

OPERATIONAL RESERVE CATEGORY II:
PROPOSED CRITERIA AND GUIDELINES

I. INTRODUCTION

1. At the 32nd meeting of the Standing Committee in March 2005, the independent evaluation of the Operational Reserve Category II (ORII) was discussed (EC/55/SC/CRP.6). . In addition to the need for enhanced transparency in the way the Reserve was being managed, the evaluation report called for the provision of clearer guidelines on the use of this category of the Operational Reserve.

2. When he first proposed the introduction of the ORII mechanism in the 2004 Annual Programme Budget, the then High Commissioner outlined the following general criteria for its use:

“The second category of the Operational Reserve will be initially set at \$50 million. It will be used exclusively to accommodate additional contributions for expanded or new activities that are considered as falling within the Mandate of the Office, but which have not been included in the Annual Programme Budget because of resource considerations. These additional contributions should not come at the expense of the contributions that would normally come from the corresponding donors for the activities already specified in the budget. This additionality will be determined in consultation with the donor concerned. Donors will be encouraged to review the Annual Programme Budget in detail to identify a programme where they would be willing to provide additional funding. If donors make a multi-year commitment, the activity can after a year be mainstreamed in the annual budget. If there is no such commitment, the activity must initially be regarded as ad hoc and as such should – if additional staff is required- be implemented by temporary staff or implementing partners” (A/AC.96/979, para. 30 (b)).

3. This extract makes passing reference to the context which led the then High Commissioner to propose the ORII. Lack of resources meant that either legitimate core or high priority activities submitted by UNHCR operations or units could not be included in a proposed Annual Programme Budget; or, even if they had been included in the approved Budget, invariably, resource projections led to a “freeze” being imposed in the course of a programme year on a portion of the approved budget. ORII resources were envisaged as a solution for meeting these priority unmet needs, in particular those needs already addressed in the approved budget which could not be implemented because of a spending cut or “freeze”. Hence the emphasis on the need to ensure that the additional resources under the ORII should not be at the expense of contributions that would have been allocated to the approved Annual Programme Budget, the highest funding priority for UNHCR.

4. The criteria proposed in the 2004 Annual Programme Budget are:
- (i) that the new resources under ORII are additional contributions;
 - (ii) that these additional contributions are for expanded or new activities;
 - (iii) that the activities in question are considered as falling within the mandate of the Office;
 - (iv) that the activities under discussion had not been included in the Annual Programme Budget because of resource considerations.

5. While these criteria seem fairly self-evident, their interpretation and application by UNHCR have not been straightforward or easy. An internal memorandum to UNHCR staff at Headquarters and in the Field on *Acceptance of additional contributions for unbudgeted activities*, addressed, in part, the newly created Operational Reserve Category II which was described as being “explicitly for the purpose of including unbudgeted activities for which additional contributions become available” (para. 1.5).

II. PROPOSED CRITERIA

6. The point of departure for any articulation of criteria governing the use of ORII is contained in the Decision adopted by the Standing Committee at its 32nd meeting which: “*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 ensure that this objective is fulfilled by *inter alia* clear criteria for eligibility and reporting, and by the provision of appropriate advice, as necessary, to potential donors.” (EC/55/SC/CRP.9, Annex III, para. 5).

7. A related recommendation of the independent evaluation report stated that the criteria governing the use of ORII need to be refined to ensure that the use of ORII 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 management and budgeting linked to comprehensive needs assessments (EC/55/SC/CRP.6, Annex II, para. 23) which would provide clearly articulated budget objectives, at both the organizational and country levels.

A. Resourcing priority needs

8. The Annual Programme Budget approved by the Executive Committee represents the programme needs of the Office that are of the highest priority for funding. It is recognized, however, that this budget currently represents a delicate balance between a needs-based budget, which would address comprehensively the assessed needs of refugees, and a resources-based budget, drawn up in the light of the likely availability of resources.

9. For some time, UNHCR has been moving towards results-based management and budgeting. UNHCR’s programmes and budgets are thus meant to reflect the Office’s corporate, regional and country strategic objectives. Linked to this initiative, on the basis of established standards and indicators, UNHCR together with its partners and the refugees, has been seeking to undertake comprehensive needs assessments and to identify gaps between the resources needed to address such needs and resources available (either directly to UNHCR or through the work of partners, including the host governments).

10. Through the programme-budgetary consultative process that begins in the Field and is further reviewed at Headquarters, in consultation with member States, decisions are made with regard to the final budget submission for presentation to the Executive Committee. The necessary compromises made in relation to what is retained in the final UNHCR budget proposal that goes to the Executive Committee mean that some submissions related to field operations or global programmes are not included. The Consultant's Report on ORII reflected the concerns of ExCom members (para. 20 (e)), that core and high priority activities should be included as programmed activities in the Annual Programme Budget. Where this has not been possible because of funding considerations, ORII contributions should be directed, in the first instance, to the resourcing of core and high priority activities excluded from the final budget, and subsequently, to a second category of unresourced needs identified in the comprehensive needs assessments. A third category, and of the lowest priority, would be activities that have not been initially identified in budget submissions, but considered as supporting the pursuit of organizational or regional/country objectives (see Criterion III below). Moreover, provision should be made to ensure that in any given year, if resource constraints necessitated the "freezing" of a part of the approved Annual Programme Budget, then such "frozen" activities should have the highest priority for funding through the ORII mechanism. Basic to these proposals is the concern that ORII resources should not detract from budgetary cohesiveness reflected in the various submissions (e.g. from the Field, ExCom members etc.), as well as the recognition that the Annual Programme Budget represents the highest funding priority.

Criterion I: *Core or high priority needs that are not included in the Annual Programme Budget, but which had been included in budget submissions (as distinct from other unmet needs identified through comprehensive needs assessments and simply referred to in the budget submissions), should be the primary focus of resources contributed through the ORII mechanism; of a lesser priority would be those needs identified through comprehensive reviews of refugee needs, and referred to in budget submissions, but not formally part of a budget submission; a third category of activities, and of the lowest priority, would be those activities not initially identified in budget submissions, but which are shown to be directly linked to, or supportive of, the pursuit of particular corporate or regional-country objectives. If, in an exceptional situation it was found necessary to "freeze" part of an Annual Programme Budget because of resource constraints, then any activities subject to such a "freeze" should be considered as having the highest priority for funding under the ORII mechanism.*

Related resource requests to the Operations Review Board (ORB) should indicate the respective priority status of an activity to be funded through a transfer of appropriation from the ORII, and how the activity contributes to the pursuit of the strategic objectives for the programme year.

B. Additionality of resources

11. As noted in the consultant's report (para. 20 (c)), a number of donors found it very hard to "prove" that the contributions to ORII were additional; this was particularly the case in respect of contributions from traditional sources received in the course (notably in the first part) of a programme year. The very concept of "additionality" is often problematic because of its relative nature, i.e. additional to what? – the last year's total contribution to UNHCR?; the "core" contribution to the organization pledged for the current year?; or the "predicted" contribution drawn up by UNHCR's fund raising service (DRRM) for the current year?.

12. On the other hand, additionality was not in doubt if the source was a new Ministry or entity within a donor government or intergovernmental organization. Some other contributions are by their nature “additional” in that UNHCR had to bid for them and was in no way assured of a positive outcome to the bid, e.g. some contributions from the Human Security Trust Fund.

13. This criterion of additionality is particularly important to the DRRM Service as their primary responsibility is to ensure the funding of the approved Annual Programme Budget.

14. A way to balance these two realities is perhaps that already suggested by the consultant (para. 20 (c)): “*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*”.

Criterion II: *Contributions to Operational Reserve Category II should represent additional resources for UNHCR. Additional resources are here understood as those coming from sources other than those UNHCR could normally have expected to access, or beyond levels that UNHCR could reasonably have expected to reach. This additionality should be expressly stated by the donor and confirmed by DRRM in bilateral discussions with the said donor.*

C. New activities

15. Criterion III, with its reference to “new” is a relative one and should be interpreted in relation to the *planned activities approved under the Annual Programme Budget*. Thus a new activity would be one in addition to those approved under the Annual Programme Budget. It is likely, however, that it could be an activity originally submitted by an organizational unit as part of the annual budget process, but dropped in the process of preparing a *fundable* budget for approval by the Executive Committee. As is evident from Criterion I, this would be an appropriate activity for donors to resource. The same would apply to those activities that were identified in any comprehensive needs assessment, but for which no resources had been allocated by either UNHCR or its partners.

16. The more problematic case is that of an activity that is totally new, i.e. not previously identified in a field submission or comprehensive needs assessment. In Standing Committee discussions on the ORII mechanism, a concern was expressed by some member States about the risk that such discrete, individual *ad hoc* activities posed to overall budgetary cohesiveness and the pursuit of stated organizational and regional/country objectives. More particularly, it was considered that an ORII used for such activities could be a distraction and represent a dilution of efforts by the Office with regard to the pursuit of durable solutions for refugees and other high priority core activities. It would thus need to be incumbent on the responsible UNHCR unit seeking an appropriation from ORII for such an activity to demonstrate how such a proposed activity was directly related to the successful pursuit of activities relating to core mandate activities.

17. It should be noted from the above that the original criterion referred to new or “expanded” activities. Generally speaking, “expanded” activities would normally refer to a nucleus of activities approved under the Annual Programme Budget and subsequently considered for enlargement. In such a case, these should be presented for resourcing under the Operational

Reserve Category I, consistent with the UNHCR Financial Rules art 6.5 (b), (e), (f), (g) and (h), as these provisions relate to modifications or increases to existing projects funded under the Annual Programme Budget. However, where an expansion of activities relates to a project originally funded under ORII in a current or the previous financial year, then its resourcing could be justified under ORII.

Criterion III: *New activities should be verified by the country representative or head of the relevant organizational unit as contributing to their strategic objectives for the programme year, and as such being consistent with the Mandate of the Office, before an appropriation is approved from the ORII. Expansion of activities should normally be resourced from ORI, unless the activity was previously resourced in the current or the previous financial year by an appropriation from ORII.*

III. ADMINISTRATIVE GUIDELINES

18. The following points seek to provide guidance of an administrative nature relating to the operation of the ORII mechanism.

A. Multi-year contributions

19. A number of contributions to ORII are either expressly multi-year, or *de facto* multi-year, in that they are received late in the programme year and need to be carried into the next year. The question has arisen as to whether after the first year, activities resourced through ORII contributions should be “mainstreamed” into a country’s or organizational unit’s annual budget or allowed to stand outside it as a separately funded activity. Consistent with the preceding criteria, according to which ORII resourced activities have been recognized as contributing to programme objectives, it would appear logical that they should be integrated into the subsequent Annual Programme Budget. Given, however, that some such activities might not be recognized as being of the highest priority, and might therefore “squeeze out” other activities, the appropriation level for a country/organizational unit budget should be adjusted upwards to compensate for the integration of the activity into the budget, and the overall budget level of UNHCR should also be raised commensurately. In this way, budgetary cohesiveness and the additionality of the contribution would be respected. A further consideration in support of this approach is the fact that already at the beginning of 2005, the second year of operation of ORII, some 25 per cent of the “appropriation space” under the ORII mechanism, has been used because of the carry-over of multi-year ORII appropriations.

Guideline I: *Multi-year contributions and related appropriations should be integrated into the Annual Programme Budget of the country or organizational unit for the year following the date of the initial appropriation. The appropriation level of the overall UNHCR budget, and that of the relevant country or organizational unit, should be adjusted accordingly to respect the “additionality” of this ORII contribution.*

B. Administrative overheads

20. As ORII is an integral part of the Annual Programme Budget, it would appear inappropriate to be charging overheads to cover administrative costs relating to the management of the contribution and related activity (e.g. tracking, monitoring or reporting). On the other

hand, as the independent consultant pointed out in his report, these administrative activities are not insignificant (para. 22). It is suggested that donors (as is currently the case with some contributions) consider the allocation of 7 per cent of the contribution for such administrative purposes.

Guideline II: *Donors are asked to consider the allocation of 7 per cent of their ORII contributions to cover related administrative costs linked to the activity resourced through their contribution.*

IV. CONCLUSION

21. The application of the above criteria should be reflected in transparent reporting on the use of Operational Reserve Category II, as called for by the Standing Committee.