

## EVALUATION

### UNHCR's OPERATIONAL RESERVE CATEGORY II

#### **Informal Consultative Meeting on Programme Budgets and Funding (the review of Operational Reserve Category II)**

*Geneva, 26 January 2005*

### **Introduction:**

1. The High Commissioner's proposal to establish an *Operational Reserve II* as a pilot project in the Annual Programme Budget in 2004 needs to be seen against the broader background of the unified Annual Programme Budget (APB) introduced in 2000. Alongside the positive aspects of such a budget, some felt that it had some drawbacks, including its lack of flexibility to accept additional contributions for new activities, namely activities additional to those covered under the programmed activities approved by the Executive Committee in an APB.<sup>1</sup>
2. During the thirty-first meeting of the Standing Committee (24-26 September 2004), it was reported by UNHCR that the initial results of the pilot Operational Reserve Category II project (document EC/54/SC/CRP.18) showed that the Annual Programme Budget had not suffered from the creation of Category II, but that the time allowed to make such an assessment had been somewhat limited.
3. When the trial period of OR II was extended for one year by the Executive Committee at its last plenary session (Report of the Fifty-fifth Session of EXCOM (A/AC.96/1003, para. 24) the Executive Committee requested UNHCR to commission an *independent evaluation* of the Operational Reserve Category II after the first 12 months of the trial period, including a review of the criteria applied for accepting contributions.
4. It was in the light of this recommendation that *SICG S.A.* was requested to perform this review and evaluation work.

### **Project Scope:**

5. The main scope of the review work focused on the following key areas:
  - a) Assessment of the trends in resource flows to the Operational Reserves I & II (OR I & II), as well as the broader impact of contributions to these two reserve accounts on funding for programmed activities under the Annual Programme Budget ;
  - b) An assessment as to how "actual" contributions had been allocated to Operational Reserve II, in essence to determine if the allocations of such contributions had been made in accordance with established criteria;
  - c) Determination as to whether the OR II mechanism was the most appropriate option by which to manage additional contributions for new or expanded activities; and
  - d) To assess the results from the above review work, especially any implications for UNHCR's Financial Rules.

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<sup>1</sup> In interviews held with both delegations and UNHCR staff, some were of the opinion that there already existed such a facility in the *Operational Reserve* (or what is now called OR I). In introducing the facility of the ORII, the High Commissioner evidently was of the opinion that the terms of reference of the *Operational Reserve* as found in the UNHCR Financial Rules only covered activities of an emergency nature (e.g. refugee emergencies, and the need to seize the unexpected opportunity presented for a voluntary repatriation) or for changes to programmed activities under the approved APB. The difference of opinion would itself therefore suggest that the current provisions of the Financial Rules need to be revisited to clarify them either way.

6. In order to obtain a comprehensive understanding as to the success or otherwise of OR II during this trial period, the detailed review work incorporated the following:
- Review of ten key projects funded through the OR II mechanism and representing approximately 46 per cent of total OR II allocations during the period in order to see compliance with existing criteria and the adequacy of same;
  - Interviews with both delegations and UNHCR staff, together with distribution of a questionnaire requesting ranked responses to ten questions aimed at establishing the perception of delegations with regards to the success or otherwise of OR II, and feedback on proposed additional criteria should OR II continue;
  - A review and comparison of contributions and actual financial results for 2004 (*before final year end adjustments and audit*), versus both the 2004 APB and the prior year.

**Results of Project Review:**

7. Transfers from OR II during 2004 totalled US\$ 24.7 million. The total value of projects reviewed (see below) was US\$ 11.3 million.

Project Number	Region	Project Details	OR II Allocations US\$ 000's.
1	Africa	Zambia Initiative	739
2	Asia Pacific	Durable solutions for East Timorese former refugees in West Timor	2,137
3	" "	Education activities in refugee camps along the Thai /Myanmar border	716
4	Europe	EC Cards pre-screening of asylum seekers & migrants programme in Albania	1,163
5	" "	Basic shelter for returnees in South Ossetia	612
6	Americas	Columbia expanded activities re. increased # of IDP's	1,160
7	CASWANAME	Assistance Afghan refugees & hosting communities affected by earthquake in Bam (Islamic Republic of Iran)	622
8	Global Ops.	Additional resettlement activities	1,585
9	" "	SURGE protection capacity	2,082
10	Headquarters	Additional resettlement activities	446
<b>Total US\$000's. :</b>			<b>11,262</b>

**N.B.** The above allocations are prior to audit and final adjustments, and as such are subject to change.

8. The above ten projects were reviewed to verify that the application of the criteria as outlined in the 2004 APB document had been applied consistently. To facilitate the analysis of the projects, “new or expanded activities” were further broken down to cover: new, expanded or unforeseen activities, or to facilitate funding to a NGO.
9. The following table summarises the criteria which are considered applicable to each of the ten projects reviewed.

Project Number:	1	2	3	4	5	6	7	8	9	10
Contribution Additionality:	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Scope / Type of Activity:										
- New				✓						
- Expanded	✓	✓			✓	✓		✓	✓	✓
- Unforeseen							✓			
- Funding facilitation *			✓							
Within UNHCR Mandate:	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Not in APB** due to resource considerations:	✓	✓		✓	✓	✓		✓	✓	✓

\* Funding made to an NGO by EU, through UNHCR.

\*\* APB = Annual Programme Budget

All of the above ten projects therefore are considered to have been handled in a manner consistent with OR II criteria.

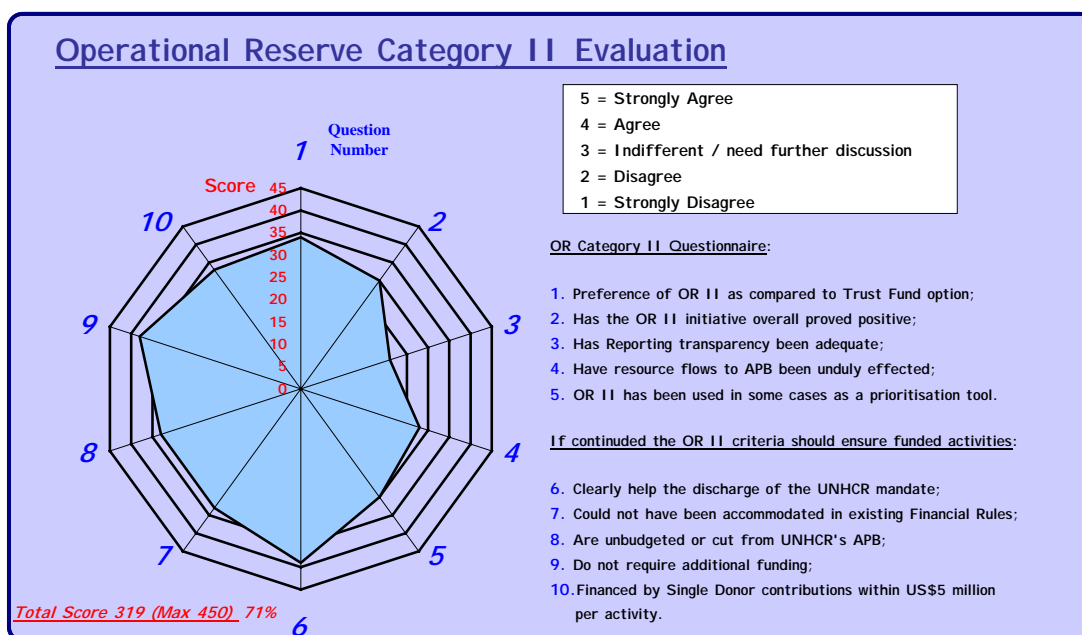
#### **Results of Interviews and Questionnaire:**

10. In order to ensure delegations had the opportunity to give input regarding their experience during the pilot period of OR II and make any suggestions or recommendations should the pilot project continue, a questionnaire was prepared. This was based on a review of interventions and comments made at EXCOM or in Standing Committee meetings on this issue.

Given the time of the year and the attention that needed to be given to a major natural disaster, responses to the questionnaire to date has been limited. It accounted, however, for 75 per cent of the major donors to UNHCR; this limitation needs to be borne in mind in analysing the results.

11. This survey attempted to gauge the success of OR II during this pilot period by asking delegations to respond to: (a) five questions that covered concerns raised by various parties during this pilot phase, and: (b) the possible inclusion of five additional / alternative criteria put forward for consideration, should OR II continue.

12. Below are the results of the abovementioned survey. The greater the surface area covered within the spider web matrix, the more positive the responses to OR II in relation to each of the ten questions.



13. Detailed below are the tentative conclusions that can be drawn from the limited results of this survey; however, please refer to the observations which follow these conclusions as they are considered an integral element in understanding the responses of delegations:

- a) Overall OR II was a much preferred option as compared to the use of a Trust Fund;
- b) In general the OR II initiative has proved positive; however, there were a number of reservations and comments that were expressed by delegations in relation to the OR II initiative (see below) which influenced their responses and which to a large extent were often predicated on UNHCR addressing some of the issues raised in this report;
- c) Reporting transparency was not considered adequate; this was a consistent response from delegations;
- d) Resource flows to APB planned activities do not appear to have been adversely affected by the implementation of OR II;
- e) In general, it does not appear that OR II has resulted in the re-prioritization of the approved APB priorities.

14. For the most part, there was positive feedback in respect of the proposal to include criteria 6, 7, 8 & 9. Regarding the inclusion of the criteria 10, namely that single donor contributions should be within US\$ 5 million per activity, it was felt that if the contribution was for core activities of UNHCR, then there should be no limitation on the amount. Moreover, it was noted that these criteria should be more of the nature of “guidelines”, and that these five criteria were not needed simultaneously to approve a contribution.

## Donor Contributions Review:

15. As part of the scope of the review work relating to OR II, it was considered important that there be an attempt, through a financial analysis, to demonstrate, or not as the case may be, the observations and findings obtained from other areas of the review work. It is recognised, that as this analysis and related conclusions are primarily focused on the comparison of contributions received during 2004 versus 2003, there is an inbuilt and unknown number of factors which could impact the results of this analysis work and result in variances (i.e. contribution increases and decreases) which are unrelated to the introduction of OR II.
16. Detailed below are the results of the above analysis work i.e. contributions by category covering, 2003 Actual, 2004 Actual and 2004 Actual versus 2003 Actual. Contribution increases over 2003 are shown as a plus and decreases as a minus.

2003 SUMMARY OF CONTRIBUTIONS (US\$)						31st Dec. 2003
Contribution Source	OR	OR II	SP's	JPO	Annual Programme	Total Contributions US\$
Government Donors	8,740,251	0	223,307,060	8,050,411	584,264,492	824,362,214
European Commission	0	0	21,699,645	0	49,432,555	71,132,200
Intergovernment Donors	0	0	0	0	0	0
UN Donors	0	0	17,580,468	0	50,000	17,630,468
Private Donors	0	0	5,591,628	0	10,149,474	15,741,102
<b>Total Contributions:</b>	<b>8,740,251</b>	<b>0</b>	<b>268,178,801</b>	<b>8,050,411</b>	<b>643,896,521</b>	<b>928,865,984</b>

2004 SUMMARY OF CONTRIBUTIONS (US\$)						31st Dec. 2004
Contribution Source	OR I	OR II	SP's	JPO	Annual Programme	Total Contributions US\$
Government Donors	8,060,440	16,606,714	137,843,101	10,068,076	675,111,416	847,689,747
European Commission	0	5,474,372	3,944,191	0	64,516,032	73,934,595
Intergovernment Donors	0	611,940	110,000	0	992,060	1,714,000
UN Donors	0	1,521,094	7,126,200	0	607,242	9,254,536
Private Donors	0	0	4,099,825	0	12,730,199	16,830,023
<b>Total Contributions:</b>	<b>8,060,440</b>	<b>24,214,120</b>	<b>153,123,317</b>	<b>10,068,076</b>	<b>753,956,949</b>	<b>949,422,902</b>

COMPARISON OF CONTRIBUTIONS IN (US\$) - 2004 VERSUS 2003						31st Dec. 2004
Contribution Source	OR I	OR II	SP's	JPO	Annual Programme	Inc. (Dec) Contributions 2004 V's 2003
Government Donors	(679,811)	16,606,714	(85,463,959)	2,017,665	90,846,924	23,327,533
European Commission	0	5,474,372	(17,755,454)	0	15,083,477	2,802,395
Intergovernment Donors	0	611,940	110,000	0	992,060	1,714,000
UN Donors	0	1,521,094	(10,454,268)	0	557,242	(8,375,932)
Private Donors	0	0	(1,491,803)	0	2,580,725	1,088,921
<b>Total Contributions:</b>	<b>(679,811)</b>	<b>24,214,120</b>	<b>(115,055,484)</b>	<b>2,017,665</b>	<b>110,060,428</b>	<b>20,556,918</b>

***N.B:** Please note the above contributions for 2004 are provisional figures i.e. before final adjustments and review by external audit.*

17. The above tables of contributions reflect that overall, there was a total ***increase*** in contributions in 2004 as compared to 2003, totalling US\$ 20.6 million or 2.2 per cent.
18. Whilst there are reductions in earmarked contributions to OR I and Supplementary Programmes (and this can be explained for reasons other than the introduction of ORII), the overall contributions to Annual Programme Budget activities are positive and this tends to support the findings that the introduction of OR II has not had a detrimental effect on the overall contributions to programmed activities.
19. Furthermore, excluding a small reduction in contributions from one Intergovernmental Donor, there are ***no*** situations where contributions to Annual Programme Budget activities are below 2003 actuals in respect of those donors who earmarked contributions to OR II during 2004.

**Key Observations:**

20. Detailed below is a summary of the key findings of the evaluation:
  - a) Overall, feedback from most delegations and UNHCR staff was that, generally, ***the pilot phase of OR II had proven positive*** and a success, having achieved its primary purpose of attracting and accommodating additional contributions for new and expanded activities not included in the APB, largely because of resource considerations. This feedback appears to be substantiated by the results of the analysis of contribution trends.
  - b) There was a consistent comment from donors that the ***reporting under OR II was both infrequent and lacked transparency*** and as such needed to be improved; this reporting needs to give a fuller description of the purposes of a contribution, the name of the donor, an indication of whether it is multi-year or “once off”, any offers of contributions not accepted or approved by the ORB. A “real-time” website accessible to delegations with this information would allay concerns about the ORII. In addition, the Standing Committee documentation would benefit from a clearer presentation of allocations made from OR II.
  - c) A ***review of ten key projects*** representing approximately 46 per cent of the total OR II appropriations during 2004 ***highlighted a number of inconsistencies*** and questions, largely related to the criterion of additional funding; this was hard to confirm, especially in the course of a programme year. The criterion that a contribution to ORII represents additional resources from the donor should be more a stated expectation by DRRM in the context of presenting their priority of funding the planned activities under the APB, rather than being a pre-condition that has to be verified.
  - d) The other criterion that the contribution was for ***additional activities*** (new or expanded) was ***difficult for some interlocutors to pinpoint***, especially if an activity had been cut from an original budget submission, or even if approved at EXCOM, was then subsequently “cut” because of resource considerations.

- e) Although on balance the overall pilot phase of OR II appeared to be positive, it is important to note that ***a number of donors expressed some concerns about the UNHCR budgetary process***, in that the OR II mechanism was being used to fund activities that some donors considered were core and high priority activities of UNHCR and which should have been included as programmed activities in the Annual Programme Budget.
  - f) Certain donors felt that ***funding through the ORII mechanism could result in a lack of overall prioritisation*** of activities within the overall framework of the unified budget and as such detract from budgetary cohesiveness; there were also concerns that the ORII could result in a distraction and dilution of efforts by the Organisation to be truly focused on durable solutions for refugees and other high priority core activities.
  - g) Moreover, it was felt by some UNHCR staff that when appropriations were requested from the ORB through OR II, that these ***appropriation requests were reviewed in isolation*** and did not appear to take into account the overall impact resulting from the inclusion of such activities on the prioritisation of activities in the region; ***new or expanded activities should be verified by the country representative*** or head of the Headquarters unit as contributing to their strategic objectives for the programme year.
  - h) Consideration should be given to ***listing and prioritising activities that have either been excluded or cut from the APB*** and that such list of prioritised activities form the basis for encouraging donors who wish to fund projects through the OR II mechanism, to earmark their contributions to one of these prioritised activities. It is recognised, however, that there will be those donors and situations (particularly private donors) who may wish to make contributions for new activities that are not priorities; these should not be discouraged if they do not detract from the overall objectives of UNHCR nor have a negative impact on other programmed activities or resource flows.
21. There was ***difficulty in obtaining actual expenses from the General Ledger*** in order to compare actual spending versus the approved ORB spending allocations granted through OR II. In most cases analysed, the consultant was informed that it would be possible to obtain this information, however, it would require a significant amount of manual analysis, especially where the appropriation included an approved ABOD (administrative) element. This being the case, it was difficult to validate that carry overs of unused appropriations from 2004 into 2005 resulting from shortfalls in actual expenses to the approved 2004 ORB allocations, were in fact correct; there was, however, nothing to suggest any irregularities in this area.
22. It was further noted that for a majority of contributions funding OR II related activities, ***no administration costs are included*** (i.e. except for the EC contributions that include an administrative overhead); in general, this was considered unreasonable in particular as the administrative activities relating to the tracking, monitoring and reporting of such were considered significant. This might be an issue for the Standing Committee to consider should it decide to continue with the OR II mechanism

**Conclusions:**

23. In terms of what was asked by the Executive Committee in the independent evaluation, it can be said:

(i) That over the limited period of 12 months (and allowing for the fact that we do not have audited accounts yet for 2004), the ***Operational Reserve Category II is not having any obvious adverse effect on resource trends*** to planned activities under the Annual Programme Budget, the Operational Reserve Category I, or Supplementary Programmes; rather it may have brought about an increase;

(ii) The ***criteria governing the Operational Reserve Category II, whilst adequate, need to be refined*** to ensure that OR II, if continued beyond the pilot phase, does not lead to the fragmentation of the approved Annual Programme Budget (of which it is a part), or work against UNHCR's moves to Results-based Budgeting linked to comprehensive needs assessments;

24. The ***options before the Standing Committee*** would appear to be the following:

(i) Further ***extend the pilot period*** to the end of 2006 so that one has the benefit of a longer period to observe trends, both on resources and budget priorities; or

(ii) Move ***to amend the Financial Rules*** to accommodate the OR II mechanism either within the articles governing the Operational Reserve or as a separate article in the Financial Rules; it would appear preferable that any additional articles be part of those currently governing the Operational Reserve.

The consultant feels that the first of these options would be the more prudent, given that the pilot is only at the end of one full year of implementation.

25. As mentioned in the Report, the current articles governing the Operational Reserve (art. 6.5 – art. 6.9) are really a re-grouping of those that previously governed the Emergency Fund (6.5 (a)-(b)), Voluntary Repatriation Fund (6.5 (c)-(e)) and the Programme Reserve (6.5 (f)-(h)). These ***rules need to be reviewed*** to bring greater clarity to the purposes of the Operational Reserve.

26. If it is decided to move ahead with the OR II mechanism, the suggested amendment to the Financial Rules in para. 23 (ii) above could be done by adding an additional sub-item to Art. 6.5 of the Rules dealing with the Operational Reserve, along the following lines:

(..) provide appropriation authority for an amount up to 5 per cent of a proposed Annual Programme Budget for activities funded through additional resources, which activities have not been included in the approved Annual Programme Budget or covered by a Supplementary Programme Budget, and which, if undertaken, would contribute to, or not detract from, meeting the strategic objectives of a country, regional or global programme of UNHCR.

27. The proposed article would need to be backed up by internal guidance, additional to that found in a UNHCR internal office memorandum on acceptance of additional contributions for unbudgeted activities dated 9 February 2004 (a copy of which is being made available prior to the informal consultative meeting on 26 January 2005), that takes into account the lessons learned in the last 12 months of processing OR II applications.

28. The consultant would like to take this opportunity to thank both the staff of Permanent Missions and UNHCR for assistance in conducting this evaluation.