations between the Plan document and the appropriations for programme and support budget expenditures can be summarized as follows	Frequency
A. Budget approvals	
<u>1. Institutional Budget</u> – previously known as Biennial support budget for the entire organization (country offices, regional offices and headquarters divisions) – covers costs for management, administration, security and development effectiveness	Biannual
<u>2. Advocacy, programme development and inter-country programme-</u> for programme related budgets with a small (about US \$25 million) part of core resources and the rest in other resources to be raised from donors for programme related costs to be raised and spent at headquarters and regional office locations	Biannual
<u>3. Country programme budgets</u> – Normally once in five years (or for the duration dependant on national development cycle) for country programmes of cooperation. UNICEF operates in 155 countries through programmes of cooperation utilizing either core resources (RR) or other resources (OR-R and OR-E). An indicative resource envelope from core resources is approved by the executive board. The actual core resources on a yearly basis is determined based on the total core resources and the Executive Board approved formula. Any adjustments to the last year of the budget to accommodate for difference in what may have been approved at the start of the country programme and what actually becomes available is further approved through the instruments noted below	Once in five years
<u>4. Consolidated country allocation of Regular resources for country programmes in the final year of previously approved country programmes of cooperation</u> to accommodate for differences between previously approved amounts and what became actually available based on the allocation formula	Annual for some countries only
<u>5. Consolidated country allocations of Regular and Other resources for country programmes of cooperation, which may have been extended by either one year or two years</u>	Annual
<u>6. Periodic requests for approval of country programmes of cooperation that require enhancement of ‘Other Resources’ ceilings</u>	Occasionally for some countries only (once a year)
B. Approval of Plan frameworks (including results framework)	
<u>1. Medium-term strategic plan-</u> as a global programme framework that sets parameters for global aggregation and reporting on UNICEF’s programme performance, cross-cutting strategies. It has indicative levels expected for different focus areas, but is not a part of the approval process	Normally for four years (Extended twice by two year each)
<u>2. Results framework</u> – is prepared with the MTSP and with the Institutional budget as a performance and reporting framework for the programmes and budgets	Biannual
<u>3. Allocation formula for core resources to country programmes</u> - this is done in response to requests from the Executive Board. The latest revision was done in 2009.	Occasional
<u>4. Medium-term financial framework</u> - this is done on a rolling basis for four years at any point of time. The actual approval by the executive board is of the financial framework for four years and the total programme submissions for one year using the formula noted in 3 above.	Annual

47. UNICEF also uses a system of supplementary adjustment of ceilings during ongoing programme cycles. This enables programmes to receive core and non-core resources. For instance, as a result of available resources for programmes being higher than originally estimated and approved for 2010, the Executive Board approved US\$186 million in additional core resources ceiling for 29 countries in 2010.²⁷ These enhanced allocations usually done on the last year of the country programme cycle is a technical approval to provide for the enhanced allocations that may have been done on an annual basis either due to additional resources or due to changed parameters on U5MR (number of under-five deaths per 1000 live births), GNI per capita or Child Population that may have become available during the year.

48. While for example, the UNICEF has an institutionalized system of annual release (typically in July) of updated planned expenditures (called “financial estimates”) for programme expenditures for core as well as non-core resources for the current year as well as the next three years, UNFPA provides no corresponding information. The process can be summarized in the five steps shown in **Table 3.2**.

Table 3.2 - UNFPA planning and implementation process, an overview

<u>Planning and budgeting process</u>	<u>Date</u>
• Preparation and adoption of four year Plan	July 27, 2007
• Estimates for the biennial support budget for 2008-2009	September, 2007
• Executive Board approval of biennial support budget for 2008-2009	November 5, 2007
<u>Implementation and follow-up</u>	
• Statistical and financial review for 2008	May 19, 2008
• Report on progress in implementation the Four Year Plan for 2008-2011	April 22, 2009
• Annual Statistical and financial review for 2009	May 10, 2010

49. **WFP’s** overall planning and budgeting process is summarized in **Table 3.3** below. WFP Management Plan rests on the basic and crucial assumption that the United Nations and its member states require, and are ready to fund, on a voluntary basis, the global humanitarian operations and programme activities of WFP. As per WFP General Regulations the WFP Budget is the biennial budget component of the Management Plan approved by the Board indicating estimated resources and expenditures for programmes, projects and activities and includes a programme support and administrative budget. It is important to note that the overall budget covers only a small fraction of the overall resources managed by the agency that are earmarked and whose use is agreed on a donor by

²⁷ The current system for allocation of core resources was introduced in 2008 and builds on a “modified” system introduced in 1997. See Report on implementation of the “modified system for allocation of coreresources for programmes” approved by the Executive Board in 1997**.

donor basis. The budget approved by the Board covers only the indirect costs related to donor funded activities.

Table 3.3 – WFP Planning and Budgeting Process – An Overview

WFP Budget timeframe and reviews	Frequency
Medium-term Strategic Plan for 2008-2011 (extended to 2013). The plan lays out a framework for potential action for WFP and sets strategic objectives and goals for the period.	Every fourth year. Distribution for approval in May 2008.
Biennial Management Plan 2010-2011 made as a result of the outcome of the Strategic Plan. WFP Budget split by years is the biennial budget component of the Management Plan approved by the Board indicating estimated resources and expenditures for programmes, projects and activities and includes a programme support and administrative budget.	Distribution for approval in October 2009 (second year of the previous biennium).
Updates on Management Plan with reviews of the programme of work and additional requirements. Review of projected resource levels, status of PSA Equalization Account, highlights of major operations, review of cereal index and a crude oil index to monitor world market trends and their impact on WFP's food and transport budgets, and other issues of interest.	Four regular updates per year.

50. **UNDP** planning and budgeting follows a process somewhat similar to that of UNFPA, with which it shares an Executive Board. **Table 3.4** below describes the main steps involved.

Table 3.4 - UNDP planning and implementation process, an overview (2007-2010)

Planning and budgeting process	Date
• Preparation and presentation of draft four year plan	December 2007
• Adoption of four year Plan 2008-2011	September 2007
• Revision and reissue of plan	June 2008
• Estimates for the biennial support budget for 2008-2009	January 2008
• Estimates for the biennial support budget for 2010-2011 and ACABQ report	January 2010
Implementation and follow-up	
• Operationalization of strategic Plan 2008-11	May/June 2009
• Status of regular resources funding 2009-on	May/June 2009
• Annual review of the financial situation 2008	September 2009
• Status of regular resources funding 2010-on	June/July 2010
• Administrator report on strategic plan 2009	June/July 2010
• Annual review of the financial situation 2009	August/September 2010

51. The process described in the table relates to the 2008-2011 plan and the two biennium within that period. The four year plan is reviewed by the Executive Board prior to its approval 9 months later

(with a further exceptional revision and reissue six months later). The Administrator reports annually on the operationalisation and implementation of the Strategic Plan. The Biennium Support Budget is presented to the Executive Board every two years. The financial situation and status of resource funding is reviewed annually.

c. Allocation of resources among programme countries

52. **UNICEF's** Strategic Plan gives “priority to children in low-income countries, in particular least developed countries (at least 60 percent of core resources) and those of sub-Saharan Africa (at least 50 percent of core resources)”. It also stipulates that at least two-thirds of core resources for programme expenditures are to be allocated on the basis of three main criteria: (i) under-five mortality rate; (ii) per capita gross national product; and (iii) child population. Another stipulation is that upper middle-income countries with a UNICEF-supported country programme shall receive a minimum allocation of US\$600,000 (subsequently revised to US\$750,000 during the period under review) in core programming until achieving ‘high income’ status. In 2008, allocations for UNICEF’s operations in upper middle-income countries amounted to only 2 percent of total allocation of core resources. Actual allocations (including the minimum allocation) to country programs are made according to a formula, consistent with these priorities.

53. The actual use of the country allocations are governed by bilateral country program agreements between UNICEF and the recipient countries. The programs are harmonized with national planning cycles. UNICEF’s country program typically runs for 5 years.²⁸ According to information from UNICEF staff, Country allocations from core resources not spent within the programme cycle (because of, for example, civil unrest) go back to the central pool of funds.

54. Over the original 4-year period, **UNDP's** plan provides estimates for financial flows at an aggregate level. Resource allocations are according to the strategic plan and distributed across different budget categories. Core resources are allocated to the “target resources assignment from core” (TRAC) methodology based on country classification, GNI and population²⁹. This methodology with minor changes, notably in thresholds for country classification, repeats the approach used in the 2003-2007 strategic plan. It includes a provision of minimum funding of US\$350,000 to any “non-net” contributor country (i.e., low and middle income). As in the case of other agencies, this provision may provide the impetus for agency presence in countries where the justification is not strong and a dispersion of efforts over too many small activities. Whether or not this observation is justified would be worth pursuing in the context of a future evaluation of UNDP programmes, that should consider, *inter alia*, that quite a number of these countries have significant programme activities funded from

²⁸ These country programs belong to UNICEF’s client countries; in line with UNICEF policy to “protect” its partner countries, country programs are not officially available.

²⁹ See 2007 Board document: <http://www.undp.org/execbrd/pdf/dp07-44.pdf>

earmarked resources. This question may be revisited in the context of the discussions on differentiated country office presence in the ongoing change agenda.

55. **UNFPA** utilizes a classification of countries according to their relative need for the services it provides. The current system for allocating resources to individual countries, adopted in 2007, emphasizes countries in emergencies, transition and recovery. Amount allocated is based on eight indicators. At the same time, steps were taken to harmonize the country allocation cycle with the strategic plan cycle. A redefined system for grouping countries according to the relative need for UNFPA assistance was also adopted. An even higher priority is now given to countries that are furthest away from achieving the UNFPA goals, simultaneously with continued support for addressing the highest priority issues within countries that are not ranked first priority. Since some Group A countries had been unable to spend the share of resources allocated to them, steps were also taken to enhance their absorptive capacity.

d. Effectiveness of the process

56. **UNDP** budget estimates for the 2010-11 biennium were reviewed by the Advisory Committee on Administrative and Budgetary Questions (ACABQ)³⁰. The Committee welcomed the results-based budget and encourages its use to realize efficiency and eliminate duplication. However, it also notes that resource use is not always evident and recommends a consolidated presentation of budget estimates from various sources (biennial and miscellaneous). Improved cost classification, notably between development and management activities, is also recommended. The report also notes the vulnerability of the program due to dependence on limited donor base and to any significant shortfall in core contributions, and recommends that the Board looks into the feasibility of implementing the Human Resource strategy, which calls for a net decrease of 117 posts (from 3,334). There are also comments on the question of cost recovery, reflected in the later chapter on this subject.

57. In **UNFPA**, the documentation regarding the revised system for allocation of expenditures between country groups is vague as regards the mechanisms for distribution of funds between countries within each group.³¹ The weight of each variable in the formula for allocating core resources is not specified. It is also not clear if ample access to other resources reduces the allocation of core resources. Another issue is UNFPA's presence in relatively advanced countries on behalf of the fact that they may be lagging on one "high priority" indicator, but at cost in the form of high overhead costs for country offices.

³⁰ <http://www.undp.org/execbrd/word/dp2010-4.doc>

³¹ The documentation states that the "actual needs and priorities of individual countries as determined through the United Nations Development Assistance Framework would be paramount in defining individual country allocations. Other factors that would be taken into account would be related to, inter alia, the country's population size and income, the availability of significant funding from other donors..."

58. While the **UNICEF** Plan's estimates are accurate in projecting the first few years' expenditures and revenues, it underestimates expenditures for the final year of the plan period by nearly one-third. The estimates for emergency expenditures, however, have consistently understated actual expenditures by a significant margin during the period under consideration. This might be explained by unprecedented humanitarian crises such as the Indian Ocean Tsunami, Pakistan earthquake, Haiti Earthquake followed by Cholera epidemics, Pakistan floods and two ongoing wars in Afghanistan and Iraq that have led to unprecedented commitments for Other resources-emergency from governments, national committees and private sector for UNICEF. Another observation is the stability of actual emergency expenditures, showing that major donors are able to rapidly mobilize and set aside considerable amounts for emergencies year after year. The most significant deviation between planned and actual expenditures is for other regular resources, which increased by no less than 80 percent over the Plan period versus an expected increase of a more modest 16 percent, . This trend raises the question why donors increasingly prefer to make earmarked contributions rather than funding UNICEF's regular activities.

59. It is to be noted that **WFP's** budget and financial statements are prepared using a different basis than that for other agencies, and cannot therefore be compared directly. WFP's budget is prepared in fact on a commitment basis and the financial statements on a full accrual basis³² using a classification based on the nature of expenses in the Statement of Financial Performance. To compare budget and financial results, the Statement of Comparison of Budget and Actual Amounts is prepared on a commitment accounting basis (expenditures are classified by cost components or the source of funding in which the expenditures have to be charged) with actual amounts calculated on the same basis as the corresponding budgetary amounts. The variation in the consumption of the different cost components of the budget is due to a number of different operational factors such as the planned origin of the commodities versus the actual location where food purchases were conducted. Changing the geographical location of commodity purchases may impact on commodity, external transport and overland transport budgets.

³² The accrual accounting principle measures the performance and position of the organization regardless of when the cash transaction occurs. On the basis of this principle, the effects of transactions and other events are recognized when they occur (and not when cash or its equivalent is received or paid), are recorded in the accounting records and reported in the Financial Statements (Statement I to IV) of the financial periods to which they relate. According to this accounting principle, revenues and expenses associated to a transaction or an event match. See: WFP Policy Guidance Manual for International Public Sector Accounting Standards, 2008 edition. Available at: <http://docustore.wfp.org/IPSAS/ResourcesandTools/IPSASPolicyGuidanceManual/index.htm>.

4. Mapping expenditures

a. Trends in overall expenditures

60. **Table 4.1** below presents the expenditures for 5 UN entities covered by this report. A notable trend, also analysed in the case of individual agencies, consists to a declining execution ratio, as measured by ratio of expenditures to revenues, paralleled by a build up in fund balances and reserves documented in the previous chapters. This issue is less pronounced for UNHCR, while the reasons for the build-up in the other agencies have been referenced earlier in this report.

Table 4.1 - Expenditures for Select UN entities: 2004-2009 (Millions US\$)

<i>Expenditures by:</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
UNDP	3 566	4 372	4 777	4 775	5 388	5 527
UNFPA	452	523	537	629	702	800
UNICEF	1 606	2 197	2 344	2 782	3 081	3 297
WFP	2 900	2 892	2 665	2 642	3 536	4 016
UNHCR	1 063	1 142	1 091	1 342	1 597	1 754
Total 5 agencies	9 586	11 126	11 413	12 170	14 304	15 395

Source: Statistical Annex http://www.un.org/esa/coordination/statistical_annex_2009.xls

61. Expenditures for the major UN agencies have increased at a very fast rate over the past decade, but not as fast as contributions contributing to a build up of accumulated fund balances. For example, UNDP's total expenditures increased by over 8 percent per year over the 2001-2009 period and resources grew at 10.8 percent, while UNICEF's total resources and expenditures increased by over 10 percent annually, resulting in a nearly tripling of total expenditures in current prices over the same period. Programme expenditure is given priority and is the dominant expenditure category for all these agencies, accounting for 77 percent and 89 percent of total expenditures in the case of UNDP and UNICEF, respectively.

Table 4.2 - Trends in total and programme expenditures for major UN agencies, 2001 - 2009
US\$ million, current prices

	2001	2002	2003	2004	2005	2006	2007	2008	2009
UNDP									
Total expenditures	2725	2817	3133	3567	4372	4777	4775	5388	5527
<i>of which: Programme</i>	2167	2292	2528	2946	3696	4050	3951	4460	4462
UNICEF									
Total expenditures	1246	1273	1480	1606	2197	2344	2782	3098	3298
<i>of which: Programme</i>				1508	1970	2124	2531	2808	2943
WFP									
Total expenditures						4228	2966	3725	4228
<i>of which: Programme</i>						2665	2753	3563	3932
UNHCR									
Total expenditures				1034	1118	1082	1700	1603	1837
<i>of which: Programme</i>									
UNFPA									
Total expenditures	378	411	380	452	523	537	629	701	800
<i>of which: Programme</i>	318	343	305	374	442	446	528	590	681

Note: In the case of WFP, total direct operational costs and associated direct support costs is treated as synonymous with “Programme” expenditures for the other agencies in the table. Information regarding expenditures for WFP for year earlier than 2006 is available only on a biannual basis.

b. Structure in expenditures

62. In the case of UNDP, core expenditures today only account for about one-quarter of total expenditures, a level already seen in the late 1990s. A distinct feature in the trend in expenditures for UNICEF is the substantial decline in core expenditures as a share of total expenditures over the past decade. UNFPA has seen a similar, but less pronounced trend; as a result, core expenditures still account for roughly half of total expenditures. This trend is a source of concern both within both these agencies and among major donors as it affects their ability to disburse funds in line with priorities established by the General Assembly and their Executive Boards.

63. Young child survival and development is the dominant UNICEF expenditure thematic area, accounting for nearly half of total programme expenditures. A dominant share of expenditures within these broad themes is for support of capacity building within governments. Nearly 14 percent of resources were spent on the focus area – policy advocacy and partnerships for children. This focus area includes work around collection, analysis and dissemination of data, research and studies to advance knowledge base for evidence based advocacy and providing for children and young people to be informed and participate on key issues that affect them. The seemingly high proportion in advocacy is

actually due to stepped up work to support household surveys for increasing the capacity of countries to not only report on key indicators but also make informed choices on programme strategies.

Table 4.3 - UNICEF programme expenditures by focus area, 2006-2009

Percentage shares

	2006	2007	2008	2009
Young child survival and development	51.0	52.4	50.5	46.4
Basic education and gender equality	21.3	20.3	21.3	21.4
Policy advocacy and partnerships	11.0	9.3	9.5	13.6
Child protection	10.2	10.5	11.0	11.6
HIV/AIDS	5.5	6.4	6.7	6.4
Other	1.1	1.1	1.1	0.6
Total	100.0	100.0	100.0	100.0
Expenditures, US\$ million	2124	2531	2808	2943

64. Promotion of women’s reproductive health, although declining as a share of total expenditures, remains the dominant expenditure priority for the UNFPA. The rapid increase in expenditures on gender equality and programme coordination is noticeable. Developments during the 2006-2008 period shown in **Table 4.4** point to an increased reliance on advocacy and other indirect routes at the expense of direct interventions to achieve UNFPA priorities.

Table 4.4 - UNFPA programme expenditures by focus area, 2001 - 2009

Percentage shares

	2006	2007	2008	2009
Reproductive health	67.8	59.0	54.2	n/a
Population and development	18.0	22.8	2.2	n/a
Gender equality; women empowerment	5.8	7.1	10.7	n/a
Programme coordination	8.3	11.2	12.7	n/a
Total	100.0	100.0	100.0	
Expenditures, US\$ million	391.7	477.8	554.0	680.5

65. Roughly 70 percent of UNDP’s programme expenditures in 2009 were devoted to achieving the Millennium Development Goals (MDG), reducing poverty, and fostering democratic governance. Support for sustainable development has been given increased priority in recent years. A review of disaggregated expenditures indicates that nearly three-quarters of UNDP expenditures is spent on “indirect” ways (“promoting inclusive growth”, “fostering inclusive globalization”, “catalyzing environmental finance”, etc.) of achieving its objectives rather than direct/attributional interventions in favour of its priorities.

Table 4.5 - UNDP programme expenditures by objective, 2009

	US\$ million	Expenditures Percentage share
Achieving the MDGs and reducing poverty	1,175	31.2
Fostering democratic governance	1,473	39.1
Supporting Crisis prevention and recovery	611	16.2
Managing energy and the environment for sustainable development	505	13.4
Total programme expenditures	3,764	100.0

Source: UNDP Annual Report 2009

66. WFP's expenditures grew by about 40 percent between 2006/7 and 2008/9. A small decline in expenditures is expected in 2011. In contrast to the other UN agencies in this study, in kind contributions (valued at market prices) account for a significant share of WFP expenditures. WFP also differ from the other agencies in the way that direct material support is a dominant part in its operations.

Table 4.6 - WFP operational expenditures 2006-2009
Percentage shares

	2006	2007	2008	2009
Commodities in kind and purchased			55.6	47.5
Commodities in kind	21.3	29.4	n/a	n/a
Commodities purchased	15.5	16.4	n/a	n/a
Direct operational costs				
Ocean transport, etc.	9.1	8.0	9.1	7.2
Landside transport, storage and handling	27.1	21.7	19.3	25.8
Other direct operational costs	12.3	9.2	7.0	7.8
Direct support costs	14.8	15.3	8.9	11.8
Total direct operational costs	100.0	100.0	100.0	100.0
Total direct operational costs US\$ million	2665	2753	3563	3932

Note: Data for 2008/2009 are unaudited data re-cast from WFP internal records, while information for prior years is from audited UNSAS financial statements. Due to this inconsistency, data for the two periods cannot be compared. Total direct operational costs includes "Direct support costs"

67. In line with UNDP's focus on capacity building, personnel costs and service contracts (which cover costs for consultants and subcontractors) account for the dominant share of its expenditures. From the same perspective, expenditures for training, around one percent of total expenditures, appears low.

Table 4.7 - Trends in UNDP structure of expenditures by economic classification

Percentage shares

	2004	2005	2006	2007	2008	2009
Personnel	27.5	25.5	24.7	27.0	28.1	33.1
Equipment	15.9	11.8	11.7	9.9	10.5	8.0
Service contracts	29.9	30.3	29.9	29.9	29.6	25.2
Training	1.0	1.3	1.5	1.6	0.8	0.4
Travel	4.1	4.1	5.0	5.0	5.8	6.4
Micro-capital grants	3.6	3.1	5.8	7.2	8.0	7.6
Miscellaneous	18.0	23.8	21.3	19.3	17.1	19.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

68. Details regarding the **object of expenditures** for UNHCR are provided in **Table 4.8**. By 2007, expenditures were spread between 54 percent for operations (excluding staff cost) 34 percent for staff costs and a stable share of only 12 percent for all other costs such as travel and supplies.

Table 4.8 - Trends in UNHCR structure of expenditures by economic classification

Percentage shares

	2004	2005	2006	2007	2008	2009
Operations		50	47	54	56	58
Staff Posts		30	34	31	29	29
Other Staff Costs		7	7	3	4	2
Total Staff Costs	35	37	41	34	33	31
Consultants		0	0	0	0	0
Travel		2	2	2	2	2
Contractual Services		1	1	1	1	0
Operating Expenses		5	5	4	4	4
Supplies and Materials		1	1	1	1	1
Furniture and Equipment		2	1	1	2	2
Others		2	2	3	2	2
Total Other Costs		13	12	12	11	10
Total	100	100	100	100	100	100

69. The agencies in this study differ in terms of regional allocation of overall expenditures. No less than two-thirds of WFP's expenditures go to Sub-Saharan Africa. This contrasts with the Asia/Pacific region, which receives only one-fifths of total expenditures. UNICEF also gives high priority to Sub-

Saharan Africa in its allocation of resources.³³ Similarly in the case of UNDP, Africa, the region of the world facing the steepest challenges to reach MDGs, is given high priority with 25 percent of **total** allocations. This is more pronounced for Regular Resources programme expenditures, which in the Africa region rank the highest at 50.1 percent of the total. Regular resource allocation seems in line with the UNDP strategic framework and priorities. Donor-driven earmarked aid is a factor outside UNDP's control that partly determines allocation across regions and the relative high share of expenditures in Asia Pacific and Arab states. High level of local resources drives the significant expenditures in Latin America

70. If only regular resources are considered, as mandated by its Executive Board, the greater share of UNDP's regular programme resource allocation is prioritized to least-developed countries (LDCs) and Low-Income Countries (LICs). Currently, at least 85-91 percent of regular programme resources are allocated to LICs, of which 60 percent is allocated to LDCs. In the case of other resources, the mobilization is programme country driven and funded by donors. This structure in UNDP's regional allocation is explained in part by its priority to ensure a nearly total global presence. In 16 of the 166 countries where UNDP was present in 2009, expenditures were below US\$400,000. However, it should be noted that majority of these small programmes are located in tiny island states.

71. Analyses of the structure of UNICEF and UNFPA expenditures reveal a similar structure in the allocation of expenditures between countries. This means that in such instances the main cost for the country programme is the knowledge and technical expertise around policies, legislations, budgets and monitoring of child rights. Since the child population in such countries were small, one could see them as being 'high per child', but such observations and analysis need to be done by taking into account full information and the context as well as the type of programme. Analysis of country data also shows that UNICEF spending per child is significantly less in the least developed countries than in high income countries.

³³ Core resources at aggregate level for countries are allocated based on a formula approved by the executive board. Country offices in consultation with partners allocate core resources to different programmes (related to MTSP focus areas) based on country level priorities.

Table 4.9 - Regional Programme Expenditure (Regular and Other Resources) 2009
Percentage shares

	UNDP	UNFPA	UNICEF	WFP	UNHCR
Sub-Saharan Africa	24.9	35.0	54.5	67.1	45.0
Asia/Pacific	24.9	23.8	27.5	20.7	20.0
Eastern Europe and CIS	7.1	3.7	3.1	1.4	10.0
Latin America and the Caribbean	25.5	14.1	5.0	3.9	4.0
Middle East and North Africa	13.7	9.8	5.0	4.9	21.0
Other	3.9				
Total	100.0	100.0	100.0	100.0	100.0
Total expenditures, US\$ million	3016	681	2943	3516	1286

Note: Expenditure for UNDP denotes “field as per Annual Report of the Administrator; statistical annex; Table 6. Expenditures for WFP denote development and relief expenditures.

72. Priorities for programmes funded by UNICEF and UNFPA core resources – as reflected in shares for actual expenditures – differs significantly from priorities funded by non-core donor contributions to these agencies. Thus, while reproductive health accounts for less than half of core resources expenditures, nearly two-thirds of donor-funded programmes are for reproductive health. A similar difference exists also in the geographical allocation of core and non-core resources, respectively. For example Latin America receives more than twice as much in earmarked, non-core funding as it receives in the form of core allocations. The observed difference in priorities, according to UNICEF, may be due to the fact that Agencies prioritize new programming strategies whereas donors prefer to do bulk investments in programs at scale. UNICEF considers that the UNICEF and donor allocations work in a positive synergy, and it is entirely proper that the investments should differ in many instances. Another plausible explanation for such differences can be that Agencies divert away their scarce core-resources from areas where non-core funding is abundant. From the point of view of donors, the latter practice would weaken the impact intended by donors for earmarking of non-core resources. A detailed analysis of the differences in priorities was outside the scope of this study.

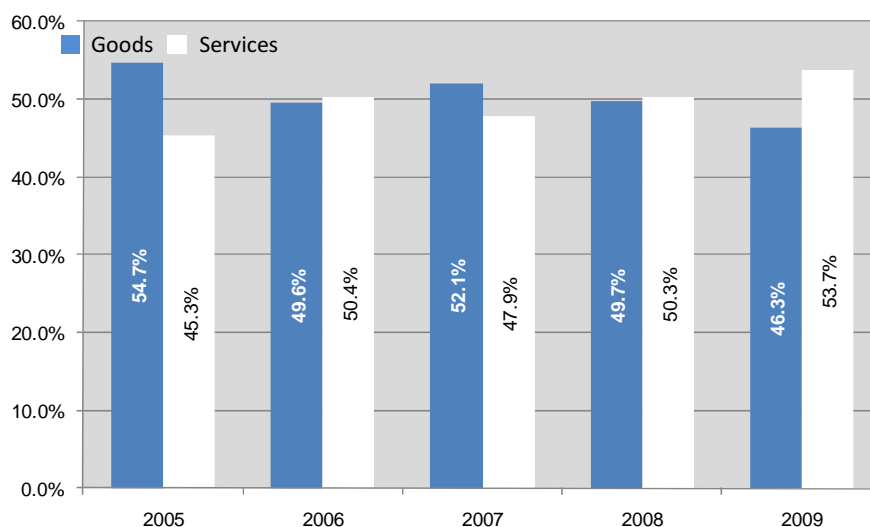
c. Evolving input mix

73. Another perspective on expenditures by UN agencies is provided in the aggregate information on procurement by the UN system³⁴. This latest, 2010, report present a significant change in the composition of expenditures during the second half of last decade. Total United Nations system procurement under all sources of funding during 2009 was US\$13.8 billion, which represents an increase of US\$203 million over the previous year. As seen in **Figure 4.1**, from 2005 to 2009, United

³⁴ <http://www.undp.org/execbrd/word/dp2010-38.doc>

Nations system procurement of services rose as a share of total procurement, slightly overtaking goods for the first time in 2006 and again in 2008, increasing even more in 2009. In 2009, the share of services exceeded that of goods by 7.3 percent compared to just 0.6 percent in 2008, and an even steeper decline from 2005, when share of goods were 9.4 percent than for services. This changing input mix is quite important and reflects a shift in approach as to how UN agencies reach their strategic objectives.

Figure 4.1. Proportion of goods and services procured, 2005-2009



74. The aggregate trends are also reflected in procurement by agencies. Although the increase of the total procurement volume from 2008 to 2009 was minor, 21 of the 33 reporting United Nations organizations increased their procurement volume over the previous year. UNICEF recorded one of the largest volume increases, by some US\$300 million. Information for the agencies covered in this report is shown in **Table 4.11** below.

Table 4.11 - Procurement by United Nations organizations in 2008-2009

(in millions of dollars)

AGENCY	2008		2009	
	GOODS	SERVICES	GOODS	SERVICES
UNDP	724.46	2,135.31	610.02	2,000.91
UNFPA	138.05	114.87	131.60	226.33
UNHCR	206.75	159.35	239.53	167.00
UNICEF	1,460.00	n/a	1,750.00	n/a
WFP	1,579.55	1,484.37	1,180.01	1,388.61
TOTAL	4,108.81	3,893.90	3,911.16	3,782.85

Source: <http://www.undp.org/execbrd/word/dp2010-38.doc>.

Note: Data for UNICEF is aggregate for goods and services and provided by UNICEF staff.

5. Current cost recovery practices

75. In calculating cost recovery charges, UNFPA, UNDP, and UNICEF apply agreed upon definitions aimed at harmonizing and improving cost-recovery policies. The overarching principle for these policies is that each source of funding should bear all associated costs in order to avoid cross subsidization of different funding modalities. In calculating the costs for implementing programmes and projects on behalf of other partners, UNFPA, UNDP and UNICEF apply the following cost categories:

1. **Direct costs** are directly related to activities associated with an agency's fulfilment of its mandate (salaries/wages, project premises, travel). These costs are charged directly to the programmes, including costs for salaries/wages, themselves as specific costs.
2. **Fixed indirect costs** are incurred regardless of an agency's scope or level of activity (top management, etc.) Defined for country offices as minimum core cost of presence.
3. **Variable indirect costs**, usually referred to as programme support costs, are incurred as a result of an agency's support of its activities but which cannot be traced unequivocally to specific activities or programmes. Indirect variable costs should be funded from core resources and non-core resources in the same proportion as these resources fund programme costs.

76. There are four main objectives underlying the cost recovery policy of most UN agencies:

1. compensate agencies fairly for implementing non-core projects
2. prevent unreasonable competition amongst agencies.
3. ensure that the agency's priorities – set in agreements with donors providing core funding - are not diverted by earmarked funding; and
4. encourage reduction in transaction costs.

a. Setting the cost recovery rate

77. UN agencies generally apply a charge to non-core contributions equal to a pre-set percentage. The rates applied vary from agency to agency, and within each agency depending on the source. **Table 5.1** summarises the rates applied by the agencies covered by this study. We understand that these rates are generally used, although the Vietnam field work revealed that in individual cases they could be increased through bilateral negotiations with the donor.

78. UNICEF applies an interesting incentive system that is linked to the size (there is a 1 percent discount over US\$40 million) and nature of contributions (less earmarked contributions benefit from a 5 percent rate). Further, the cost recovery for contributions furthering UN coherence is lowered from 7 to 6 percent. For flexible contributions – thematic contributions – the recovery rate is lowered from 7 to 5 percent. The revenue generated through cost recovery depends on the mix of contributions.

Table 5.1 – Cost Recovery Rates applied by select UN Agencies

Rate	UNDP	UNFPA	UNHCR	UNICEF	WFP
Regular Rate for contributions from donor countries	7%	7%	7%	7%	7%
Reduced Rate for contributions from donor countries	5% ³⁵	5% (third-party procurement)		5% (thematic funding)	3-4% (Third party agreements) ³⁶
Contributions from recipient countries	3%	5%			
Contributions from other UN Agencies		7.5%			
Private sector		13%		5% (non-thematic raised in programme countries)	
Discounts				1% discount for joint programmes considered to be “in the best interest” of the UN; and when contributions are over US\$40 million”	

79. WFP applies the principle of full cost recovery to contributions. Each donor is expected to meet “the full operational and support costs of its contributions”³⁷. Therefore, each commodity contribution must be matched by an appropriate amount of associated costs³⁸ and all contributions must include a percentage to cover Indirect Support Costs (ISC). The calculation system relates often to in kind donations and was initially based on a cost per metric ton of food. The calculation system was recently changed to introduce a clearer, simpler and more transparent way of costing and funding non-commodity activities providing the foundation for the shift from a food aid to a food assistance model of service provision.

b. Cross-subsidization

80. Rates may be updated as part of the biennial budgeting process or intermittently where the past level is compared with actual expenditure and either raised or confirmed. In the case of WFP, this methodology for 2010–2011 resulted in an ISC rate of 7.06 percent which the WFP Board determined to maintain, as for the previous biennium, at 7.0 percent.

³⁵ Since 2008, the reduced rate of 5 percent is no longer applicable as per UNDP’s Executive Board decision DP/2007/18.

³⁶ A third-party agreement is a legally binding contract between WFP and another party in which WFP acts as an agent to provide goods or services at an agreed price.

³⁷ General Regulations, Article XIII.2.(November 2010 edition)

³⁸ Associated costs include the costs of delivering food: external transport, landside transport, shipping and handling (LTSH), other direct operational costs (ODOC) and direct support costs (DSC).

81. In the case of UNFPA, a 2010 review estimated total variable indirect cost recoveries at 7.1 percent for the 2007 – 2008 period, slightly higher than the costs actually recovered for the same two years, implying that contributions to core resources to some extent do subsidize earmarked donor funding³⁹ While highlighting this result, Norway has also emphasized the need for detailed information regarding how indirect cost charges are actually calculated. Norway has also requested an assessment regarding the justification for including fixed indirect costs in the base for calculating cost charges on earmarked contributions.⁴⁰

Box 5.1 – UNHCR Cost Recovery Performance

Humanitarian agencies rely mostly on non-core contributions for their funding. Earmarked resources dominate funding as in the case of UNHCR. Globally, the “cost recovery” performance of UNHCR is poor, to the extent that, throughout 2006-2009, the total earmarked contributions have covered only the total net expenditure before any support costs. On average the funding of all the support costs, plus around 60 percent of overheads not covered by the UN Regular budget, rests therefore primarily on unrestricted contributions such as Norway’s. As an illustration given by a UNHCR official, a donor could want to finance refugee tents and not the delivery of these tents: how could we then refuse such contributions?

Such a low cost-recovery may become a **constraint to growth**, curtail the **equity and relevance** and amplifies the lack of **geographical equity**. Country needs are bound to differ, at least sometimes, from the priorities of the “earmarking” donors (i.e. those providing earmarked contributions) and the more so that the bulk of contributions originate from a handful of donors. Since unrestricted contributions are not enough to offset support costs and overheads, there is no room left to attend different country priorities. The detailed accounts confirm that no significant funding goes to countries and programmes that have not received substantial earmarked contributions. Whenever country needs are different, they would be overruled by the priorities of the few earmarking donors, including their possible geographical, political and cultural objectives. Past examples of different priorities range from donors rejecting AIDS programmes with contraceptives, education programmes with Islamic references, or simply those humanitarian crises not publicized by the international media.

82. A UNICEF assessment in response to donor complaints that core resources subsidized the costs for implementing programmes funded by earmarked resources reached similar conclusions. The review concluded that “the new rates have furthered progress towards simplification, harmonization and fiscal prudence [and that] actual cost recovery ensured that core resources did not subsidize support cost for other programmes. Standardized rates have also reduced transaction costs and provided donors with greater clarity regarding the rate structure”⁴¹

³⁹ Review of the implementation of the UNFPA policy on indirect cost recovery. [DP/FPA/2010/16]. An earlier estimate attributed this difference to the lower rate of 5 percent on cost-sharing projects funded by programme countries. UNFPA concluded that there was no cross-subsidization and stated it did not want to amend the agreed rates policy. See Review of the UNFPA policy on indirect cost recovery. [DP/FPA/2007/09]

⁴⁰ Norway. Utenriksdepartementet. Instruks. ONDP/UNFPA styrelsemote. New York 19-22 januar 2010.

⁴¹ E/ICEF/2010/AB/L.3, *Report on the implementation of the UNICEF cost recovery policy*, p. 5. However, a 2006 report [E/ICEF/2006/AB/L4] claims that “There was consensus among the [UN] agencies about definition of direct... costs used

83. However, the comparisons with the average cost incidence should not concern the maximum rate of 7 percent but the actual weighted average of the recovery rates applied. Cost recovery performance has been poor for UNHCR as shown in **Box 5.1** above.

c. Distribution of cost recovery revenues

84. Another dimension to this issue, not reflected in official documents used for the agency studies, is the controversy regarding the “fair” split of the surcharge on earmarked funds between Headquarters and country offices within UN agencies. During our visit to Vietnam, the larger UN agencies were unison in their claim that they are not fairly compensated for the work spent on the administration of projects funded by earmarked resources. Salaries for staff working on projects are not covered by additional resources for the support budget. According to some of our interviewees, the Vietnam office apparently does not receive any of the 7 percent cost recovery imposed on earmarked funding; it is thought that “it all stays in New York” – in practice this is not correct as cost recovery funds the support budget but feedback may indicate disconnect between aggregate and country level realities. As things stand today, the local office has to dip into core resources to cover cost for administration of projects funded from other resources or thematic funds. The current policy of sharing the cost recovery resources with local offices “is perceived to be on paper.”

85. In addition, partner governments complained about the higher cost recovery rates applied by other UN agencies not covered by our study. The Ministry of Agriculture and Rural Development of Vietnam informed our team that the different rates charged by UN agencies (for example, FAO 12 percent, WHO 10 percent, and UNDP 7 percent) impose a very heavy administrative burden on the Ministry. Pressures to harmonize these rates have not met with any success thus far. The Ministry hopes that the One UN will result in one rate. The Ministry of Labour, Invalids and Social Affairs stated that ILO charges 8.5 percent to cover its administrative costs for implementation of projects. This rate -- higher than the 7 percent rate generally used by e.g. UNDP -- cannot be negotiated. The reason cited for ILO’s demand for a higher rate is that ILO (in contrast to e.g. UNDP) does not have own staff in Vietnam and that the costs for recruitment of project staff and other administrative complexities make ILO projects more expensive to implement.

in assessing cost recovery. There was no consensus, however, on how to recover costs, except that all direct costs should be charge directly to projects, and that all variable indirect costs should be recovered, if possible as a component of the project budget.”

Box 5.3 – Managing cost recovery over time: WFP’s PSA Equalization Account Reserve

PSA Equalization Account Reserve. In order to improve the transparency of reporting on ISC (Indirect Support Costs) income and PSA (Programme Support and Administrative) expenditure, the PSA equalization account reserve was created in 2002. The difference between PSA expenditure and associated income is transferred to this reserve at the end of each financial period.

No matter how successful WFP is in improving revenue and expenditure forecasts, there will always be a risk associated with unforeseen events. Therefore, to mitigate the risk of having unfunded overhead expenditure WFP needs a funding source to draw on should a PSA shortfall occur.

The PSA equalization account currently plays this role. Maintaining a reserve in the PSA equalization account is the only tool that WFP has to manage the variations between the PSA expenditure and ISC income.

The PSA equalization account reserve:

- reduces the risk of WFP having insufficient resources to cover its fixed overheads; without such a reserve, WFP would have no certain means of dealing with cases where ISC income is lower than PSA expenditure, and would in such cases have to seek additional funding from donors to fund fixed overhead expenditures that had already been incurred;
- gives WFP some certainty in planning PSA; and
- gives WFP time to adjust its PSA cost structure if ISC income fails to materialize at the expected rate.

WFP’s target is to maintain in the PSA Equalization Account an amount equivalent to a minimum of four months of expected PSA expenditure. For the PSA budget level proposed for 2010–2011, four months of operations would amount to about US\$75 million.

All uses of the PSA equalization account reserve have to be approved by the Board and are generally limited to support costs, including capital and capacity-building costs. In addition the Board has authorized transfers from the PSA equalization account reserve to the Immediate Response Account (IRA) and the Direct Support Cost Advance Facility (DSCAF).

6. Estimates of staffing structure and costs

86. The UN system employs nearly 83,000 staff worldwide; nearly two-thirds of UN staff is in the “general service” category (janitors, drivers, support and back-office staff, etc.); this is also the category of staff that has increased fastest over the past decade. Of the agencies included in the current study, UNDP and UNICEF are the largest employers in terms of staff, each one employing almost 6,000 staff. Reflecting the decentralized nature of their services, the vast majority – some 87 percent in the case of UNHCR and 82 percent in the case of UNDP – work in country offices or in regional headquarters.

Table 6.1 - Number of staff in select UN agencies, 2009

	Headquarters			Other Established Offices			Total		
	Prof	GS	Total	Prof	GS	Total	Prof	GS	Total
UNDP	721	291	1,012	1,511	3,393	4,904	2,232	3,684	5,916
UNICEF	725	509	1,234	1,510	3,635	5,145	2,235	4,144	6,379
UNFPA	204	100	304	362	862	1,224	566	962	1,528
UNHCR	434	266	700	1,195	3,600	4,795	1,629	3,866	5,495
WFP	523	396	919	926	2,287	3,213	1,449	2,683	4,132
Total Agencies	2,607	1,562	4,169	5,504	13,777	19,281	8,111	15,339	23,450
Total UN	15,178	14,355	29,533	12,482	38,262	50,744	28,835	53,902	82,737

Source: UN CEB Statistics. Figures represent staff with contracts of duration of one year or more.

<http://www.unsceb.org/ceb/stats/hr/ps/2009/1A.pdf>

Note: Different UN tallies utilize different definition of “employee”, and hence, show widely different levels of employment. Data in the table are based on a common definition of fill, established regular positions or “posts” and are therefore comparable across agencies.

87. **UNDP.**⁴² UNDP’s workforce increased by nearly 30 percent during the 2004-September 2010 period. This is attributable to increased capacity required in activities in crisis countries, conversion of a large number of ALD contracts that were discontinued and converted to regular contracts in pursuant to the Contractual Reform approved by the General Assembly, and establishment of approximately 50 new Country Director positions in programme countries as an integral part of UN Reform. Regular resources only funded a portion of these posts. In the 2004-5 biennium support budget 3,306 posts were authorized and the corresponding figure for the 2008-9 biennium was 3,334 – growth of only 1 percent. The increase in staff was thus largely with funding other than regular resources. At the same time, personnel cost went up in a manner that implies an increase in nominal pay per employee of about 6

⁴² The following text presents staffing trends and issues utilizing the definitions used in the sector studies. Employment levels and trends are therefore not directly comparable across agencies.

percent per year⁴³. As of September 2010, UNDP employed 8,421 staff, of which 52 percent were female. Some 14 percent of staff worked at the UNDP Headquarters in New York. The largest number of staff, or 28 percent of total staff, works in Sub-Saharan Africa, with Asia and the Pacific being the second largest region in terms of staffing. By and large, there is a fairly good alignment between regional staffing levels and expenditures, except for Latin America.

88. Close to one-quarter of UNDP staff will retire within the coming decade. More specifically, nearly 800 staff, of which over 100 senior managers, will retire by 2015. The high attrition level (nearly one-third) among senior management, including Resident Representatives, etc., is an issue. While this offers an opportunity to align needed skills with those available – in particular as UNDP increasingly focuses on the provision of policy advice – it at the same time also presents the challenge of transferring institutional knowledge to new cadres of employees. A particular test is the presence of permanent staff that may be unable to adapt to the demands of a knowledge-based organization.

Table 6.2 - Regional distribution of UNDP staff

Region/location	Number of staff	Share of total (percent)
New York Headquarters	1139	14
Other Headquarters locations	503	6
Sub-Saharan Africa	2372	28
Asia and the Pacific	1670	20
Arab States	914	11
Europe and the CIS	904	11
Latin America and the Caribbean	919	11
Total	8421	100

89. **WFP.** As of end-2009, WFP employed 12,200 people worldwide of which some 7,100 were hired under projects instead of being regular staff – see **Table 6.3**.

Table 6.3 - WFP employees, 2008-2009

	2008	2009
Professional and higher categories	2,015	2,336
General service categories	8,182	9,864
Of which:		
General service	2,412	2,758
Service contracts	5,770	7,106
Total workforce	10,197	12,200

90. The number of full-time regular staff funded by the program support and administrative budget is only about 1450, of which nearly half are employed in regional and country offices. Professional and other higher level staff account for less than one-fifth of the total workforce. Because of funding

⁴³ Derived from expenditures by category. Annual Report of the Administrator various years; statistical annex.

uncertainties during the 2008-2009 biennium, staff was reduced – a decision that was subsequently reversed as the work programme expanded. Overall staff costs including benefits amounted to about 15 percent of total expenditures in 2009.

91. **UNICEF.** Counting staff funded under the biennial support budget – thus, excluding staff on short term contracts, consultants and under other arrangements -- UNICEF had 6379 staff as of end 2009, an increase by nearly one thousand from 5409 staff in 2002. During the same period UNICEF total income more than doubled. According to a headcount of field staff, UNICEF had a total of 10,114 UNICEF staff on contracts of duration of one year or more as of December 31, 2007, of which 1,758 were internationally recruited and 8,356 locally recruited⁴⁴. According to a later source, as of March 2010, UNICEF had 10,919 staff members.

92. As of end-2009, 18 percent of the approved posts were vacant. In a small number of field offices and headquarters divisions, the vacancy rates were more than 30 per cent. These high vacancy rates are partly due to contingent posts that will be filled if the associated program funding is secured. Thus, if the funding authorised in the country program approved by the Board arrives, the post is filled. Without funds, there is no program and there are no activities to be adversely affected. The true metric would therefore be posts supporting active programs that are vacant despite efforts to fill them, as they could adversely affect the capacity of UNICEF to implement some of its planned activities. However, the consultants were not provided with the exact number of contingent posts included in the above totals and such a metric could therefore not be calculated. .

93. Table 6.4 - UNICEF staff with appointments of one year or more, 2002 - 2009

Year	Total staff			of which: Project staff		
	Prof.	GS	Total	Prof.	GS	Total
2002	1817	3592	5409	1040	20	1062
2004	2015	3708	5753	1312	3187	4499
2005	1819	3374	5193	0	0	0
2009	2235	4144	6379	0	0	0

Note: From 2004 to 2005 UNICEF aligned reporting of ‘staff organizational location’ with other UN Agencies (UNDP, UNFPA UNHCR etc.) using only two categories: ‘Headquarter’ and ‘Other Established Offices’. In 2004 and prior years UNICEF had also reported staff location under a third category ‘project’. According to current practices, staff at Headquarters, Regional offices and Country offices, budget, finance officers, and administrative staff are funded under the Biennial Support Budget. All technical staff working on programs is funded under programme expenditures.

Source: UN CEB Matrix of Personnel Statistics Report. Tables. <http://www.unsceb.org/ceb/stats/hr/ps/matrix>

94. As is the case with other UN agencies, different systems and headcounts give conflicting information regarding the number of **UNFPA** employees – **Table 6.5** includes September 2010 figures. According to the audit of the accounts for 2009, UNFPA had 2,044 encumbered positions as at January 1, 2010 of which 340 were Headquarters staff and 1704 staff in regional and country offices. Some 48

⁴⁴ See <http://www.unsceb.org/ceb/stats/hr/ps>.

percent of staff was funded under the Biennial Support Budget and the rest under core expenditure programme expenditures. Nearly 40 percent of all staff worked in the Africa region. According to information on staffing at the UN and its agencies⁴⁵, the number of staff funded by core resources increased by 70 percent during the 2002 -2009 period, with the number of staff in professional grades seeing an increase by 86 percent.

Table 6.5 - UNFPA staff under regular resources by category and location as of September 30, 2010

	General services	National professional	International professional	Total	<i>Percent of total staff</i>
Africa	364	267	130	761	38
Arab states	80	40	42	162	8
Asia and Pacific region	215	123	62	400	20
Eastern Europe and Central Asia	67	40	21	128	6
Latin America and the Caribbean	127	72	39	238	12
Headquarters	126	0	202	328	16
Grand total	979	542	496	2017	100
<i>Percent of total staff</i>	49	27	25	100	

Source: UNFPA Staff in Atlas⁴⁶

95. In the context of the 2008 reorganization, UNFPA upgraded a significant number of staff positions, in response to a more demanding aid environment and UNFPA's shift into a more advisory role. UNFPA's new organizational structure - as approved by the Executive Board - placed emphasis on strengthening field capacities which was offset by post reductions at UNFPA Headquarters. UNFPA states that their staff members are systematically positioned in lower grades than staff with equivalent functions in other UN organizations and that competition from other UN agencies was the reason for the need to upgrade positions. The wage bill in the 2010 – 2011 proposes an increase in total salaries of 7.6 percent, primarily due to salary revisions and within-grade salary increments. The Advisory Committee has expressed concern over the large number of positions being proposed for reclassification, reminding that these reclassifications constitute a recurrent cost to UNFPA, with a potential impact on the future availability of resources for programme activities. The Advisory

⁴⁵ Annual reports are available. For 2009 data (see Table 1A) see CEB/2010/HLCM/HR/24

<http://www.unsceb.org/ceb/stats/hr/ps/years/2009>

⁴⁶ Additional data on UNFPA workforce. DP/FPA/2011/2

<http://www.google.com/url?sa=t&rct=j&q=unfpa%20number%20of%20staff%20by%20category&source=web&cd=3&sqi=2&ved=0CC4QFjAC&url=http%3A%2F%2Fwww.unfpa.org%2Fwebdav%2Fsite%2Fglobal%2Fshared%2Fexecutive-board%2F2011%2FReportonHRManagementinUNFPA.doc&ei=h7ATT9fPLYWgsQKQh9zRAw&usg=AFQjCNEIj6562S55CUEIzXhXCp6WLqUOaA>

Committee also requested UNFPA management to reconsider its proposal.⁴⁷ At that session, UNFPA explained that the upgrades/reclassifications being proposed at that time were based on a purposeful study of post profiles along specific criterion. The study was conducted with the assistance of outside expertise. The findings resulted in a need to redesign post profiles that were then submitted to external, independent expert classifiers who follow established ICSC Classification Standards. Results of the exercise were presented to ACABQ and subsequently approved by the Executive Board.

96. UNFPA also had a high vacancy rate of 20 percent under programme funded post and 17 percent overall, which has raised the Board's concern regarding the impact on the implementation of UNFPA projects. According to UNFPA, despite the challenges faced in recruitment - such as less attractive employment conditions due to the decrease in remuneration packages for international professionals at hardship duty stations. UNFPA is making progress in reducing the vacancy rate. As of 1 October 2011, the overall vacancy rate has dropped to 16 percent and the vacancy rate for programme funded posts is at 18 percent. These include posts that are temporarily put on hold for recruitment in light of current cost constraints.

⁴⁷ Estimates For The Biennial Support Budget For 2008-2009. Report of the Advisory Committee on Administrative and Budgetary Questions. [DP/FPA/2008/2]

7. Assessment of the Quality of Current Financial Data, Compilation Practices, Instrument, Procedures and Reporting Practices

a. Availability of information

97. The agencies should get strong recognition for making all Board paper available to the public – see for example UNDP⁴⁸. One issue is that neither external searches nor internal ones easily result in finding the right document, which can be a time consuming process. A more important issue is that some publically available papers at times cover 2 years of data, which makes annual analysis such as the one in this report difficult. Also some of the detailed data does not seem to be publically available – for instance staffing and breakdown of certain expenditures. Finally, reconciliation of data from one paper to another can be hard due to changing definitions – for instance for UNDP some figures include trust funds and funds, others do not. UNDP recently launched a data.undp.org portal that provides detailed financial data for the organization, in addition to the standard reporting. Furthermore, UNDP is also a founding member of IATI.

b. General comments on accounting

98. The Board of Auditors assessed the UNFPA accounts for the 2008- 2009 biennium a “qualified opinion”. Specifically, the results of the nationally executed expenditure audit process for 2008 and 2009 were unsatisfactory as UNFPA was not able to accurately assess the results of the nationally executed (by governments and NGOs) expenditure at the time of the audit. Auditors noted the absence of adequate supporting documentation in the reporting of expenditures under nationally executed programmes. In addition, the auditors noted inadequate controls to ensure that the database that records audit reports was accurate and complete.

99. These issues have been addressed through different corrective actions implemented by UNFPA Management in response to the recommendations provided by the UN Board of Auditors (UN BOA) and UNFPA’s Division for Oversight Services (DOS), as evidenced by an audit recently completed by DOS of the Nationally Executed Expenditure audit process, which rated the process as “Satisfactory”. Progress achieved has also been acknowledged by the UN BOA in the course of their 2011 external audit activities. Specifically, the follow-up to the report of the United Nations Board of Auditors⁴⁹ for 2008-2009 notes that as of 30 September 2011, UNFPA had implemented 73 of 93 recommendations.

⁴⁸ <http://www.undp.org/execbrd/sessions.shtml>

⁴⁹ DP/FPA/2012/5 <http://www.unfpa.org/webdav/site/global/shared/executive-board/2012/FINAL%20UN%20version%20of%20report%20on%20Board%20of%20Auditors%20-%20single-spaced.doc>

UNFPA is committed to ensuring accountability at all levels of the organization, and has established dedicated mechanisms to follow up external and internal audit recommendations on a regular basis. It is also addressing the root causes of the problems identified by the Board of Auditors.

100. For 2008, the auditors also “noted significant shortcomings” in a number of areas during visits to four country offices. The controls in two country offices were particularly weak. Against this background, the auditors proposed “urgent strengthening of field-based controls as well as regional and headquarters reviews... to manage the exposure of UNFPA to risk.” An audit of 34 country offices undertaken by UNFPA’s internal auditors rated over a quarter of these offices as “unsatisfactory”, while half the offices were rated “partially satisfactory”.⁵⁰ Audit reports on expenditures equivalent to 10 percent of audit reports were qualified, covering expenditures in the amount of \$35.4 million, equivalent to 27.6 percent of audited expenditures and 4.7 percent of total programme expenditures for 2008. The amount of unsupported expenditures for which the reports were qualified was \$ 1.8 million, or 1.4 percent of expenditures. Unsupported expenditures identified in the course of the 2009 and 2010 NEX audits were somewhat higher, representing 3.0 percent and 3.8 percent, respectively, of expenditures. UNFPA management has also implemented a process to clear unsupported NEX audit expenditures, by obtaining and reviewing additional documentation subsequently provided by the IPs. In addition, UNFPA has also put in place a policy whereby cash advances to implementing partners with negative audits reports or unsupported expenditures are suspended until the issue has been resolved.

101. In a wider perspective, it should be remembered that where UNFPA-funded programme activities are implemented by governments and non-government organizations, these implementing partners provide UNFPA with reports documenting their use of UNFPA resources. These reports form

⁵⁰ UNFPA. Financial report and audited financial statements for the biennium ended 31 December 2009 and Report of the Board of Auditors [A/65/5/Add.7]

<http://ods-dds-ny.un.org/doc/UNDOC/GEN/N10/461/87/PDF/N1046187.pdf?OpenElement>

Partially satisfactory rating refers to cases where governance, risk management and control practices are generally established and functioning, but areas for improvement have been noted.

The Board of Auditors in their 2005 report expressed almost identical concerns regarding nationally executed in their in their review of the accounts for 2004–2005, stating that “The nationally executed expenditure project audit reports provided by independent auditors reflected a significant number of qualifications.” The exact extent of project audit qualifications and the impact thereof could not be determined for the biennium, as these had not been analyzed by UNFPA. In addition, the effectiveness of internal controls and procedures in respect of nationally executed expenditure could be further improved. See UNFPA. Financial report and audited financial statements for the biennium ended 31 December 2005 and Report of the Board of Auditors [A/61/5/Add.7]

<http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N06/440/24/PDF/N0644024.pdf?OpenElement>

UNFPA. Financial report and audited financial statements for the biennium ended 31 December 2009 and Report of the Board of Auditors [A/65/5/Add.7]

the basis for recording programme expenditure in the UNFPA accounts.⁵¹ The use of UNFPA resources after they have been advanced to implementing governments and non-government organizations is also a relevant issue. FACE (Funding Authorization and Certificate of Expenditure) forms are used by implementing partners (IPs) to report expenditures and are subject to a detailed review and approval process by programme and operations staff, and the projects are subject to regular monitoring by the concerned programme officers. In addition, all IPs with expenditures greater than US\$100,000 in a given year are subject to a NEX audit, which provides visibility and assurance on the ultimate destiny of the funds provided to the IPs – as mentioned above the shortcomings noted in NEX audits have been addressed.

102. Since 2010, **UNHCR** has just implemented a biennial cycle as other agencies, a new budget structure into 4 “pillars” - splitting its original mandate (refugees, stateless) from additions (integration, IDPs) and a need-based budget plan according to rough censuses of affected populations. Although, by contrast with past budgets, the need-based budget is not realistic, it calls the attention of donors on less publicized country needs and probably reduces the need for repetitive supplementary budget submission though the year. Typically UNHCR would now pass a budget of about US\$3 billion, issue internally much lower budget ceilings and collect donor pledges of less than 600 million by the beginning of the year, and thereafter intermittently receive some 2 billion of actual funding.

103. **WFP’s** website represents its main source of financial information. Before 2008, as required under the UNSAS accounting standards, WFP reported its financial results on a commitment basis with a breakdown of accounts by type that took into consideration a cost classification that distinguished costs between commodities purchased and in kind, DOC (Direct Operational Costs) ,ODOC (Other Direct Costs), DSC (Direct Support Costs) and ISC (Indirect Support Costs) with further available breakdowns within DOC and evidence being given also to cost breakdown by nature. This enabled a series of expenditure analysis that gave evidence of breakdowns between direct and indirect costs and the evolution of their relative weight.

104. With the introduction of IPSAS, the breakdown of costs by type is no longer presented in the audited financial statements to the extent that when the budget, prepared with the cost breakdown by type, is compared to actual results the comparison is made by cost type but on a commitment basis. **As a result there is no way to compare statements of Financial Performance in the audited annual accounts with WFP’s budget and its reviews.**

105. **WFP’s budget and financial statements are prepared using a different basis.** The Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets and

⁵¹ UN General Assembly. Financial report and audited financial statements for the biennium ended 31 December 2009 and Report of the Board of Auditors, op.cit.

Statement of Cash Flow are prepared on a full accrual basis⁵² using a classification based on the nature of expenses in the Statement of Financial Performance, whereas the Statement of Comparison of Budget and Actual Amounts is prepared on a commitment accounting basis.

106. **UNDP** benefits from strong financial management and supported by good controls. The proposed adoption of international financial standards in 2012 would thus address the major remaining weakness. Two key documents provide a good overview of financial management issues during the past decade. The first, lists auditor recommendations that have been outstanding for over 18 months⁵³. The second document is the recently published audit report for the 2008/9 biennium, which includes an unqualified opinion. Nevertheless, the auditors also identify and recommend a number of systemic improvements to be addressed in due course. The introduction of IPSAS will help some of these issues, as well as others carried over from past audit.

107. The most recent audit found that UNDP carried in its books over US\$5.0 billion in excess of income over expenditures for its total programme/project activities as at 31 December 2009. About US\$1.1 billion of these funds were accumulated during the biennium. UNDP also had trust funds that had minimal or no expenditure for one or two biennium.

108. UNDP disclosed in its notes to the financial statements a total liability of about US\$560 million for after- service health insurance, repatriation benefits, termination benefits and accrued annual leave. However, a provision for those amounts was not raised in the accounts of UNDP. Other reports suggest that these liabilities are found system-wide. These issues will be addressed through the implementation of IPSAS.

109. The audit noted issues at the level of some country offices. These included missed deadline for information and audit submission, insufficient segregation of duties, some auditors issued inappropriate opinions, and some challenges continued to be experienced in identifying all projects to be audited and in analyzing the audit opinions received. A few country offices were not systemically checking prospective vendors against the list of suppliers prohibited by the Security Council even though UNDP had developed controls to assess and monitor prospective vendors against the list of suppliers prohibited by the Security Council.

⁵² The accrual accounting principle measures the performance and position of the organization regardless of when the cash transaction occurs. On the basis of this principle, the effects of transactions and other events are recognized when they occur (and not when cash or its equivalent is received or paid), are recorded in the accounting records and reported in the Financial Statements (Statement I to IV) of the financial periods to which they relate. According to this accounting principle, revenues and expenses associated to a transaction or an event match. See: *WFP Policy Guidance Manual for International Public Sector Accounting Standards*, 2008 edition. Available at: <http://docustore.wfp.org/IPSAS/ResourcesandTools/IPSASPolicyGuidanceManual/index.htm>.

⁵³

<http://www.undp.org/execbrd/pdf/Annex%20to%20DP%202010%2031%20High%20Priority%20Recommendations%20Unresolved%20for%2018%20Months%20or%20More.pdf>

c. Implementation of auditors' recommendations

110. **UNFPA**. Progress has been achieved since 2009 in implementing pending recommendations of the Board of Auditors.⁵⁴ By January 2010, UNFPA had implemented 46 out of a total of 59 accepted recommendations (78 percent) of the 2006/7 audit. UNFPA has explained that remaining issues are being addressed and implementation of the recommendations is also monitored by the Audit Monitoring Committee.

111. **ACAQB** and **UNHCR's** auditors have been identifying the main issues, such as the need to provide for staff benefits and end-of services liabilities, to account for land and buildings, to reduce the staff in between assignments and to implement IPSAS. UNHCR has attended these concerns at a reasonable pace with a few delays.

112. **UNICEF's** Board of Auditors made 38 recommendation for the biennium 2006-2007, of which as of 2010 26 (68 percent) were fully implemented and 12 (32 percent) were under implementation. The Board has noted a 17 percent decrease in the implementation rate compared with the previous biennium. With respect to the 12 recommendations for the 2006-2007 biennium, which were still under implementation, UNICEF has indicated that most of them would be implemented with the roll out of new enterprise resource planning systems and compliance with the IPSAS.

113. Government partners are required to submit once per program cycle audited financial statements to UNICEF. The UN Board of audit sampled 15 country offices and found no evidence of any audited financial statements from these offices for the biennium under review. UNICEF has recognized its cash transfers to implementing partners in advance of actual program implementation as expenditures when the cash was disbursed. This is not in keeping with the principle of accrual basis of accounting for expenditures, but it is in line with UNSAS (modified accrual) and with the Executive Board approved Financial Regulations and Rules. This matter has been brought to the attention of UNICEF by the Board of Auditors in the context of IPSAS compliance in 2012.

114. During 2008-2009, the Office of Internal Audit conducted 50 audits of country offices and issued 730 audit observations. A total of 18 headquarters, systems, and thematic audits were also carried out during the same period. The key observations made during the audit of country offices concerned, *inter alia*, weak strategic planning and priority setting; lack of systematic approach to risk management; weakness in human resource strategy and recruitment, evaluations, processing of financial transactions, implementation of financial controls and procurement of supplies.

115. **WFP's** External Auditor, appointed by the Executive Board in accordance with the Financial Regulations, in addition to certifying the accounts of the WFP under Article XIV of the Financial Regulations, has authority under the mandate, to report to the Executive Board on the efficiency of the

⁵⁴ Status of implementation of recommendations
http://www.unfpa.org/exbrd/2010/first_regular_session/report_board_auditors.doc

financial procedures, the accounting system, the internal financial controls and the general administration and management of WFP.

116. The aim of the External Auditor's audit is to provide independent assurance to the Executive Board; to add value to the WFP's financial management and governance; and to support the objectives of the Programme. In general terms the response of WFP to recommendations by the external Auditors appears to be rigorous with careful consideration of every point brought to the attention of the Executive Board. Progress reports on external auditor's recommendations are issued twice a year on average in order to monitor the implementation process and update the Executive Board on progress made. The rate at which External Auditor's recommendations are implemented by WFP is high (over 94 percent) and the timeline of the implementation process involves completion within a period of 30 months.

117. In general, **UNDP** has been effective in following-up audit recommendations. There are 29 outstanding audit recommendations between 2004 and 2008. They are distributed thematically as follows: (a) involve action by host country (4 cases); (b) security situation in a country (1 case); (c) involve cooperation with other UN agencies (2 cases); (d) need involvement from HQ (6 cases); (e) lack of resources (7 cases); (f) slow pace of implementation (5 cases); and (g) inaction by country office (2 cases). The issues mainly relate to financial, project/programme and human resource management, and procurement areas.

118. The first five actions depend on the host country and are outside UNDP's control. The issue of establishing a policy towards corrupt vendors is important and material is also critical. UN already has a policy framework adopted in 2001⁵⁵, but it is an issue for the UN as a whole. Implementation would include and enforcing anticorruption clauses on standard contracts and a process for debarring firms – UNDP has recently developed a sanction policy⁵⁶, adopted by the whole UN system. The cost of implementing such policies is not insignificant and would need to be covered by UN's administrative budget. Financial management issues (5) are either related to need for clear regulation or reconciliation of accounts, but magnitude/materiality of problem unclear. Finally, most of the issues related to programme management (7) seem important enough to warrant more rapid follow-up. Most of the remaining issues are either procurement related or administrative.

d. International Public Sector Accounting Standards (IPSAS)

119. Until 2007, **WFP's** financial statements were prepared and presented to the Board on a biennial basis. Amendments to the General Regulations and to the General Rules and Financial Regulations were approved by the Board in 2007, changing the financial period from biennial to annual to allow for

⁵⁵ <http://www.unodc.org/pdf/crime/gpacpublications/manual.pdf>

⁵⁶ The sanctions policy (which is available at <https://intranet.undp.org/global/popp/cap/Pages/Vendor-Sanction-Procedures.aspx>) goes beyond corruption and bases sanctions on a vendor's involvement with six types of proscribed practices: Corruption, Fraud, Coercion, Collusion, Unethical Practices, and Obstruction.

full compliance with IPSAS from the date of IPSAS adoption. The 2008 financial statements were the first set of statements prepared in accordance with the International Public Sector Accounting Standards (IPSAS).

120. **As of end 2010, WFP remained one of few United Nations agencies to implement IPSAS.**

By adopting and implementing IPSAS in 2008, WFP enhanced its ability to produce relevant and useful financial information, improving the transparency and accountability with which WFP manages its resources, and in 2009, WFP took several additional significant steps to further enhance transparency and accountability. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard (IFRS) is applied.

121. The implementation of IPSAS within WFP has provided a consistent framework for financial reporting, providing greater transparency and accountability. The External Auditor's opinion, based on the reviews made, is that WFP is using the opportunities presented by IPSAS and the associated improvements in business systems. Without the impetus and culture provided by IPSAS, wider improvements to financial processes might not be achieved.

122. The benefits of the new framework go well beyond the presentation of more accurate financial statements. The discipline provided by implementation of IPSAS has enhanced WFP's opportunity to engage management and other stakeholders in key financial issues. The application of a framework to record the assets and liabilities of the organisation has enabled WFP to acquire more accurate and reliable financial data on which to make decisions.

123. The **UNFPA**, following a phased approach, is aiming at full implementation of the international public sector accounting standards (IPSAS) by 2012. The Board noted that that plan did not have measurable milestones to assist in the monitoring of the plan. The Board identified areas of improvement in the plan, including defining the roles of the UNFPA regional and sub-regional offices and other structures of UNFPA, and full consideration of the requirements for post-implementation training.⁵⁷ UNFPA already applies the International Public Sector Accounting Standards (IPSAS) in Vietnam. The move to IPSAS is expected to be completed by 2012.

124. **UNHCR** has now mobilized the resources needed to set up IPSAS within a year or two.

125. Currently, **UNICEF** does not follow International Public Sector Accounting Standards. Work to adopt such standards has been ongoing for some time, but suffered delays (partly because of complexities related to the introduction of the VISION performance management system). Full adoption of IPSAS is currently scheduled for 2012, with data for 2012 reported following the new

⁵⁷ An interesting comment concerning the adoption of IPSAS is the observation how UNFPA can "provide adequate assurance that the money transferred to national implementing partners is used for the intended purpose." See UNFPA INTERNAL AUDIT AND OVERSIGHT ACTIVITIES IN 2008. [Report of the Executive Director. \[DP/FPA/2009/5\]](#)

format.⁵⁸ Adoption of IPSAS will introduce similar formats of financial recording and reporting across the UN agencies. UNICEF has been utilizing a combination of accrual and cash based accounting for some time. One of the fundamental benefits of IPSAS implementation would be to require recording of all transactions on accrual basis.

126. **UNDP** has started the process of implementing IPSAS with its effective adoption in 2012.

e. Procurement and contract management

127. **UNFPA** maintains a specialist Procurement Services Section in Copenhagen, which also performs third-party procurement. In their review of the 2008-2009 accounts, the Board of Auditors noted that UNFPA, against its rules, continued to record procurement transactions by including also the cost of goods as income and expenditure, instead of recording only the fees earned in carrying out these transactions. Nor has UNFPA appropriately recorded receivables for amounts that are refundable by third parties or payables for advances made by third parties where UNFPA was still to procure inventories on their behalf. UNFPA maintains that its accounting treatment is not that of a procurement agent, but rather as part of its overall country program and as part of its IPSAS implementation, reconsideration will be given to this matter.

128. In the case of **UNICEF**, available studies discussed below point to relatively well functioning procurement systems and do not identify any systemic issues. However, specific areas for improvement are also identified.

129. In 2010, the UNICEF was assessed at an institutional level and across nine countries by a network of donors⁵⁹. This generally positive review notes that “on the indicator that assesses use of country systems – i.e., the extent to which the organization uses government systems for procurement, audit, financial reporting, and other procedures – UNICEF receives an inadequate rating overall. However, this finding must also be discussed in light of the specific country contexts in which UNICEF operates.”

130. The 2009 audit report⁶⁰ contains a review of procurement and contract management. It notes a number of deficiencies in relation to competitive bidding.

131. DFID has just completed in March 2011 a Multilateral Aid Review⁶¹, which includes an assessment of the UNICEF. This review concludes that UNICEF is a well-performing agency and as a

⁵⁸ Progress report on implementation of the International Public Sector Accounting Standards.

<http://www.unicef.org/about/execboard/files/10-ABL8-IPSAS-ODS-English.pdf>

⁵⁹ http://www.mopanonline.org/upload/documents/UNICEF_Final_February_19_issued.pdf

⁶⁰ http://www.unicef.org/about/execboard/files/A-65-5-Add2-Financial_report-audited_financial_statements-report_of_Board_of_Auditors.pdf

⁶¹ <http://www.dfid.gov.uk/Documents/publications1/mar/unicef.pdf>

result will receive an increasing portion of UK aid. It also gives a satisfactory rating to the aspects of procurement covered by the review.

132. Before the One UN reform program, each UN agency in **Vietnam** had its own procurement guidelines. According to information given in the meeting with Ministry of Finance officials, procurement regulations within the UN system have been harmonized as part of the program, even if each agency maintains their own guidelines. The general rule is that funding and implementing agencies has to follow Vietnamese Bidding Law and procurement regulations. (This rule also applies to projects implemented by NGOs.)⁶² However, if donors request for the use of procurement rules, different from Vietnam's laws and regulations, and as prescribed in international agreements, the donor shall be allowed to apply the relevant provisions. UNFPA, for example, follows Government rules in the case of national implementation, but adheres to UN regulations when implementing own projects. In the former case, the UNFPA provides quarterly cash advances to the Government ministry or other implementing partner as agreed in an annual work program in accordance with UN rules.⁶³ In the case of UNDP, national procurement procedures apply to funds advanced to the government as long as the procedures of the government share similar procurement principles.

133. The **UNDP** audit reports have highlighted a number of procurement issues that are being addressed. During the period under review, a key reform concerned UNDP and UNOPS initiated partial merger of certain IAPSO functions with UNOPS in May 2007. The partial merger was implemented on 1 January 2008, with a transfer of assets, business processes and staff⁶⁴.

134. A more **general comment** on the UN procurement system is also warranted here. The current UN manual⁶⁵ details rules and regulations governing procurement. It notes that procurement in the UN system is governed by the established regulations and rules of each UN organization. While such regulations and rules may differ in matters of detail, all organizations are guided by the Common Guidelines for Procurement. The procurement procedures are well documented and follow a clear internal logic. The analysis of this document is beyond the scope of the present study. Nevertheless, depending on whether or not they are followed by the agencies, certain procedures have an impact on responsiveness of the agencies to programme countries' needs and may impose an administrative burden on them. In particular the manual (Ch 3 para. 3.4) envisages quite a complex review limit

⁶² Ministry of Finance. General government rules for procurement and audit under donor funded development programmes and projects are laid down in Circular No 225/2010/TT-BTC. Guiding the State Financial Management Applicable to Foreign Non-Refundable Aid within the State Budget Revenues. Ha Noi, 31 December 2010.

⁶³ In the meeting with the UNHCR, the mission was informed that UNHCR does little procurement in Vietnam. It does, however, fund the construction of lots of schools at a cost of about US\$100,000 each of which the Government contributes some 25 - 50 percent. Contracts for the construction of the schools are signed with local governments in accordance with Vietnamese law.

⁶⁴ <http://www.undp.org/execbrd/word/dp08-43.doc>

⁶⁵ <http://www.un.org/depts/ptd/pdf/pmrev6.pdf>

depending on grade. The thresholds seem low and in the interest of efficiency could be raised and the review responsibility streamlined with a view to relying more on ex-post controls.

8. Conclusions

a. Context

135. The present study has been prepared following a decade during which the MDGs provided a set of goals for 2015 for donors and recipient countries alike. The emergence in 2002 of the Monterrey Consensus⁶⁶, following an international conference organized by the UN, led to a commitment by key donor countries to address the significant shortfall in financing needed to achieve internationally agreed development goals. For programme countries, especially the poorest, this led to the multilateral debt reduction initiative (MDRI), which helped write off their multilateral debt, as well as a commitment by donors to increase aid to 0.7 of GNI. The fulfilment of these commitment, and limitation in the ability of bilateral agencies to substantially scale-up their activities, resulted in a significant increase in donor flows through multilateral aid agencies, in the form of both untied and tied contributions. As seen in the evolution of revenues, the UN system was a major beneficiary from the scale-up in aid.

136. Three important factors may affect the level of aid in the present decade. In the aftermath of the 2008 financial crisis, some donor countries are facing significant fiscal constraints that leave them with no choice but to reduce expenditures on aid. Furthermore, some donors such as DFID are reallocating funds away from agencies classified less efficient, to more efficient ones. This has resulted in a recently announced change in the allocation of resources amongst UN agencies. Finally, there is a risk that after 2015 the absence of agreed goals may undermine aid mobilizing efforts. It is possible that the latter risk may be mitigated through the adoption of new goals and emerging non-traditional donors making-up for any shortfall. Nevertheless, it is quite possible that aid will grow at a much slower rate (if at all) during the present decade – a risk that appears to be materializing already. This implies that UN agencies may be facing revenue constraints and competition from multilateral financial institutions for donor resources, and increased scrutiny on questions such as how funds are being used, and their efficiency and effectiveness. The present study focuses on the first issue and provides a general response to this question, even if some details are not available.

137. **Recommendations** – Enter into even more multi-annual agreements with donors in order to stabilize funding. Develop contingency plans in the event resources, especially core, decline or grow less rapidly. Such a plan should identify what type of expenditures (e.g., most critical to the organizational goals) and programme (i.e.; benefitting the poorest nations) would be protected. Some of the recommendations below would also help address service delivery in a resource constraint environment.

⁶⁶ <http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf>

b. The Core and Non-Core issue

138. The issue of declining core to non-core resources has been a concern to UN agencies since the late 1990s – as evidenced by the aforementioned study of how non-core resources affected UNDP. The issue today remains largely the same as 10 years ago and it seems clear that some of the risks that were thought to be present at the outset of the new century have either not materialized or have been largely mitigated. This mitigation has taken a number of forms, such as greater flexibility in targeting of earmarked funds, better selectivity and integration of such funds within the agencies' strategic programs, and improved complementarity with core resources. Furthermore, non-core resources have proven to be relatively stable and predictable, which facilitate strategic planning. Finally, for some agencies such as UNHCR and WFP, the very nature of the business is to respond to unexpected disasters and emergencies through targeted resource mobilization and response for which non-core resources are quite adequate. On the other hand, both UNICEF and UNFPA, still mobilize a relative high share of core resources that tends to reduce the problems associated with inappropriate funding mix.

139. The challenge for the present decade is that stability in resources can no longer be assured and, should core funding take the brunt of lower donor funding, certain agencies, notably UNDP, may find they lack the flexibility to deliver their strategic plan. Such downside risks would need to be mitigated, possibly by considering alternative organizational arrangements and seeking greater efficiency and effectiveness in delivery. In other cases, it appears that mobilization of non-core funds may be an integral part of the resource mobilization strategy of an agency, which in turn would need to ensure that the distortionary impact of this approach is minimized. Finally, the biennium budget provides important sustaining resources used to administer programmes. However, while the cycle for donor resources is annual, the former is every two years and in some cases it may take more than the two preceding years to formulate it – the process is quicker for some agencies such as UNICEF and UNDP, which is 9-12 months. This may lead to mismatched resources.

140. **Recommendations** – Consider ways to reduce the lead time for preparing the biennium budget. Each UN agencies should ascertain whether its main donors are likely to decrease core funding in absolute terms or relative to non-core. In such cases, early dialogue with donors may help minimize the magnitude of such a change. In cases where non-core funding is preferred, the aforementioned dialogue could also help emphasise the importance of maintaining flexibility by earmarking themes for broad country groups, as opposed to very specific activities benefitting a single country. Furthermore, the agencies Boards should consider greater oversight over non-core resource to ensure, inter-alia, that priorities (such as relative level of support to poor countries) are not distorted and that they are not used as a way to circumvent Board guidance (for instance on hiring staff). Finally, the problem of reliance on limited number of bilateral donors should be addressed through improved mobilization of core resources from new sources.

c. Accumulated fund balance build-up

141. It is estimated that by end-2009 the 5 agencies had built over US\$12 billion of fund balances. These balances are now at a historical high. Much of these balances are from non-core earmarked funds received in advance under signed legal agreements for specific projects/programmes whose implementation extends beyond one financial year and the funds are not fungible. There are several reasons, mentioned by representatives of agencies interviewed and analysed in a recent UNDP note, for such build-up, including: (a) multiyear disbursement of resources and/or disbursements by donors during the last quarter of the year; (b) dealing with unexpected emergencies or reducing volatility due to fluctuations in income; (c) tight earmarking of some non-core resources; and (d) dealing with contingent liabilities (pensions, medical insurance and unspent leave) which can be quite substantial. Finally, there are statutory provisions that contribute to build-up of reserves. The build-up of cash has been discussed by the Boards of some agencies – notably the UNDP in an informal session on June 1, 2011.

142. **Recommendations** – Boards of the agencies should continue to monitor the build-up of unspent funds and ensure their timely draw-down while maintaining prudent reserves. Earmarking seems to account for the large majority of fund balances above statutory reserves. Given that non-core resources are to a large extent donor-driven, the relevant donors need to monitor their commitments and disbursements from such resources. Because of its scope and lack of public information, the present study was unable to review a sample of projects to gain better insights on whether and how this is done by the donors. Such a review may be the subject of a follow-up study.

143. Furthermore, UN agencies and donors should engage in a dialogue aimed at agreeing on more flexible use of earmarked resources. Desirable outcomes would include more widespread use in the future of thematic fund and greater ease in allowing agencies to reallocate, using relatively easy and transparent procedures, earmarked funds to related programmes in similar countries – such an approach has apparently been successful in the case of emergency response.

d. Cost Recovery

144. The study reveals that cost recovery mechanisms are increasingly fixed (typically 7 percent), simplified and harmonized between agencies. Some flexibility remains in place for setting the cost recovery rate on a case by case basis, in the case of a large donor for instance. In other cases, it appears that at country level additional cost recovery is authorized by donors to facilitate project oversight by the UN agency concerned. Overall, the study did not find that, at the aggregate level and compared to other donors' expenditure structure, the level of cost recovery was inappropriate. Furthermore, notwithstanding recent studies that demonstrate more support resources are devoted to core programmes, we cannot conclude that the latter subsidizes core activities.

145. However, this aggregate hides two issues. First, interviews at the country level reveal the perception on the ground that distribution of cost recovery resources is at times such that “too much” is retained at the level of headquarters and “not enough” reaches the agency on the ground. This perception is not shared by headquarters and could not be verified by our team beyond the feedback received during field visits. The second issue is that given certain important fixed supervision costs borne by UN agencies, the cost recovery for small funds may be insufficient to cover reasonable cost. UNDP, UNICEF and UNFPA are currently undertaking a review of their cost recovery policy as part of the wider discussion on the Integrated Budget Framework.

146. On the other hand, certain non-core programmes may be close complements to core activities, with overheads and supervision costs shared by the two resulting in lower average cost to the UN agency. Furthermore, some agencies, notably UNICEF, implement a substantial share of projects and fungibility of human resources may result in some cross subsidization by non-core activities of core programmes. The risk with this approach is that downturn in earmarked funding may result in staffing issues for agencies concerned, as some UN staff may find themselves redundant. More clarity on these issues would require a specific study of the different cases.

147. **Recommendations.** – Donors may wish to consider setting both minimum size and a certain amount of flexibility before initiating non-core programmes. A more detailed study by agencies of cost of administering non-core programmes would help establish thresholds. Small donors of non-core resources could still be accommodated as long as they are prepared to pool their funds with others in the form of multi-donor thematic trust fund. The case for implementation of some programmes by agencies (instead of Governments, NGOs and/or private sector) needs to be revisited. In cases of emergencies, this may be justified. For development programmes, however, the costs in terms of disempowerment of counterparts and/or moral hazard associated with funding of staff through non-core benefits may be exceeded by costs. In such cases, consideration should be given to eliminating self execution of such activities.

e. Staffing

148. A finding of this study is that increased expenditures by UN agencies has been accompanied by an increase in staffing, which may also contribute to build-up of contingent liabilities (health insurance, pension under defined benefit schemes, accumulated leave, etc.). Only part of this growth and difference may be explained by advice provided by UN staff and presence on the ground, notably in areas not covered very well by donors and other multilateral agencies. Furthermore, the model, different from other donors, whereby UN staff would be the major providers of advice to governments bears further scrutiny. Finally, the report notes the issue of retirement affecting senior staff and of ensuring their successors are selected on time have the required expertise to ensure a smooth transition to new managers, as well as need for greater staffing flexibility to maintain and improve skills mix.

149. **Recommendations** – Review effectiveness of past staffing strategies and realign with the needs of the coming decade. Implement HR recommendations already presented to various boards. Consider

ways to lighten the burden of staff on the biennial budget of UN agencies – and eventually undertake a study of efficiency and effectiveness in terms of service delivery and cost⁶⁷.

f. **Fiduciary and Accountability Systems**

150. Fiduciary systems as defined here include the public information, procurement and fiduciary systems. The first two areas are not treated in great details, but a few points merit to be mentioned. In general, the early public availability of UN Board documents is a strong point of the organization and better than most other bilateral and multilateral agencies – probably not as good as the current World Bank disclosure policy for detailed project documents, but better than or equivalent to institutions such as the EU. A main problem is that the published documents tend to be somewhat general, information they contain at times hard to reconcile from one source to the other, and important details and time series either not available or requiring consultation of more than one document (mainly a presentation issue).

151. Certain shortcomings are noted in audits. As illustrated by UNDP, follow-up in a small minority of cases may be quite slow (over 2 years). UNDP's procurement roadmap is now being implemented to reduce shortcomings noted in the report – this reform started after the period covered in this report.

152. Most agencies benefit from unqualified audits, which reflect adequate financial management systems. However, the audits do reveal numerous, even if often minor, shortcomings that need to be addressed. The proposed adoption of international public sector accounting standards in 2012 by all agencies (WFP already uses them) would thus address a major remaining weakness and avoid repetition of certain problems noted by auditors.

153. **Recommendations** – Continue improving public information systems, for instance by posting more project level information and supervision reports. Satisfy need for higher-quality, rigorous reporting on UN system-wide funding flows and ensure better comparability of information by using harmonized table with similar and complete coverage of detailed items. Review procurement procedures to ensure they conform to current best practice, including on use of country systems. Take all necessary measures to ensure that all agencies have adopted in 2012 the international financial accounting standards. Ensure timely follow-up of audit recommendations and clear backlog.

⁶⁷ The consultants were informed that UNDP is responding to some of the concerns by establishing Candidate Pools to support Succession Planning, launched the Streamlining Recruitment project and intends to identifying gaps in size and skills mix of its workforce.

9. ANNEX – HOW WAS THE STUDY CONDUCTED

As this report is neither an evaluation nor an audit there was no need to develop a specific methodology beyond following the approach highlighted in the terms of references, as clarified in the Inception Report. Specifically, the review period 2000s and the selection of agencies were pre-defined in our terms of reference. Furthermore, the study is based solely on public documents, with factual and qualitative interpretations validated through a series of exchanges with the UN agencies concerned. The report is thus a compilation in a reader friendly format of information from various sources that are not readily available in consolidated form elsewhere.

The approach followed involved no a priori judgement or hypothesis and was largely a process of discovery. The task assigned to the consultants was to track expenditures to its various components and building blocks, providing as much details as possible. Standard ratios and formats were used to facilitate any cross-agency comparison. In addition, as explained in the Inception Report, the consultants have summarized factors that underpin the observed expenditure patterns. These include budgetary and fiduciary systems, as well as information on allocation systems, cost recovery, staffing and so on.

Some of the recommendations of this report originate from UN documents and are restated only to the extent they had not been fully addressed at the time the review of documents was undertaken. The remaining observations are either direct results of the findings or areas that in the opinion of the consultants would warrant further analysis.

Based on our review of available financial documents covering UN agencies, we concluded that a pure desk study would have not met the stated objectives for this study. We therefore proposed to supplement the desk review with a more substantial series of interviews and exchanges with the UN agencies to be covered under this study. To this effect, team members visited and maintained contact with headquarters of agencies as well as with offices in the two countries we visited (Uganda and Vietnam).

We followed a simple 7-step approach to address the issues highlighted in our terms of reference. The sequencing of steps was based on the need to gather information before the interviews, with a general expectation that the information collected would have gaps to be filled at each agency's headquarters.

STEP 1 – DESCRIPTION OF THE UN BUDGET SYSTEM

We proposed to start by describing the budget process of UN agencies to facilitate enhanced understanding of the numbers and financial flows quantified in the report. This step was not initially foreseen in the TORs, but was added in agreement with our Norwegian counterparts.

STEP 2 – MAPPING OF CORE AND NON-CORE REVENUES

Main Source: publicly available information for mapping of revenues with additional information collected through interviews for practices.

Sub-step 2.a. We collected all publicly available annual reports and relevant Executive Board Documents of the select UN Agencies for the period 2001-2010 in digital form, with special emphasis on more recent years. Whenever these reports were not available we contacted the agencies concerned to request for the necessary information.

Sub-step 2.b. We reviewed the reports and inserted the data into Excel tables.

Sub-step 2.c. To determine the practices followed in evaluating in kind contributions we analyzed the notes to these agencies' financial statements wherever available. However, this analysis was supplemented by interviews to these agencies' accounting departments to clarify the details which are rarely included in the official documents.

STEP 3 – MAPPING OF EXPENDITURES AT THE HEADQUARTERS, REGIONAL AND COUNTRY LEVEL

The mapping focused on activity level break-up including but not necessarily limited to budget lines such as technical assistance (in house resources), technical assistance (external consultants), in kind (goods and services) support, direct financial support to cooperating partners, administration costs, and dissemination and advocacy (workshops, meetings, conferences).

Main Source: publicly available information for mapping of expenditures with additional information collected through interviews for their detailed break-up.

Sub-step 3.a. We reviewed the reports collected under sub-step 2.a above and inserted the data into Excel spreadsheets.

Sub-step 3.b. We expected that not all information above would be available for all agencies and/or activities. Considering the size of some of the agencies involved and the long time period (details on all expenditures for agencies like UNDP or UNICEF for a decade may be too great to be collected given our timing and budget), we agreed to discuss with NORAD whether we should focus on a sample of expenditures or reduce the expected level of detail.

STEP 4 – OVERVIEW AND ASSESSMENT OF THE CURRENT BUDGETING PROCESSES

An overview and assessment of the current budgeting processes, including an analysis of current priority setting principles and prevailing practices with respect to estimation and classification of costs charged to core and non-core funding.

Main Source: publicly available information.

Sub-step 4.a. We collected all publicly available information on the select UN agencies budgeting processes, including corporate policy papers and evaluations carried out by other donors. Examples of the first type of reports are DP-FPA/2010/1-E/ICEF/2010/AB/L.10, DP/1997/10, DP/1997/10/Add.1, E/ICEF/1997/AB/L.3 and E/ICEF/1997/AB/L.3/Add.1.

Sub-step 4.b. We organized the information on the current and proposed cost classifications, priority setting principles and other key practices in tabular form for subsequent discussion during the interviews at each UN Agency.

STEP 5 – CURRENT COST-RECOVERY PRACTICES FOR PROGRAM ACTIVITIES

Main Source: interviews, case studies and field work

Comment: the analysis of cross-subsidisation and its impact would be the main focus of our field work in the two countries to be identified as per terms of reference. Cost-recovery practices were analyzed at least at policy level or through third party evaluations (e.g., the Good Humanitarian Donorship. Indirect Support Cost Study carried out for SIDA in 2008).

Methodology. The management of non-core resources requires substantial administrative support costs. The issue has been studied extensively and we did not try to duplicate existing work (see for example JIU/REP/2002/3).

STEP 6 – QUALITY OF CURRENT FINANCIAL DATA COMPILATION PRACTICES, INSTRUMENTS, PROCEDURES AND REPORTING

Assessment of the quality of current financial data compilation practices, instruments, procedures and reporting, including a review of the current questionnaire used by the UN secretariat to compile UN system wide overview of funding for operational activities for development.

Main Source: Audits, internal financial reports, interviews, case studies and field work

Comment: We reviewed a number of key parameters and their evolution over time, and used available qualitative and quantitative information to undertake this task. The various sub-steps are highlighted below.

Sub-step 6.a. We compared expected and actual revenues to expected and actual expenditures in order to develop a view on how the UN system took into account its financial capacity when preparing interventions.

Sub-step 6.b. We reviewed the extent to which the budgeting process is transparent and inclusive and focused on output rather than input-focused implementation, with strong accounting and reporting procedures.

Sub-step 6.c. We checked whether the UN's financial management system includes clear rules on transparency and reporting, as well as effective oversight internal and external mechanisms.

Sub-step 6.d. In the case of programs involving provision of goods and services, we analysed a sample of recent procurement reviews.

Sub-step 6.e. As part of review of the systems, we briefly analysed the financial and management information system and briefly present its strength and weaknesses.

STEP 7 – IMPLICATION OF THE DATA IN TERMS OF FUTURE STUDIES AND EVALUATIONS

We agreed to propose further follow-up to the present study.

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Norad
Norwegian Agency for
Development Cooperation

Postal address
P.O. Box 8034 Dep. NO-0030 OSLO
Visiting address
Ruseløkkveien 26, Oslo, Norway

Tel: +47 23 98 00 00
Fax: +47 23 98 00 99

postmottak@norad.no
www.norad.no

