United Nations

DP/2002/WP.1

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.: General
12 February 2002

Original: English

Informal session
7 March 2002

Information relating to the review of the present arrangements for programme financing: working paper

Summary

In its decision 99/2, the Executive Board requested the Administrator to submit to the Board, at its annual session 2002, a report on possible improvements in the distribution model for resources available under the target for resource assignment from the core (TRAC), including a review of thresholds.

When reviewing the distribution model for TRAC resources, the Executive Board will also have to confirm or modify the applicability of the various other elements of the current arrangements with respect to the period 2004 and beyond. Hence, the requested report will also constitute the basis for more comprehensive Board discussions on the current programming arrangements that were endorsed for the period ending 31 December 2003.

An initial conference room paper (DP/2001/CRP/10) dated 23 April 2001 was presented to the Executive Board at its annual session 2001 to start the consultative process on possible new programming arrangements. That paper briefly outlined the various principles and issues to be considered within the context of further discussions on possible improvements. Subsequently, an internal review of the existing arrangements was carried out during the last quarter of 2001 to identify alternative approaches and specific changes/improvements that would address the issues outlined in document DP/2001/CRP.10. The internal review paid special attention to possible changes in current arrangements that would support ongoing efforts towards harmonization of UNDP programming arrangements with those of the other United Nations funds and programmes, especially the United Nations Children's Fund (UNICEF) and the United Nations Population Fund (UNFPA).

The purpose of the current paper is to present to the Executive Board the main findings and recommendations of this internal review. It is meant to facilitate the consultative process preceding a Board decision in 2002 on programming arrangements for the period 2004 and beyond.

Introduction

1. In its decision 99/2, the Executive Board requested the Administrator to report to the Board at its annual session 2002 on possible improvements in the TRAC resource distribution model, including a review of the thresholds used in the model. At that time, the Board will also have to review the different other aspects of the current programming arrangements because the 2001-2003 financial framework adopted in its decision 98/19 expires at the end of the year 2003. For programme planning purposes, a new programming framework, covering the period 2004 and beyond, will have to be approved by the Board at least 15 to 18 months before the end of 2003, ideally at the annual session 2002.

2. An initial paper (DP/2001/CRP.10) was presented to the Executive Board at its annual session 2001. It highlighted some of the pertinent issues to be addressed and outlined the timing of the consultative process leading to the formal review of the programming arrangements at the annual session 2002. Following the Board discussions at its annual session 2001, the Administrator also initiated an internal review of all major elements of the current arrangements to identify specific proposals for change that the Board may wish to consider.

3. The present paper provides a summary of the major findings and recommendations of this internal review and outlines possible and/or desirable changes in the current programming arrangements. The likely benefits of each of the identified change options are briefly stated to facilitate further informal Executive Board consultations at a series of informal meetings to be held during the period January to March 2002. At these meetings, the ramifications of each of the change options will have to be reviewed in greater detail so that, based on these consultations, the report to be submitted to the Executive Board at its annual session 2002 can provide further details on those options considered most suitable for further consideration.

4. The various options and/or proposals for change emanating from the internal review are presented in the current paper in four separate sections:

(a) *Current principles and overall financial parameters.* This section deals with the broader context of current and future programming arrangements. The main principles and key financial parameters underlying the regular programming arrangements of UNDP are briefly highlighted since they will guide the discussions on possible changes covered in the subsequent sections of the paper. Although no change is proposed by the Administrator, the Executive Board may wish to review, amend or confirm these principles and financial parameters when deciding on future arrangements;

(b) *Possible changes in the TRAC distribution model.* This section identifies specific options for change in current TRAC distribution arrangements. It also deals with the impact of a possible change in thresholds for net contributor countries and a possible change in the threshold that separates low-income countries and middle-income countries;

(c) *Possible changes in the programming arrangements for specific programme lines other than line 1.1.1 (TRAC-1).* This section deals with issues relating to the distribution of resources among the different programme lines as well as possible changes in the programming arrangements for specific lines. Each of the identified possible changes is aimed at one or more of the following: (i) simplifying existing arrangements; (ii) making the concerned funds more responsive to present-day realities and demands from programme countries; (iii) bringing current arrangements more in line with the overall objectives of the UNDP Business Plans; and (iv) allowing for greater flexibility for opportunity-driven programme-resource allocations. Some of the possible changes identified in this section would alleviate the negative impact that a shortfall of programme resources against the agreed target has on the ability of country offices to provide programme countries with essential assistance in the main areas of activities of UNDP.

(d) *Summary of possible changes of special relevance for ongoing and/or future harmonization efforts in the United Nations system.* This section provides a short summary of those changes presented in the current paper that will facilitate the harmonization of programming procedures with those of other United Nations Funds.

I. Current principles and overall financial parameters/features

5. The major principles as well as the main financial parameters and features underlying the current programming arrangements are summarized below. More details on the principles and associated operational or guiding principles are reflected in Executive Board decision 95/23 and related documents (DP/94/39, DP/94/59, DP/95/15 and DP/98/5).

6. The major programming principles with regard to the eligibility of all programme countries on the basis of fundamental characteristics of the operational activities of the United Nations development system are, *inter alia*, universality, neutrality, multilateralism, the voluntary and grant nature of assistance and the capacity to respond to the needs of all programme countries in accordance with their own policies and priorities for development. Related principles reflected in UNDP programming legislation include impartiality, transparency and predictability of the flow of resources for all programme countries. In addition, the principles governing the distribution of UNDP regular programme resources are based on progressivity in favour of least developed countries and low-income countries and a gradual move to net contributor country status for countries that achieve a higher gross national product (GNP) (Executive Board decision 95/23).

7. *The major overall financial programming parameters and features* are, *inter alia*, designed to address the difficulties inherent in advance programming over a multi-year period within the constraints of a system of annual voluntary contributions. For this purpose, the Executive Board approved a three-year financial framework (2001-2003) that establishes provisional resource earmarkings for eight regular resource programme lines and the biennial support budget based on agreed percentages of an initial planning figure of $3.3 billion for the period. As shown in annex I, the concerned programme earmarkings are divided into three categories: (a) programme; (b) programme support (non-biennial budget); and (c) support to operational activities of the United Nations.

8. The biennial support budget, established and approved by a separate Executive Board decision, is shown as a percentage of the total regular resource target. Within the context of the discussion on programming arrangements and earmarkings, it should be considered a fixed amount that has first claim on the regular income. Any shortfall of actual income against the agreed regular resource target will thus have to be absorbed by the programme lines. Such shortfalls, after deduction of the biennial support budget, are reflected in proportional across-the-board cuts in all programme lines.

II. Possible changes in the TRAC-1 distribution model

9. The main parameters of the current distribution model are provided in annex II. In reviewing possible improvements in the TRAC distribution model, the following findings and/or options for change were identified as particularly relevant in light of Executive Board decision 99/2 and the issues identified in document DP/2001/CRP.10.

A. Net contributor country (NCC) thresholds

10. Within the context of discussion on the programming arrangements for the period 2004-2006, the Executive Board will have to confirm or adjust the current NCC threshold of $4,700. Raising or lowering the thresholds will change the number of NCCs and may have an impact on the UNDP network of country offices. Scenarios illustrated below show the increases in the number of NCCs based on reductions in the threshold from the current level of $4,700.

Threshold	Impact
$4700	32 NCCs *(4 added, 2 removed, net increase of 2 new NCCs with country office)*
$4500	34 NCCs *(4 net new NCCs with country office)*
$4250	35 NCCs *(5 net new NCCs with country office)*
$4000	38 NCCs *(6 net new NCCs with country office)*
$3750	40 NCCs *(8 net new NCCs with country office)*
$3500	44 NCCs *(10 net new NCCs with country office)*
$3250	49 NCCs *(13 net new NCCs with country office)*
$3000	53 NCCs *(16 net new NCCs with country office)*

11. The above projected changes are based on gross national product (GNP) per capita data for 2000. If 2001 data are used, then the projections may produce a higher number of NCCs.

B. Review of the low-income threshold

12. Executive Board decisions 95/23 and 98/19 require that total TRAC resources (TRAC-1 and TRAC-2) be allocated respectively to the low-income countries and the middle-income countries on the basis of a fixed 88:12 ratio. The threshold that separates low-income countries (LIC) from middle-income countries (MIC) is currently set at a per capita GNP of $900. For the period 2001-2003, 12 per cent of TRAC resources are distributed to 74 middle-income countries and 88 per cent to 70 low-income countries. Current indications are that when the 1997 GNP per capita data are replaced by updated figures for the year 2001, more countries may move from the MIC category to the LIC category than the other way around. Moreover, the group of countries moving to the LIC category would most likely together also carry substantially more TRAC-1 earmarkings with them than those moving in the other direction. A possible adjustment to this threshold was reviewed in the light of this anticipated move of countries (and the current TRAC earmarkings carried by them) from one category to another owing to changes in GNP per capita.

13. The review brought to the fore some flaws inherent to the current TRAC-1 distribution model. As noted above, for each new programming period the current distribution model recalculates TRAC-1 earmarkings on the basis of new GNP per capita data. The pertinent formulas are applied to two separate pools of TRAC-1 resources i.e., the 88 per cent pool for low-income countries and the 12 per cent pool for middle-income countries, in line with the concerned Executive Board decision. If there is a significant net movement of countries between the two categories (both in terms of numbers and in terms of TRAC-1 earmarkings from the previous programming period), changes must be made either in the LIC/MIC threshold or in the respective shares of both categories in order to avoid distortions in the distribution of resources. Without adjustments in either the LIC/MIC threshold or in the respective shares, countries falling into the category where there is a net outflow of sharers will get an unintended premium that is not based on their relative ranking in GNP per capita or population, but is due purely to the movement across an arbitrary line (LIC/MIC threshold). This consequence is undesirable. Relatively minor changes in the ranking in GNP per capita for individual countries should not require successive Executive Board decisions on the LIC/MIC threshold or the respective percentage share of LICs/MICs in order to calibrate the distribution model. Moreover, changes in the low-income threshold may not offer ready solutions. For instance, based on 2000 GNP per capita data and the current threshold of $900, the MIC category countries would benefit (i.e., fewer countries would have access to the same pool of money). However, lowering the threshold to, say, $800 would have an even greater distorting effect in the opposite direction. These distortions can be mitigated or avoided by introducing some changes in the current TRAC-1 model, as discussed in paragraphs 17-20.

C. Introduction of some degree of flexibility in the share of the total of TRAC resources going to low-income countries and middle-income countries

14. The current TRAC-1 distribution methodology, which is based on fixed predetermined shares low-income countries and middle-income countries, has two major drawbacks: (a) it is likely to result in distortions in the distribution of TRAC-1 resources when moving from one programme planning period to the next, as explained in section I. B; and (b) it places serious constraints on the Administrator's flexibility for the allocations of TRAC-2 resources. It appears, therefore, desirable to move from a fixed percentage to a range of percentages for the allocation of TRAC resources to the low-income and middle-income country categories.

15. The major benefits that could be realized from a move to a range of percentages for the allocations of both TRAC-1 and total TRAC resources can be summarized as follows: (a) it would avoid the need for an Executive Board decision on the LIC/MIC threshold (or the percentage shares of LICs/MICs) each time that there is a net movement of countries between the two categories; (b) it would be more in line with the UNICEF/UNFPA methodologies; and (c) it would provide the Administrator immediately with an opportunity for greater flexibility when allocating TRAC-2 resources, even without any other change.

16. Moving to a range of percentages would make it possible to move towards a 'one-pool' TRAC-1 distribution model. Under a one-pool TRAC-1 model, MICs would no longer automatically get a fixed (currently 12 per cent) share of TRAC-1 resources, irrespective of the number of countries falling within this category and/or the sum of the former TRAC-1 earmarkings carried by them. Instead, their share would be within an agreed range, say, 10-15 per cent of total TRAC-1 resources. If the sum of their calculated TRAC-1 earmarkings were to fall within this range, no adjustments would be made. However, if their calculated share were to fall outside the boundaries of the range, their earmarkings would be either decreased or increased to bring their share to the closest boundary of the range. As the range would also apply to the respective MIC/LIC shares in total TRAC resources, it would imply that if the TRAC-1 share of LICs were at the lower end of the range, the subsequent assignment of TRAC-2 resources could still bring their share in total TRAC resources to the higher end of the range.

17. The range should be agreed upon in the context of the UNDP principle of universality, which is of particular importance for middle-income countries. On the one hand, an adequate minimum share of TRAC-1 resources for MICs will be essential in the light of maintaining viable operations in these countries and thus for the universal operations of UNDP. On the other hand, by adopting a range of percentages, MICs would not receive unintended TRAC-1 bonuses at the expense of low-income countries because of the way the distribution model is set up.

D. Establish a ceiling for individual TRAC resource earmarkings

18. In view of the continuing shortfall in regular resources, the issue of a possible ceiling on individual TRAC-1 earmarkings was raised during the internal review. Such a ceiling could be expressed either as a certain percentage of total TRAC-1 earmarkings or as a percentage of total TRAC 1 and 2 resources. Any agreement on a ceiling for country TRAC-1 earmarkings would also place a ceiling on country shares in total TRAC resources since any TRAC-2 allocation is currently limited to a maximum of 100 per cent of a country's TRAC-1 earmarking. The introduction of a ceiling on a country's share of total TRAC resources would address the issue of some countries having access to comparatively sizeable amounts of regular resources when many countries receive amounts that are less than the critical mass required owing to the considerable shortfalls in voluntary contributions. Such ceilings may also be appropriate in view of the increased focus of UNDP operation on upstream policy advice. It might, therefore, be desirable to place a limit on the percentage share in total TRAC-1 resources allocated to any one country of, say, 3 per cent (implying a ceiling of 3.6 per cent of the share of total TRAC resources). There are several ways of applying such a ceiling, each of which would require closer analysis if the concept is accepted by the Executive Board:

(i) A ceiling for country shares in the total of TRAC resources (without a change in the TRAC-1 distribution model) or a ceiling for country shares in the total amount of TRAC-1 earmarkings (changing the model);

(ii) Different ceilings for LDCs and non-LDCs;

(iii) A gradual introduction of the ceiling.

E. Minimum TRAC-1 earmarkings

19. Taking into account in particular the increasing role played by country offices in providing knowledge advisory services and other substantive support to programme countries in UNDP areas of activities, the Executive Board may wish to consider the desirability of providing country offices with a minimum TRAC-1 earmarking that would not be subject to subsequent cuts when there is a shortfall of actual regular resources against the agreed target. The minimum allocation would not be subject to mandated fixed shares for LDCs and LICs. The concept of minimum TRAC earmarkings would be in line with the UNICEF approach, which allocates a minimum of $600,000 of regular resources to countries where there is a country office, or for country clusters covered by a multi-country office. The main purpose of this option would be to provide all country offices with a minimum capacity and programming level. This option would be attractive as it brings to the fore the increasingly substantive role played by country offices.

20. The concept of minimum TRAC-1 earmarking could be introduced in two ways:

(a) The concerned resources would be taken from programme resources, before the TRAC-1 distribution methodology is applied (i.e., outside the TRAC-1 distribution model);

(b) The minimum allocation would be introduced within the TRAC-1 distribution model as an 'absolute floor' (in United States dollar terms) for all countries with a country office.

21. The introduction of minimum TRAC-1 earmarkings should also involve the establishment of formal earmarkings of TRAC-1 resources for clusters of small countries (for example, Pacific islands, Caribbean countries). The combined earmarking for a cluster of countries would constitute the minimum TRAC-1 earmarking for the multi-country office concerned.

F. Review of TRAC-1 distribution criteria

22. The methodology for the distribution of TRAC-1 country programme resources is based on needs defined by income and population. These criteria are appropriate to traditional sector-based development support where the size and population and level of GNP per capita can more or less serve as direct measures of the demand for development cooperation. However, with the increased UNDP focus on programmes in support of poverty reduction and related upstream policy formulation in selected areas, the demand for such services may no longer be so much a direct function of population size or even income, but rather a function of other needs. Such needs may require different TRAC-1 distribution criteria.

23. In the past, UNDP also used additional criteria for the allocation of regular resources. The indicative planning figure (IPF) distribution methodology was originally based on two criteria: a country's per capita GNP and the size of its population. Different weight coefficients were assigned at various levels of both indicators. Over the years, a multitude of other criteria were included in the methodology such as supplementary points, the floor principle and supplementary caps in order to achieve specific and different purposes. As a result, the methodology became overly complex by the time that the IPFs were calculated for the fifth programming cycle.

24. Within the context of the consultative process that led to Executive Board decision 95/23, a possible simplification of the methodology as well as the use of other country-specific indicators for the allocation of country programme resources (to replace population size and GNP per capita) were discussed several times (see documents DP/1994/59, DP/1995/15 and DP/1995/32 and the comments of the Board thereon in respectively documents E/1994/35/REV.1, part 4, and E/1995/35, parts 2 and 3). The methodology for successor programming arrangements finally agreed upon basically meant a return to the original IPF distribution methodology. The traditional basic indicators - GNP per capita and population size - were maintained for the TRAC-1 calculations and other country-specific indicators

were abolished. The reasons for this were twofold: (a) consensus on any of the other proposed indicators was impeded by conceptual or other systemic issues; and (b) the new flexibility provided to the Administrator through the TRAC-2 and TRAC-3 mechanism enabled him to channel resources to countries where UNDP assistance could have the greatest impact. It was felt that the allocation processes for the TRAC-2 and TRAC-3 resources would, *de facto*, replace the supplementary criteria earlier built into the IPF distribution model but no longer part of the TRAC-1 distribution model.

25. Against this backdrop, the possibility of using additional, or other, criteria for the distribution of TRAC-1 resources was once more carefully reviewed. Special attention was paid in this connection to the use of (a) the human development index; (b) the size of population under the poverty line; and (c) the use of GDP data based on the purchasing power parity method. However, the analysis showed that the disadvantages of the use of these new indicators would outweigh any advantages, at least for any application in the short term. Special issues in this respect concern data availability, data reliability, methodological consistency, and the use of different base years and the consequent need for extrapolation. In addition, some of the indicators may still not be readily acceptable to many countries for resource distribution purposes owing to different views on some of the underlying concepts. However, the use of some other criteria could possibly be introduced on a more informal or experimental basis for the allocation decisions on TRAC-2 and TRAC-3.

III. Possible changes in the programming arrangements for specific lines

A. Streamlining of support for policy development/support for technical services (SPPD/STS) arrangements

26. The SPPD/STS facilities were established as part of the successor programming arrangements, which became effective 1 January 1997 in accordance with Executive Board decisions 95/23 and 96/31. They replaced the earlier special funding facilities for UNDP/United Nations specialized agency cooperation (TSS-1 and TSS-2) that were introduced in 1992. Funding resources for both facilities were merged effective 1 January 2001, following Executive Board decision 98/19.

27. The objectives of the SPPD/STS facilities are well documented in pertinent Executive Board documents and decisions, as well as the "Overview of Support Cost Arrangements under the Successor Programming Arrangements" dated 23 December 1996. As outlined in the concerned documents, the agreed changes introduced at the start of the 1997-2000 programming period were aimed especially at: (a) simplifying earlier agreed TSS-1 and TSS-2 arrangements; (b) opening up the support cost arrangements by increasing the range of eligible participants and allowing greater involvement of national and regional institutions; and (c) making the arrangements more responsive to the needs and priorities of programme countries.

28. However, it has become apparent that developments during the last six years make further changes necessary. Key developments in this respect are:

(a) The significant change in the ratio of core/non-core financed UNDP programme activities due to an erosion in core contributions coupled with a rapid growth in non-core financed programmes (mainly cost sharing). For the year 2000, slightly more than 20 per cent of UNDP programme expenditures were financed from voluntary contributions. In view of the substantial reduction in regular resources directly available to programme countries, it is essential to further streamline the procedures to access separate programming facilities that are modest in financial terms;

(b) The increased concentration of UNDP assistance in a limited number of special practice areas. This has directly affected the number of United Nations agencies with direct involvement/expertise in those specialized fields. In consequence, the anticipated increased participation of UN system agencies in the arrangement has not materialized to the extent foreseen;

(c) The rapid increase in new UNDP partnerships at the country level due to the growing number of new non-traditional partners that are interested in cooperating with the UNDP/United Nations system. The current SPPD/STS arrangement limit the role of the facility in fostering a wider range of new partnership arrangements with both traditional and new multilateral, bilateral, non-governmental organization (NGO), civil society organization (CSO), and private sector partners;

(d) The significant increase of non-UNDP-financed programme activities of the major traditional United Nations agency partners of UNDP. This brings to the fore the opportunity for UNDP/UN agency co-financing arrangements rather than the traditional UNDP funded/United Nations agency-executed modality built into the current SPPD/STS arrangements.

29. The above developments have had a negative impact on the optimum use of the SPPD/STS facility. They have led to a decline in SPPD/STS resources available while at the same time the delivery and programming of the limited resources available has been very slow. In consequence, UNDP has started discussions with its United Nations agency partners on possible improvements in the current arrangements focusing particularly on: (a) making better use of these resources by improving the operational and procedural aspects of the current arrangements; and (b) encouraging the use of the facility for leveraging additional funding from non-traditional partners, especially in areas relating to aid coordination, national programming processes, and in support of the Millennium Declaration goals.

B. Establishment of fixed absolute amounts for selected programme lines/programme components

30. When establishing the financial framework for the next programme planning period, the Executive Board may also wish to consider the establishment of fixed earmarkings in terms of US dollar amounts for certain programme lines or components thereof. This would be especially appropriate for those programme components or facilities which: (a) are considered essential for key substantive operations at the country level within the context of the UNDP Business Plans; (b) require a certain critical mass of funding to function effectively; and (c) are meant to respond to essential programme or programme-related demands that are not, or are only very indirectly, affected by fluctuation in the overall magnitude of UNDP programme activities.

31. As with the biennial support budget, which has first call on available regular resources, the concerned facilities or components would have first call on regular resources available for programming. Within the financial framework, their share could still be expressed as a percentage of the foreseen total regular resources available for programming. However, this would translate into a fixed absolute amount in US dollar terms that would be available irrespective of the level of voluntary contributions. In other words, these facilities or components would not be subject to an across-the-board cut if actual regular programme resources fall short against the target set. On the other hand, they would not receive additional regular funding if available programme resources exceeded the target.

32. The lines/components that the Executive Board may wish to be considered for establishing fixed absolute amounts are:

(a) *Support to the Resident Coordinator (RC) and Development Support Services (DSS).* The current earmarking for this facility is 1.7 per cent of regular resources (1.4 per cent for the RC facility and 0.3 per cent for the DSS facility). These two facilities have proven to be most effective, both in providing seed money for new joint UNDP/Government initiatives and/or initiating joint initiatives with other development partners. However, with the low-level of actual contributions, the amounts available to each country office have become very small and have *de facto* seriously limited the impact of the facilities. Through its decision 2001/13, the Executive Board has already transferred $5 million of biennial budget savings obtained through reductions to the DSS facility;

(b) *Technical cooperation among developing countries (TCDC, line 1.5).* The earmarking for special resources for TCDC currently amounts to 0.5 per cent of total regular resources. The facility has proven to be most effective in leveraging resources for additional TCDC activities from a variety of sources. However, its ability to continue to do so requires a certain predictability of its "regular resource base";

(c) *Evaluation (line 1.4).* With 0.3 per cent of total regular resources earmarked for evaluation, the evaluation capacity of UNDP has faced serious constraints as a result of the continued reductions in actual contributions. At the same time, evaluation demands are driven by an expanding level of total programme activities (regular and non-regular);

(d) *Global programme (Line 1.3).* Several components or sub-programmes of the global programme would be prime candidates for a fixed absolute amount: the Human Development Report Office (HDRO); the Office of Development Studies (ODS); the Knowledge Network; and the Economists Programme. These sub-programmes either directly support the substantive operations of UNDP or are integral to the overall operations of UNDP (e.g., HDRO and ODS). As such, their costs are more or less fixed because the concerned programmes need a certain amount of funding to function effectively. In addition, certain sub-programmes such as those dealing with the Economists Programme, the sub-regional resource facilities (SURFs) and the Knowledge Network act in direct support to country programmes and provide direct support to programme countries through the country office platform. They should, therefore, also be reflected in the financial framework as fixed absolute amounts either as part of the global programme or as a separate line.

C. Establishment of a special pool of TRAC-2 resources for opportunity-driven allocations

33. When reviewing possible ways to increase the flexibility of the Administrator to make opportunity-driven allocations, the Executive Board could consider an arrangement where TRAC-2 resources (a) would not have to be subject to the mandated fixed shares for the least developed countries and the low-income countries and (b) would not have to follow the regional distribution of TRAC-1 resource earmarkings.

34. Alternatively, the Executive Board may also wish to review the possibility of establishing a special pool of TRAC-2 resources to provide the Administrator with additional flexibility to make opportunity-driven allocations to country programmes that promise the greatest performance or where additional seed money is likely to leverage substantial additional non-UNDP resources.

35. Such a 'set aside' could be introduced once regular resources have achieved a certain level. They would not be subject to the mandatory fixed shares for LDCs, low-income/middle-income countries and/or regions. The set aside resources would also not be distributed for the full three-year period in advance but rather in annual segments so that allocations can indeed be opportunity-driven.

IV. Summary of possible changes that will facilitate ongoing efforts for harmonization within the United Nations system

36. During the internal review of current programming arrangements, special attention was paid to possible changes that would be in line with General Assembly resolution 56/201 on the triennial policy review of operational activities for development of the United Nations. This resolution calls, *inter alia,* for United Nations funds and programmes and specialized agencies to intensify their efforts to utilize all avenues for stronger cooperation and a further harmonization of their programming rules and procedures.

37. In this respect, the attention of the Executive Board is drawn in particular to the following proposed changes detailed earlier in the present paper:

(a) The introduction of some degree of flexibility in the share of total TRAC resources to be allocated to respectively low-income countries and middle-income countries (see paragraph 17-20 above);

Such increased flexibility would be in line with the programming arrangements for UNICEF and UNFPA, both of which have no fixed percentage share of total country programme resources allocated to the group of low-income countries;

(b) The introduction of minimum TRAC-1 earmarkings (see paragraphs 22-24 above);

This proposal is in line with current UNICEF arrangements, which provide a minimum regular programme allocation of $600,000 to each country with a UNICEF office or for country clusters covered by a multi-country office;

(c) Establishment of a special pool of TRAC-2 resources for opportunity-driven allocations (see paragraphs 36-38 above);

Such an arrangement would be similar to that endorsed for UNICEF, which has a set aside of 7 per cent of its general resources for programming.

38. Meanwhile, a more complete review of possible further harmonization of programming arrangements, in accordance with General Assembly resolution 56/201, will also be carried out in full consultation with other United Nations organizations.

Annex I

2001-2003 Financial framework

I.	**UNDP programme and support activities**	**Percentage of $1.1 billion regular resources target**
	A. Programme countries	
	Lines 1.1.1 and 1.1.2 (TRAC-1 and TRAC-2)	53.6
	Line 1.1.3 (TRAC-3)	5.0
	Subtotal	58.6
	Intercountry	
	Line 1.2 – Regional	7.6
	Line 1.3 – Global, interregional and special studies	4.2
	Subtotal	11.8
	Other	
	Line 1.4 – Evaluation	0.3
	Line 1.5 – Special resources for TCDC	0.5
	Subtotal	0.8
	Total programme	**71.2**
	B. Programme support (non-biennial budget) – Agencies	
	Line 2.2 – United Nations system support for policy and programme development	
	Technical support services from United Nations specialized agencies	3.0
	C. Support to operational activities of the United Nations	
	Line 3.1 – Programme support to the resident coordinator	1.7*
	Total UNDP programmes and other non-biennial budget activities	**75.9**
II.	**Biennial support budget**	24.1
	TOTAL	**100**

* - Includes 0.3 per cent for development support services (DSS)

Annex II

TRAC-1 distribution model

A. Introduction

UNDP regular resource allocations for individual country programmes are made within the framework of the three lines of the target for resource assignment from the core (TRAC), as outlined in annex I.

Under the present financial framework (decision 98/19), 53.6 per cent of the overall UNDP regular resource planning target is earmarked for country programming under line 1.1.1 (TRAC-1) and line 1.1.2 (TRAC-2), with TRAC-1 accounting for 60 per cent and TRAC-2 accounting for 40 per cent of the combined TRAC 1 and 2 share. The earmarking for line 1.1.3 (TRAC-3) is set at 5 per cent of the regular resource planning target.

The TRAC-1 earmarking indicates the level of resources targeted to be available for an individual programme country for the financial period. It is calculated in accordance with the approved distribution methodology, which uses GNP per capita and population as the primary criteria (see below).

In monetary terms, the TRAC-1 earmarkings are necessarily tentative in nature as they are based on a targeted level of the total regular resources for the financial period. This target may or may not be realized depending on the actual level of voluntary contributions. Any necessary adjustments in country TRAC-1 allocations due to a shortfall of actual available programme resources against the target set are reflected in across-the-board reductions.

TRAC-2 resources are in the first instance earmarked by region (not by individual country) for subsequent country allocations on the basis of the quality of the planned UNDP-assisted programmes as reflected, inter alia, in the country cooperation frameworks. The TRAC-2 earmarking for a given region is equal to two thirds of the total of TRAC-1 earmarking for all countries in that region. The TRAC-2 assignment for an individual country is expressed as a percentage of the country's TRAC-1 earmarking, and may range from 0 to 100 per cent (averaging 66.67%).

The TRAC 3 facility was established with the view to provide the Administrator with a capacity to respond quickly and flexibly to the development needs of countries in special circumstances.

The following section provides an overview of the TRAC-1 distribution methodology only since the allocations of TRAC-2 and TRAC-3 resources are not governed by any specific distribution methodology but are made on the basis of other considerations.

B. General principles underlying the TRAC-1 distribution methodology

The TRAC-1 distribution methodology adheres to three basic principles:

(a) Focus on low-income and least developed countries;

(b) Progressivity in favour of lower-income countries within the categories of, respectively, low-income and middle-income countries;

(c) A gradual move to net contributor country (NCC) status for countries that achieve higher GNP levels.

In addition to these basic principles, a number of other important considerations play a role in the TRAC-1 distribution methodology:

(a) The transparency, general acceptability, reliability, consistency and availability of the basic data used in the distribution model have been key factors in using GNP and population data as the main criteria on which the methodology is based;

(b) The universal nature of UNDP's operations is reflected in special arrangements for higher-income countries. Once a certain graduating level is achieved, they can continue to participate in UNDP programmes as net contributor countries;

(c) The recognition that a country's development takes place in a continuum, which makes it desirable to avoid abrupt reductions in the level of UNDP cooperation from one programme period to the next. This is reflected in the floor principle. Accordingly, the current methodology guarantees that a country's earmarking will be at least a certain percentage of its TRAC-1 earmarking for the previous period, subject to certain conditions.

C. Details of the current TRAC-1 distribution methodology

Data

The TRAC-1 distribution model uses World Bank data on population and per capita gross national product (GNP) as the primary criteria (starting from 2001 the World Bank has replaced GNP data with gross national income data). For very few countries for which no World Bank data is available, UNDP normally requests the United Nations Statistics Office to provide it with best estimates following the World Bank methodology.

On the basis of their GNP per capita, countries are grouped into three categories, as indicated below. In addition, a country may be granted the least developed country (LDC) status in accordance with General Assembly resolutions or a country can also receive "as if LDC" status by a special decision by the Executive Board.

Category	GNP per capita
Low-income	less or equal $900
Middle-income	from $901 to $4700
Net contributor	higher than $4700

The TRAC-1 model covers low-income and middle-income countries only. Net contributor countries are considered outside of the TRAC-1 model.

Methodology

The first step is to calculate individual country's GNP per capita and population weights in accordance with the Executive Board approved weighting systems.

(a) The GNP weights shift progressively at GNP per capita thresholds of $375, $750 and $1464, and then remain constant, as reflected in the table below.

GNP per capita (in dollars)		GNP weights	
From	To	From	To
0	375	9.31	5.063
375	750	5.063	2.595
750	1464	2.595	0.25
Above 1464		0.25	

(b) A population weight is calculated in a way that ensures that higher population levels have some, but not a predominant, effect on the overall distribution, as indicated in the table below.

Population (in millions)		Population weights	
From	To	From	To
0.0	1.0	0.050	0.525
1.0	10.0	0.525	1.425
10.0	100.0	1.425	3.300
100.00	500.0	3.300	4.700
500.00	1000.0	4.700	6.450
Above 1000.00		6.450	

The second step is to split TRAC-1 resources into two pools:

(a) 88% for low-income countries;
(b) 12% for middle-income countries.

The third step is to determine the country's basic share of the respective resource pool (low-income or middle-income). This is done by multiplying the GNP and population weights and applying a bonus supplement to this product weight if the country has the LDC status. The bonus supplement is given to least developed countries to ensure that at least 60 per cent of total TRAC resources is allocated to this group. The country's basic TRAC-1 share in the respective pool is equal to its basic weight (product of the GNP and population weights plus LDC bonus, where applicable) divided by the sum of the basic weights of all countries in that pool. The basic TRAC-1 share is then translated into a basic TRAC-1 earmarking.

It should be noted that the overall effect is that within each pool, a country with a lower per capita GNP, higher population and/or LDC status receives a bigger basic share of the TRAC-1 resources than a country with a higher per capita GNP, lower population and/or non-LDC status.

The last step is to make certain that the country's basic TRAC-1 earmarking does not fall short of the floor mandated by the Executive Board.

The floor concept ensures that a country receives at least a certain percentage of its TRAC-1 earmarking in the previous financial period in accordance with the sliding scale below. In other words, if the country's basic TRAC-1 earmarking is lower than the floor amount, a floor supplement is added to the basic TRAC-1 earmarking to make up for the difference.

GNP per capita	Floor
Less or equal $750	90% of TRAC-1 earmarking in the previous period
Between $751 and $1500	80% of TRAC-1 earmarking in the previous period
Between $1501 and $4700	70% of TRAC-1 earmarking in the previous period

Net contributor country (NCC)

A country is considered a net contributor country, when its GNP per capita exceeds the NCC threshold, which is currently set at $4,700. The NCC status implies that UNDP will phase out any programme assistance to the country financed from its regular resources during a three-year period. If UNDP continues to maintain a country office in an NCC, the country is also expected to cover the costs associated with the country office, subject to certain stipulations.

First-time NCCs enjoy a three-year grace period, during which they continue to receive TRAC-1 resources, calculated at 60 per cent of their TRAC-1 earmarkings in the previous financial period, and remain eligible for TRAC-2 resources. In line with Executive Board decision 99/2, the TRAC earmarkings for first-time NCCs are calculated outside of the overall TRAC distribution model and resources are allocated from a special reserve set aside for this particular purpose.

After the three-year grace period, NCCs become ineligible for TRAC resources.
