

REVIEW OF OPERATIONAL RESERVE CATEGORY II

1. At its fifty-fifth session, the Executive Committee (A/AC.96/1003, para. 24) called for an independent evaluation of the Operational Reserve Category II to be presented to the first Standing Committee in 2005. This independent evaluation, which was the subject of an informal consultative meeting on 26 January 2005, is attached (Annex II).
2. Building on the positive discussions at the informal consultations, this paper suggests a way forward, consistent with the consultant's report and the points raised by the participants in the meeting on 26 January 2005.
3. A key observation of the evaluation (para. 24 (i)) is that the results of the pilot project in 2004 have been positive overall. There have been no obviously negative effects on resource flows to the programmed activities in 2004, or to the Operational Reserve Category I (ORI).
4. Nevertheless, it is not yet possible to provide a definitive evaluation of the impact of ORII because the audited accounts for 2004 are not yet available. Moreover, the evaluation recommended that UNHCR should wait to base its final decision on the results of two full years of ORII operations. This broader timeframe would allow a better comparison of operations, including the question of the impact of multi-year contributions to the ORII. For example, 2005 has begun with some \$15 million of such multi-year contributions already available under the ORII which means that the balance available for accepting funds for ORII activities for the rest of 2005 has already been reduced to \$35 million.
5. Thus, for the Committee to make a well-founded comparison, it would be preferable to await the availability of the final 2005 ORII figures in the first half of 2006. Since the 2006 Annual Programme Budget and the 2007 Annual Programme Budget will be prepared for presentation to the respective Executive Committee sessions in October 2005 and October 2006, it would therefore be advisable that the Executive Committee session in October 2005 extend the pilot period for another year.
6. In addition to allowing the Committee to base its decision on the experience of two full years (2004 and 2005) of the operation of the pilot scheme, a further benefit of the extension would be that UNHCR could include this change in a broader revision of the Financial Rules.

Such a comprehensive review of the Financial Rules would be timely, allowing for a range of changes, including any that may arise from a possible decision to institutionalize the ORII or in relation to the proposed introduction of a biennial budget.

7. Rather than make separate amendments to the Rules within the space of two years, it would be preferable to undertake a comprehensive review of all aspects requiring consideration and to propose changes at the same time. Thus if the Office could undertake, in consultation with Member States, a review of the Financial Rules by mid-2007, any resulting proposals to amend the Rules, including those related to the Operational Reserve, could be presented to the Advisory Committee on Administrative and Budgetary Questions (ACABQ) in September 2007 for comment, before being considered by the Executive Committee in October 2007. If adopted, the amended Rules would then come into effect on 1 January 2008, which would coincide with the next United Nations budget cycle of 2008-2009.

8. If Member States agree to the proposed extension of the trial period, it would also be advisable to take action on other findings of the evaluation report, notably those regarding enhanced transparency and providing clearer guidelines (as outlined below), so that these criteria govern the remainder of the pilot period.

9. To enhance the transparency of the ORII mechanism, UNHCR proposes to provide a more regular and fuller description of ORII contributions through a website page accessible to Executive Committee members and Standing Committee observers. This information will be updated on a regular basis, and the final results for the previous year will be posted on the website early in the next programme year. This reporting will include an explanation of the purpose of the contribution, including the intended beneficiaries, date of contribution and name of donor, and will also be reflected in the regular Standing Committee Updates on Programme Budgets and Funding.

10. Furthermore, clearer guidance will be provided to donors on how to use the ORII mechanism in order to ensure that the projects to be funded fall within UNHCR's core mandate. UNHCR will facilitate this objective by sharing with Executive Committee members and Standing Committee observers, as well as with other donors, information on future comprehensive country needs assessments. The criterion that a contribution to ORII represents additional resources from the donor will no longer be considered a pre-condition that has to be verified, but rather a stated expectation in the context of giving priority to funding planned activities under the Annual Programme Budget.

DRAFT DECISION

The Standing Committee,

Recalling the Executive Committee's decision ((A/AC.96/1003, para 24 (c)) in which it requested an independent evaluation of the Operational Reserve Category II,

1. *Notes* with appreciation the report of the independent evaluation;
2. *Notes* the recommendation of the evaluation report and of UNHCR that the Executive Committee at its fifty-sixth annual plenary session take a decision to extend the pilot period further so that a final decision on the Operational Reserve Category II may be made at its fifty-seventh annual plenary session;
3. *Requests* UNHCR to include in its draft Annual Programme Budget for 2006 an Operational Reserve made up of two components, namely the first (ORI) set at an amount corresponding to 7.5 per cent of programmed activities and a further component (ORII) amounting to \$50 million;
4. *Further requests* that during the extended pilot period UNHCR take steps to improve transparency in the operations of the ORII;
5. *Emphasizes* that the ORII mechanism should be limited to the funding of projects falling within the High Commissioner's core mandate; and *requests* UNHCR to provide appropriate advice to potential donors in order to ensure that this objective is fulfilled.

**REPORT ON THE EVALUATION
OF UNHCR's OPERATIONAL RESERVE CATEGORY II**

prepared by the Swiss Investment Consulting Group (*SICG S.A.*)
and presented at the Informal Consultative Meeting
on Programme Budgets and Funding
on 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.¹
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.
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:

¹ 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.

- a) 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;
- b) 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;
- c) 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
Total US\$000's. :			11,262

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.

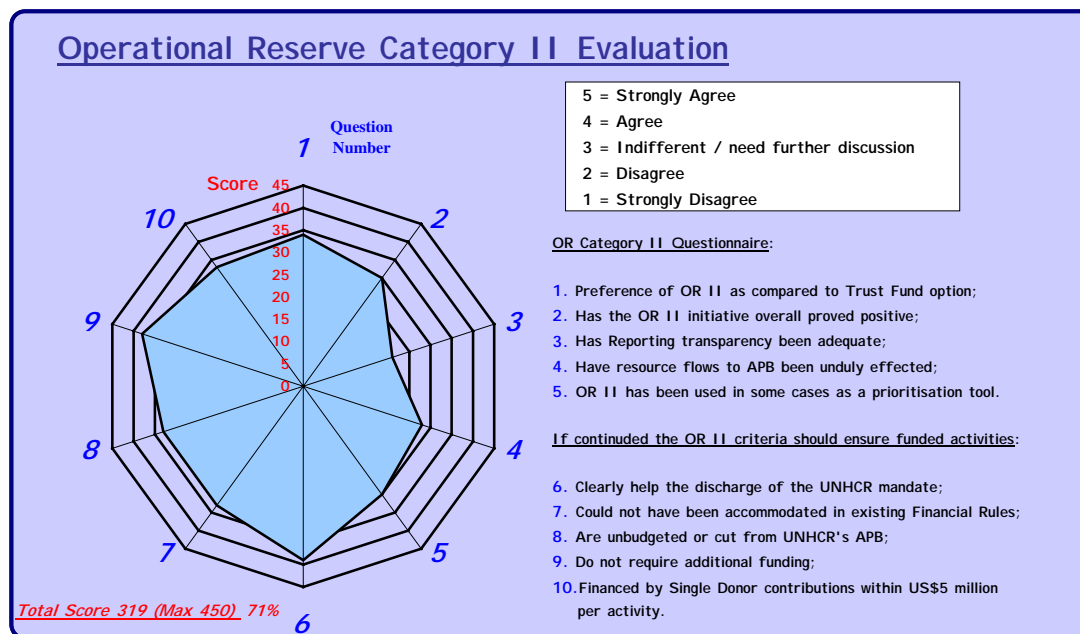
Results of Interviews and Questionnaire:

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
Total Contributions:	8,740,251	0	268,178,801	8,050,411	643,896,521	928,865,984

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
Total Contributions:	8,060,440	24,214,120	153,123,317	10,068,076	753,956,949	949,422,902

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
Total Contributions:	(679,811)	24,214,120	(115,055,484)	2,017,665	110,060,428	20,556,918

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.