

12 June 2018



UNITED NATIONS POPULATION FUND

Integrated budget, 2018-2021 revision

Annex 3

**UNFPA responses to ACABQ recommendations
made in its report on the
UNFPA integrated budget, 2018–2021 (DP/FPA/2017/12)**

1. The Advisory Committee expresses its concern over the decrease in regular funding and expects any additional resources mobilized will be prioritized for programmes.

UNFPA shares the Committee concerns over the decrease in regular funding. The organization is proactively engaging in fundraising efforts following the 2015 EXB-endorsed resource mobilization strategy, including through its regular engagement in the structured funding dialogue. It is the practice of the organization to prioritize programmes when additional resources are mobilized. As additional regular resources became available in the second half of 2017 UNFPA prioritized and provided additional regular resources to programmes: \$10.6 million for country programmes and \$1 million for the Emergency Fund. UNFPA was also able to provide initial funding for the Humanitarian Response Reserve (\$5 million), for the first time.

Furthermore, in 2018 UNFPA provided additional regular resources for programmes (compared to the approved integrated budget): \$14.6m for country programmes and \$2.5m for Emergency Fund. This is reflected in the revised integrated budget 2018-2021, together with additional resources for programmes, in totaling \$189 million over four years.

2. The Committee recommends UNFPA utilize one amount for its institutional budget, after the midterm review, as the basis for comparing actual expenditure and the proposed institutional budget for future periods. The Committee also trusts that UNFPA will more accurately present related budget amounts in its future reports.

The institutional budget performance is analyzed based on comparable budget plan figures. The midterm changes in the institutional budget are for one year only which makes a material difference when compared to the four-year plan. From the onset, UNFPA has been transparent about the effects of the proposed changes in the mid-term review of the 2014-2017 integrated budget, and disclosed the budget impact on both the one- and four-year basis for correct comparison purposes.

3. The Advisory Committee expresses its concern regarding the proposed increase in the number of posts in the institutional budget for 2018-2021, and encourages UNFPA to further review the overall effectiveness of this proposed staffing change, given the potential cost implications of the post transfers and the currently projected limited income to fund such a change.

There is no real increase in the number of positions. The position change was to align existing positions with the appropriate cost classification as per the 2013 commitment UNFPA made to the Executive Board. The 41 posts (32 in HQ and 9 in ROs) were all existing positions that were previously classified as programme and included in Global and Regional Interventions (GRI). As a result of their cost reclassification, those existing posts have been transferred (reduced) from GRI to the Institutional Budget. There is no financial impact on country programmes, nor increase of the costs, as from the overall Integrated Budget perspective, this reclassification is budget-neutral.

4. The Advisory Committee takes note of the limited reductions to non-staff in 2015-2017 and encourages UNFPA to reduce its reliance on non-staff to conduct headquarters and field-based activities.

The organization has made considerable efforts to reduce the non-staff with a 9.3% reduction in Service Contracts (SC) positions and a 14.2% reduction in headcount over a two year period. The use of non-staff personnel including consultants, service contract holders and United Nations Volunteers (UNVs) is a critical, cost effective mechanism to address short-term or project-based needs which is increasingly necessary given the decrease in core funding and increase in short-term, less predictable, non-core funding. The predominant type of non-staff are service contracts used exclusively in the field (not in headquarters). Most service contracts are employed in support of project-based, time-bound, activities.

5. The Advisory Committee recalls that other United Nations Funds and Programmes are planning updates to their ICT infrastructure in the coming four-year period, and encourages UNFPA to collaborate with UNICEF and UNDP when exploring options for its ICT transformation project. Given the complexity of an enterprise resource system upgrade and the financial context currently facing UNFPA, the Advisory Committee recommends that UNFPA further review and provide concrete options for the most cost-effective and appropriate technology to be utilized in the ICT transformation process, which should not result in an increase to the institutional budget for 2018-2021. The Committee looks forward to an update on this matter in the mid-term review of the integrated budget 2018-2021.

UNFPA is a pioneer in sharing services, ERP platform and outsourcing, and is actively participating in the ongoing UN reforms dialogue on the topic. The integral part of the ICT transformation initiative is reviewing and analyzing ERP options, in conjunction with the ongoing ATLAS consortium assessment. Close conversations are being made with UNDP to explore all the available options for collaborations as well as with UNICEF. UNFPA management will select the most appropriate option based on the thorough analysis and review of options. In addition to operational requirements, ERP platform is expected to facilitate improvement of risk management, strengthen the internal controls framework and reduce the risk of fraud, but improving controls already built in the systems. Any ERP solution requires an investment regardless of the option chosen. The UNFPA Executive Board recognized the necessity to invest in an ICT transformation project and has approved the proposed budget as part of the 2018-2021 Institutional Budget.

6. The Advisory Committee looks forward to receiving updates on changes to the cost recovery methodology, if any.

In response to the Executive Board decision 2013/9 to review the existing cost recovery policy, the four agencies, UNFPA, UNDP, UNICEF and UN Women developed a Joint Report on Cost Recovery (DP/FPA-ICEF-UNW/2018/1) outlining proposals either a) to maintain the current harmonized cost recovery policy and Executive Board approved general, harmonized cost-recovery rate of 8 per cent for non-core contributions, which has been applied since 2014; or b) to implement an alternative harmonized methodology based on a modular approach (LEGO model in either option A or B). These proposals are premised on the overarching principles under which the cost recovery update has been undertaken; namely, to maintain a harmonized approach, to minimize cross subsidization of regular and other resources, to maximize the allocation of regular resources to programme, and remain efficient and competitive within the development cooperation system. The Executive Boards will consider the joint report at the second regular session in September 2018.

7. The Advisory Committee encourages UNFPA to apply budgeting methodology approaches that are based on realistic assumptions, given the inherent uncertainties in resource projections and costing assumptions over a four-year period, and looks forward to receiving an updated report on expenditures in the midterm review of the integrated budget for 2018-2021.

UNFPA applies sound budgeting methodology, based on Executive Board-approved concepts, harmonized with UNDP, UNICEF and UN Women. In the proposed revision, the income assumptions have again been reassessed based on the latest information available, and income projections revised, while remaining very conservative. UNFPA proactively manages uncertainties inherent with longer-term planning horizon, through constant review of income assumptions and resulting need to adjust spending in order to remain financially sound. UNFPA will continue to provide publicly available annual financial statements and expenditure reports, as well as the updates in the midterm review of the integrated budget, 2018-2021.
