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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

UNDP REGULAR FUNDING AND CASH FLOW MANAGEMENT

I. INTRODUCTION

1. In its decision 99/1 of 29 January 1999, the Executive Board reaffirmed its decision 98/23 of 23 September 1998 on the UNDP funding strategy, a decision in which it had also reaffirmed the need to reverse the decline in regular resources and to establish a mechanism to place UNDP regular funding on a predictable basis.
2. The Executive Board designated the second regular session, starting in 1999, as the time when all members would announce their voluntary contributions to regular resource and payment schedules for the current year. The Board encouraged early payment and in its decision 99/1 requested that all States members of UNDP communicate their voluntary contributions to regular resources and a schedule of payments, in writing, to the Secretariat by the beginning of April at the latest.
3. The early receipt of this information facilitates cash-flow management in the organization.

II. CONTRIBUTIONS PAYMENT PERFORMANCE IN 1999

4. The present report is submitted in the spirit of the more dynamic and transparent dialogue on UNDP core funding called for by the Executive Board and to provide a first indication of the payment experience of contributions in 1999. Because of the early date at which the report had to be prepared and the time needed to compile full information on the payment of contributions, the report contains details only of the payment to UNDP of contributions pledged in 1999 from donors of the Development Assistance Committee of the Organisation for



Economic Cooperation and Development (OECD/DAC). A more detailed review, covering the contributions of all countries, will be provided to the Board in connection with the funding session to be held at the second regular session of the Board in April 2000.

5. The Administrator wishes to express his appreciation to those donors who were able to pay their contributions in full to UNDP early in 1999 and to those donors able to pay at least a portion of their 1999 contributions in April or earlier. Nevertheless, the overall experience in the payment of contributions for 1999 remained suboptimal. A review of performance of major donors' payment to UNDP against actual pledges and payment schedules in the light of actual experience in 1999 reveals the following:

(a) A total of 17 major donors announced specific payment schedules for their 1999 voluntary contributions to UNDP, with a combined value of \$584 million;

(b) Of the 17 countries announcing payment dates, only 8 fully met the dates they had specified (for a value of \$332 million). Another 4 countries (\$127 million) effected payments within one month of the originally specified dates;

(c) Four countries (\$110 million) effected payments more than one month later than specified and one country (\$12 million) did not make any payment in 1999.

6. The cash flow of voluntary contributions from major donors in 1999 did not keep pace with that of 1998. By the end of the third quarter of 1999, only 66 per cent of pledged contributions had been received versus 76 per cent in the comparable period in 1998. As UNDP entered the last month of 1999, a total of \$157 million, or some 22 per cent of 1999 pledges, remained unpaid, versus \$18 million, or 2 per cent of 1998 pledges at 30 November 1998. The graphs presented in the annex illustrate the volatility that UNDP has experienced in contributions cash flow over the past five years.

7. Irregular and/or delayed cash inflows to the organization introduce an element of uncertainty that can impact on programme delivery. Delayed payments also significantly increase the likelihood of a need to draw against the funds of the operational reserve to cover working capital needs. In fact, based on preliminary estimates and subject to details of final expenditure apportionment, it appears most likely that UNDP utilized up to \$20 million from its operational reserve to meet its cash flow needs through 30 November. Upon receipt of contributions in December, the reserve was fully replenished and at year-end, the organization carried a small working-capital balance, exclusive of reserves, representing less than the working capital needs for two months. Such a cash flow trend is particularly troublesome given the organization's commitment to and success in recent years in reducing its balance of liquid resources to a low level.

8. At the date of preparation of the present report, the Administrator considers that there is a strong possibility that the regular resources reserve will again be drawn upon during February and/or March 2000 to meet regular resource cash needs. This estimation is based on the payments experience of

1999, in which a total of only \$84 million in voluntary contributions was received over the first three months of the year.

9. In light of the above and given the increased risk to UNDP in 2000, the Administrator again requests all contributing countries to make every effort to expedite the payment of contributions as early in the calendar year as possible.

III. HEDGING ACTIVITY IN 1999

10. It will be recalled that an important element of the core funding strategy was improved predictability of voluntary contributions to regular resources, including fixed payment schedules that would permit the organization to establish a known US dollar value of its contributions. This is achieved through the use of financial instruments, which ensure, in advance, a fixed US dollar amount for the conversion of non-US dollar contributions. The contractual nature of these financial instruments requires that settlements be effected at the contract dates, hence the importance of reliable amounts and strict adherence to payment schedules. As noted above, a significant portion of 1999 pledged contributions were not received in accordance with the payment dates announced by donors.

11. During 1999, the US dollar retained its strength throughout the year, appreciating by some 15 per cent against the Euro from its inception to the end of the year. UNDP was able to engage in hedging instruments to set the value of approximately \$160 million (valued at the UN rates of exchange in operation in April 1999) in non-dollar denominated contributions. The US dollar value of the contributions hedged would have been reduced by some \$8.8 million had these hedges not been in place. The total amounts hedged were affected by the lack of definitive information concerning amounts and/or payment schedules early in the year for several major contributions, as well as a decision to take a prudent approach to hedging in 1999 in light of the lack of historical experience with the announcement of specific payment schedules.

12. In order to establish the US dollar value of contributions at known levels to the maximum extent possible, the Administrator again requests all donors to provide a set schedule of payments and to ensure that the payment schedule is honoured. The Administrator reminds the Executive Board that the purpose of hedging strategies is not to generate gains on exchange of contributions but rather to ensure a known value of the contributions in US dollar terms for stability and programme planning purposes.

IV. EXECUTIVE BOARD ACTION

13. The Executive Board may wish to:

(a) Take note of the present document;

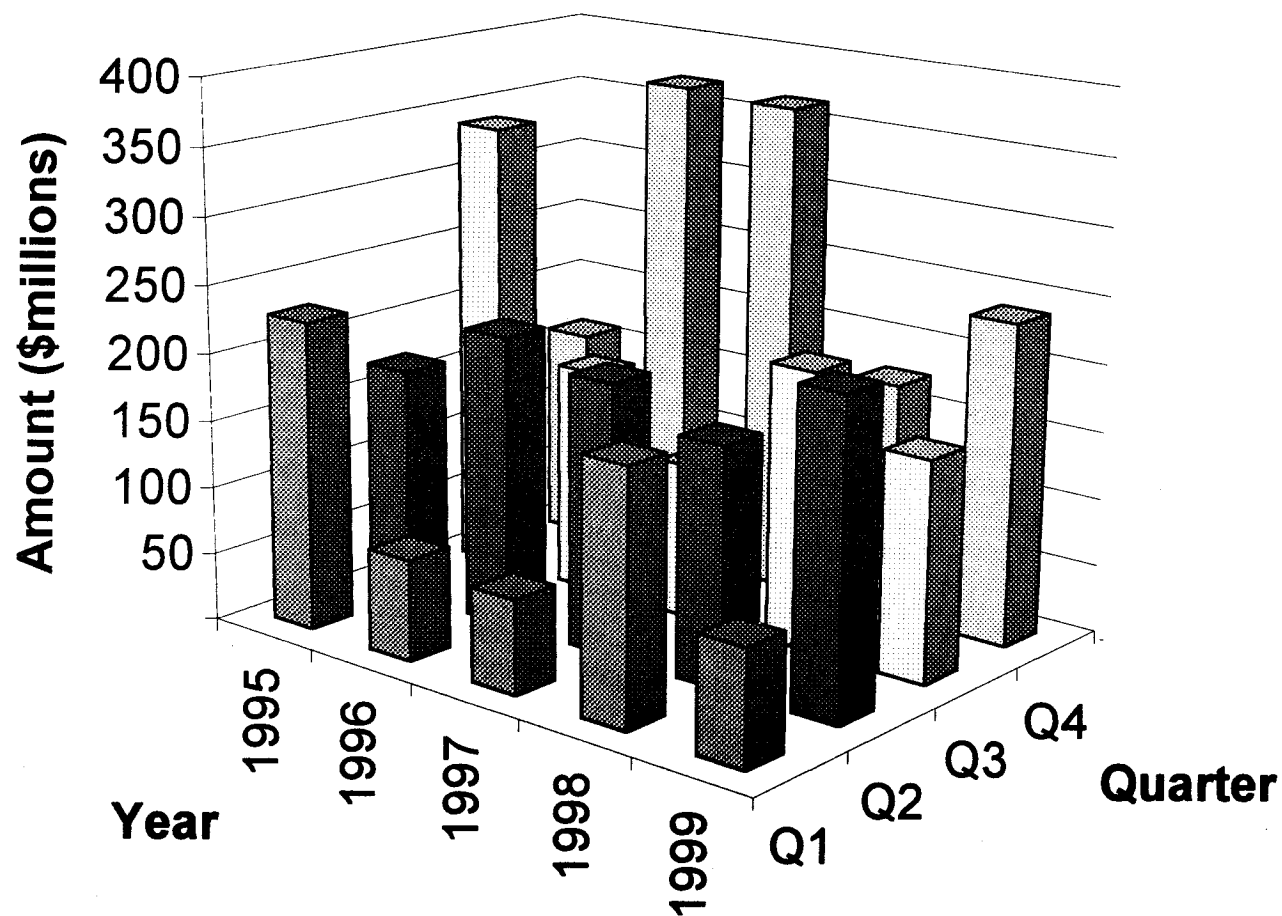
(b) Note the serious impact of delayed payments on cash-flow management as reported in the document;

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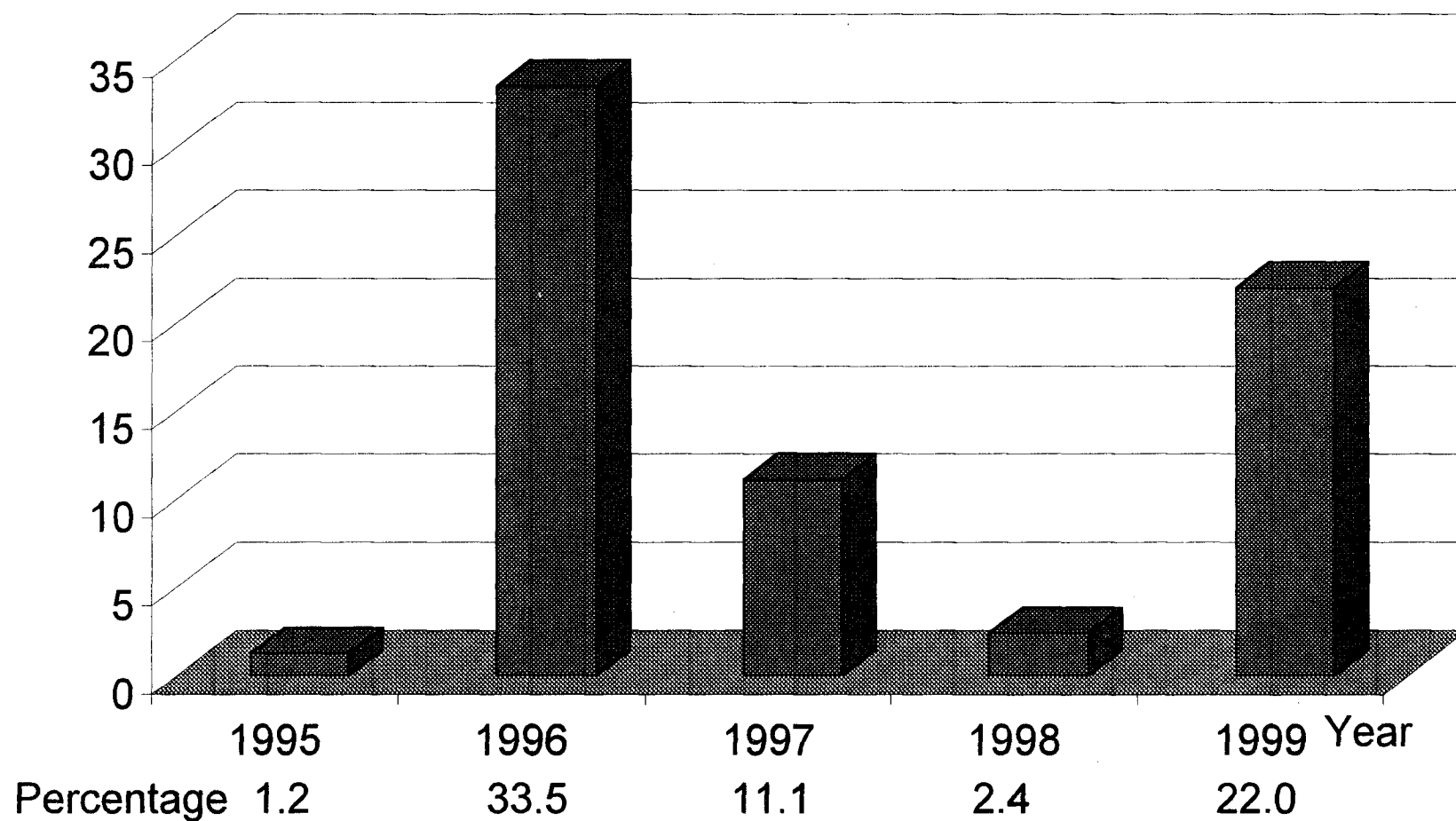
(c) Note the importance of officially communicating regular resources contributions for 2000 as early in the year as possible;

(d) Support the recommendation of the Administrator for a comprehensive implementation of the elements of the UNDP funding strategy (decision 98/23) concerning the announcement of pledges and adherence to a fixed payment schedule.

**Graph 1. UNDP voluntary contributions:
Pattern of receipts by quarter**



**Graph 2. UNDP voluntary contributions:
Percentage unpaid at 1 December**



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COMPREHENSIVE REVISION OF THE FINANCIAL REGULATIONS
AND RULES: FURTHER CLARIFICATIONS

1. In December 1999, the Advisory Committee on Administrative and Budgetary Questions (ACABQ) completed a review of the report of the Administrator on the comprehensive revision of the UNDP Financial Regulations and Rules. The ACABQ report is presented to the Executive Board in document DP/2000/7.
2. The present paper provides further explanation by the Administrator on the comments made by the Advisory Committee.
3. In commenting on document DP/2000/4, the Advisory Committee notes in paragraph 3 of its report that it had serious difficulties reviewing the proposed changes to the UNDP Financial Regulations and Rules. The Committee also notes that the format used in document DP/2000/4 does not ease the identification of the revisions and additions made to the regulations. The Administrator acknowledges that the comprehensive nature of the proposed revision of the Financial Regulations and Rules has entailed a multifaceted and complex process, which has touched on many financial and technical issues relating to UNDP activities. The Administrator similarly acknowledges that the resulting document containing the proposed revised Financial Regulations and Rules is not easily comparable to the current Financial Regulations and Rules. Precisely because of the very extensive nature of the proposed revisions, the document comprises a mix of modifications in the structure of the regulations and rules (i.e., the order in which they are presented) and changes to the content of individual regulations and rules as opposed to straightforward amendments. The Administrator therefore submits that a presentation of the type suggested by the Advisory Committee in paragraphs 3 and 8 of its report would not facilitate an understanding of the rationale for the overall revision. Instead, the Administrator has chosen to present the proposed revision in his report DP/2000/4 and, in agreement with the Office of Legal Affairs (OLA), to



circulate to the Executive Board the comprehensive comparative table prepared by OLA (DP/2000/CRP.5).

4. The Advisory Committee notes in paragraph 4 of its report that no explanations are provided in document DP/2000/4 regarding the set of rules that are proposed to be "upgraded" to the level of regulations. The Administrator wishes to draw the attention of the Executive Board to paragraphs 10 and 11 of document DP/2000/4, which present an explanation of the rationale for the change in the level where the information is placed. Furthermore, the Administrator would like to underline that most of the rules proposed to be "upgraded" to the level of regulations are existing rules that, by their nature and wording, contain delegation of authority to the Administrator. Thus, the wording "The Administrator may ..." indicates an authority delegated to the Administrator by the Executive Board. In accordance with the hierarchy between regulations and rules outlined in paragraph 10 of document DP/2000/4, which follows from current Regulations 1.1, 1.2 and 14.1 and Rule 101.1 (proposed revised Regulations 1.01, 1.02 and 2.02), the provisions delegating authority to the Administrator should appropriately be placed at the level of regulations.

5. Conversely, two regulations are proposed to be "downgraded" to the level of rules. The current Regulation 8.11 states that "approval of UNDP assistance to a project becomes effective upon signature of the project document by the Government or Governments and UNDP and, where appropriate, by an executing agency or other party selected under Regulation 8.10 (e) above". The current Regulation 8.9 (proposed revised regulation 16.02) provides the Administrator with the authority to approve, under such limits as the Executive Board may from time to time prescribe, assistance to country, regional and interregional projects (interregional projects no longer being in existence). The determination or approval of the time at which the commitments following from the approval of programme activities should take effect may be said to be a matter of operational consideration rather than general policy. In addition, it may be said that this latter authority would follow from - or even be inherent in - the former. It is believed, therefore, that the provision contained in the current Regulation 8.11 should be placed at the level of a rule.

6. As regards the current Regulation 8.10, the Administrator believes that the overarching principle for the selection or designation of an entity as executing entity is expressed in the current Regulation 8.10 (e) (vi). This provision requires the entity in question to have a "proven operational and managerial capacity and the ability to provide the needed services in a cost-effective manner and ensure its accountability to the Administrator". The additional conditions set out in Regulation 8.10 (e) (i)-(v) may be said to be of a more detailed operational nature, and it is proposed, therefore, that the Administrator be given the authority to define such conditions (i.e., proposed revised Rule 17.04).

7. The Advisory Committee notes in paragraph 5 of its report that any changes in the terminology of the financial regulations and rules should be consistent with the agreement to harmonize the budget presentation of United Nations funds and programmes, in particular those of UNFPA and UNICEF. The Administrator would like to reassure the Executive Board, as mentioned in paragraph 16 of document DP/2000/4, that the relevant proposed changes in the terminology are

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fully consistent with the new harmonized budget presentation as contained in document DP/1997/2. Most of the other changes in the terminology were introduced to reflect past Executive Board decisions. While the Administrator agrees that the ultimate aim is full consistency in all the terminology used by all funds and programmes, he believes that what is needed first is full consistency between UNDP Executive Board decisions and UNDP regulatory documents in order to strengthen the UNDP accountability framework. The Advisory Committee is also of the view that new terms such as "committing officer" and "verifying officer" may be potentially misleading and should be avoided. The Administrator wishes to advise the Executive Board that those new terms are proposed precisely to clarify the basic concepts of the revised and strengthened UNDP expenditure control policy and thereby avoid misinterpretation of the functions and accompanying responsibilities. The Advisory Committee also notes that the proposed new terms and definitions were not submitted to the Consultative Committee on Administrative Questions (CCAQ). The Administrator wishes to inform the Executive Board that, as recorded in the report of the ninetieth session of the Consultative Committee on Administrative Questions (Financial and Budgetary Questions), held in New York from 30 August to 3 September 1999, CCAQ was informed that UNDP was undertaking an extensive review of its Financial Regulations and Rules. CCAQ encouraged organizations planning changes to their financial regulations and rules to inform the Secretary of CCAQ as soon as such changes were approved in order that the CCAQ web site could be modified accordingly.

8. In paragraph 6 of its report, the Advisory Committee questions the rationale for the proposed Financial Regulation 2.02 (c), under which the Administrator would be authorized to suspend the application of any of the financial rules. The Administrator would like to draw the attention of the Executive Board to the fact that this authority is already granted in the existing financial regulations and rules, in the same language, under current Rule 101.1 (d). The only proposed change here is to transform the rule into a regulation, in accordance with the explanation provided in paragraph 4 above, since the authority to suspend the financial rules must surely be delegated by the Executive Board to the Administrator, just as the authority to issue the financial rules is delegated to him by the Board (see proposed revised Regulation 2.02 (a)), and is not an authority merely assumed by the Administrator.

9. The Advisory Committee notes in paragraph 7 of its report that it has serious difficulties understanding the reasons for the introduction of the changes discussed in paragraphs 40-48 of document DP/2000/4 and points out that the fundamental principles underlying those changes have not yet been agreed on by the governing bodies of UNDP. The Administrator believes that paragraphs 40-48 of document DP/2000/4 provide the necessary information for the Executive Board to clarify the mandate of UNDP on those four proposed changes. The Administrator would also like to draw the attention of the Board to the fact that, with the exception of the grant modality, those changes are proposed in order to adjust the UNDP regulatory framework to the reality of the UNDP business environment and to current practices.

10. Finally, the Administrator would like to underline the implications any delays in approving the revised financial regulations and rules would have on

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the implementation of the UNDP accountability framework. The fundamental rationale for the proposed comprehensive revision, as stated in paragraphs 4, 8 and 9 of document DP/2000/4, is that the current body of financial regulations and rules does not reflect the various changes and developments that have occurred in UNDP in recent years in such areas as programming and execution modalities. The current financial regulations and rules, therefore, no longer provide an adequate accountability framework for UNDP. After the Executive Board has approved the financial regulations, the Administrator will formally approve the financial rules, incorporating any amendments that may result from the deliberations of the Executive Board on the regulations. Following the approval of the rules, the Administrator will, through the Assistant Administrator, Bureau of Management, issue detailed financial procedures, in the form of a revised Finance Manual and a Manual of Operations Management. Operational units, including country offices, will require a certain amount of time to phase in the application of new procedures. A delay of the approval of the financial regulations and rules by the Executive Board will result in a corresponding delay of each subsequent step. Since country offices and headquarters units have indicated that they are practically unable to utilize the current Finance Manual, a delay in issuing the revised manual would leave operational units without up-to-date general guidance, which would in turn expose those units, and therefore UNDP, to financial risk.
