

BIENNIALIZATION OF THE PROGRAMME BUDGET

I. INTRODUCTION

1. UNHCR believes that there will be a number of important advantages for the Office in a move to a biennial programming-budget cycle, in spite of some foreseeable difficulties. The background to this position is set out briefly below, and this paper explains how UNHCR will initiate measures to mitigate the potential negative aspects of such a move.
2. The Joint Inspection Unit (JIU), in its report entitled "Review of Management and Administration in the Office of the United Nations High Commissioner for Refugees" (EC/54/SC/CRP.21 Annex I), recommended that the Executive Committee should consider changing the programme budget cycle from annual to biennial (Recommendation 3). The initial reaction of the former High Commissioner was reflected in his letter to the Chairman of the JIU dated 20 August 2004 (EC/54/SC/CRP.21 Annex III). He felt that while the JIU proposal had a number of merits, he was primarily concerned that such a change could affect UNHCR's existing flexibility to react quickly and adjust its allocation of resources effectively. A further key consideration was whether the Office's donors might feel more responsive under their own annual budgets to an annual programme budget.
3. Following an initial discussion of the subject in October 2004, the Executive Committee in its General Decision on Administrative, Financial and Programme Matters (A/59/12/Add.1 para. 24(1)), decided to refer the JIU recommendation for further consideration by the Standing Committee in the course of 2005, so as to reach a decision on the matter no later than the 56th plenary session of the Executive Committee in October 2005.
4. A preliminary analysis of the advantages and disadvantages of biennial budgeting was considered at the 32nd meeting of the Standing Committee in March 2005 (EC/55/SC/CRP.7). Subsequently, an informal consultative meeting took place on 14 June 2005. In the note prepared for that meeting, UNHCR listed two main reasons for a move to a biennial programming/budget cycle: firstly, it would support and facilitate the Office's efforts to move to Results-Based Management; and secondly, it would enhance UNHCR's efforts to be part of United Nations-wide coordination by aligning its own programme/budget cycle with that of other organizations, especially those that are part of the United Nations Development Group. At the meeting itself, based on a review of the systems adopted by other United Nations agencies, UNHCR expressed a still firmer preference for a biennial budget. As noted then, the main challenge for the Office would be to find ways to mitigate the perceived negative aspects of such a move.

5. In addition to expanding the analysis of the advantages, this paper therefore focuses on ways to mitigate the disadvantages inherent in a move to a biennial budget. It outlines some of UNHCR's Financial Rules that would need to be reviewed and concludes by indicating the timetable for such a move, if approved.

II. MEASURES TO ADDRESS DISADVANTAGES OF A BIENNIAL CYCLE

A. Programme management

6. The main challenge for UNHCR in a move to a biennial budget is in the area of programme management. While the challenges of managing an annual programme cycle may continue under a biennial cycle, the move could help shift the emphasis from the immediate, and often repetitious, year-to-year difficulties with budget allocations to the broader questions of strategic planning, oversight, and reform. Under the current programme management system, too much time is consumed in continuous budget revisions, and in reprioritizing authorized spending against the budgets. This energy could be more usefully put to work on improving operations management and the further development and application of standards and indicators. As UNHCR moves towards a more comprehensive use of standards and indicators, the Office will be receiving a wealth of material to absorb in monitoring the performance of its activities.

7. Another key mechanism for assessing performance and building on lessons learned will be the incorporation of findings from programme evaluations and assessments. The extra time provided by a move to a biennial cycle would allow UNHCR to properly integrate these results into its decision making. In that regard, biennial budgeting would promote performance/results budgeting and allow more time for programme performance evaluation and assessment, and reflection of lessons learned in the next (biennial) programme budget. Many United Nations agencies have institutionalized programme evaluations into their programme and budget cycle. WFP's biennial budgeting cycle is synchronized with its Biennial Programme of Work. WFP's Strategic Plan sets the direction of the organization by establishing strategic and management priorities over a four-year planning period; the Strategic Plan is updated every two years. The evaluation cycle aims to fit in with this biennial programming cycle; in addition, an updated synthesis of evaluation findings is included as an annex to the Annual Performance Report to be discussed at Annual Informal consultations. At UNICEF, the Country Programme cycle takes place over a four-year period with a Mid-Term Review which can take the form of a Country Programme Evaluation and which informs Mid-Term Strategic Plans. UNICEF has a five-year Integrated Monitoring, Evaluation and Research Plan of which the updated annual portion forms part of the Annual Management Plan.

8. In terms of funding, it is believed that the introduction of a biennial cycle *per se* will not lead to a reduced level of contributions to UNHCR. There is no inherent link between funding levels and the budget cycle (annual or biennial). Other United Nations agencies have not experienced a drop in funding because they have a biennial budget cycle. The real determinant of funding levels is donor confidence in UNHCR and its partners related to the quality of its programmes and their demonstrated impacts.

9. Statutory requirements, not to mention sound financial management, require prompt action when revenues fall short of projections. UNHCR will have to further develop mechanisms to deal with unexpected fiscal and policy events, including notably: operational and

financial rule provisions to allow and facilitate transfers of budgetary and resource provisions among programmes and between departments; enhanced operational reserves; and flexible use of unanticipated contributions (Operational Reserve, Category II).

10. The issue of the timing of receipt of funds is among the most significant for programme management. This uncertainty has significant impact on the smooth implementation of programmes, including those being managed by implementing partners. It is these uncertainties that sometimes force UNHCR in the course of the year to impose “caps” on spending authority; or lead to the Office being unable to use funds received late in the programme year (or biennium). The solution to this challenge lies largely with donors, and their ability or willingness to announce levels and anticipated dates of release of projected funding in a timely manner. UNHCR will therefore have to maintain a sustained dialogue with donors so as to have a sound basis for the elaboration of a resource plan. Internally, by adopting results-oriented budgeting, the Office can provide managers with better means to make political choices, set goals, and establish priorities among competing demands and desirable ends for refugee services. Regardless of the time frame, the organization’s reaction to disruption in cash-flow or funding deficits can be best handled by having a clear set of operational priorities. Therefore UNHCR must translate choices about goals and priorities into action/performance objectives and standards and communicate those objectives and standards more effectively to managers and donors alike.

11. Financial projections and planning will continue to be made on a yearly (or quarterly) basis. All United Nations agencies on a biennial cycle, including those based on assessed contributions, plan and receive funds on an annual basis, as most donors make their financial contributions to these agencies from annual budgetary allocations, irrespective of the budget cycle of the recipient agencies. There is no change in this assumption. The challenge for UNHCR will be to continue to bring greater predictability to these resources projections and their nature (earmarkings, etc.).

12. For its part, UNHCR will have to move to a more careful monitoring of its programmes and implementation rates in the various programmes and tailor the release of funds accordingly. Consequently, it might no longer prove feasible to release funds automatically in an “across-the-board” manner for the various regions. Initially, a greater and more central control on fund releases to operations might be necessary. Given that forecasting income and expenditures for a biennium is more difficult than for an annual budget, UNHCR will be required to increase its use of “work plans” in the spending authority allocation process. Consideration will be given to introducing a system whereby spending authority would be linked to trends in implementation rates. This would be analogous to the way UNHCR operations in the Field release funds to implementing partners on the basis of rate of programme implementation and progress according to an agreed work plan. This also underscores the importance of moving ahead more decisively with Results-Based Management, and the full use of the management techniques that this implies.

B. Budget management

13. In the area of budget management, and in comparison to other agencies, UNHCR has considerable flexibility. The High Commissioner can re-allocate appropriations and funds between major programmes, can release funds from Category I of the Operational Reserve (to the extent it is funded), and accept unsolicited contributions under Category II of the

Operational Reserve. The High Commissioner is also empowered to establish supplementary programmes and budgets to cope with unexpected large-scale emergencies or repatriation movements, without the prior approval of the Executive Committee.

14. One of the areas that the Executive Committee will need to consider further in regard to the biennialization is the timing for the “mainstreaming” or inclusion in a biennial budget of supplementary programmes. Prima facie, it might be expected that this would be at the end of the biennial budget cycle. Experience to date with the annual programme budget is that this is not always desirable. Greater attention needs to be given to when the supplementary budget is first introduced, and whether the supplementary programme has sufficiently stabilized to allow for an accurate assessment of future needs. Premature “roll up” of supplementary budget(s) into a biennial budget would only result in an overly-inflated (and unfundable biennial budget. In order to mitigate this risk, UNHCR would propose defining operational criteria that could be used in determining the appropriate time to integrate a supplementary programme budget into a biennial budget. The current Financial Rules on mainstreaming are time-based, and in the opinion of UNHCR, have not always proved to be practicable.

15. Compared with other United Nations agencies, UNHCR has very conservative budgetary control systems and these will be maintained. After the approval of the programme budget, and reflecting the results of the annual pledging conference, an assessment is made at the end of the calendar year (that is prior to the commencement of the biennium) as to the realistic level of funds available for the next calendar year (including carry-overs), and an annual allocation plan is made for the next year. During the calendar year, allocation of budgetary funds will be made on a rolling basis with necessary adjustments.¹ Spending rates will continue to be monitored on a monthly basis.

16. Moving to a biennial system would mean that some regular mechanism for considering mid-course corrections would be needed. The procedures for adding supplementary budgets and revisions to the annual programme budget are well developed. The main challenge therefore would be not whether there could be a timely and appropriate response to new priorities during the two-year period, but rather how to hold to a minimum the number and budget levels of such extraordinary responses.

17. Currently, in the middle of the year, a review is made to re-assess programmatic needs and financial constraints. A new feature under the proposed biennial system would be a global revision of the approved biennial budget towards the end of the first year, primarily reflecting inflation and currency fluctuations and to reflect evolving needs that are not covered by supplementary programmes/budgets. The mid-term budget revision would be submitted to the Executive Committee’s annual plenary session or to a Standing Committee meeting for approval. All these prudent measures would prevent UNHCR entering into a severe financial problem under the biennial system.

18. With a move to a biennial budget, the Office will need to develop better financial management tools. In the last few years UNHCR has developed an improved capacity to project income and expenditures, which allows better budgetary control. Examples are monthly updates of projected sources and uses of funds, a currency fluctuation model, flexible quarterly

¹ Few United Nations agencies have this incremental release of funds. Most agencies issue annual allotments to programme managers and adjustments are made only at the end of the calendar year.

obligation/spending authority plans, and yearly/monthly financial trend analyses. The new PeopleSoft system will further enhance UNHCR's capacity to anticipate risks and changes, and to take measures to minimize exposures.

19. Key areas of the Financial Rules (Financial Rules for Voluntary Funds Administered by the High Commissioner for Refugees (A/AC.96/503/Rev.7, dated 7 October 1999), that will need to be reviewed for possible changes to accommodate the move the biennial budgeting, include the following:

- Article 1.1.6 (g) – “Supplemental Programmes”
- Article 2.2.1 – Financial Year
- Article 6.6.6, 6.6.8 – Funds and Operational Reserve
- Others as may be identified in the review process

III. ILLUSTRATIVE PROGRAMME BUDGET CYCLE

20. Presuming the acceptance of the Executive Committee of the move to a biennial budget, the following is a calendar of key landmarks for the preparation of the 2008-2009 UNHCR Biennial Budget:

21. Early in 2006, UNHCR will begin a review of its Global Strategic Objectives 2008-2009; this exercise will be led by the High Commissioner and his Senior Management. Lessons learned from the biennium 2004/2005 would be reflected in the choice of objectives for the 2008-2009 budget. (This exercise will need to be consistent with the Office's preparation of the United Nations Regular Budget 2008-2009, Section 23 of which deals with UNHCR).

22. In the course of 2006, work will begin on the revision of Chapter 4 of the UNHCR Manual dealing with programme management and the preparation of UNHCR budgets, which takes into account the move to a biennial budget cycle.

23. In the course of 2006-2007, the necessary amendments to the UNHCR Financial Rules will be made and submitted to the mid-year (2007) meeting of the Standing Committee for its consideration before being submitted to the ACABQ in September 2007 for comment, prior to their formal consideration and endorsement by the Executive Committee at its 58th plenary session (October 2007).

24. In November – December 2006, programming instructions for the 2008-2009 UNHCR Biennial Budget will be disseminated to the Field and Headquarters. The budget proposals will then be submitted in the usual manner for review at Headquarters, in consultation with Executive Committee members, with a view to the formal adoption of the Budget in October 2007.

25. Currently, a revised annual programme budget is always presented at the time of the Executive Committee; this revised annual programme budget in most years simply reflects changes to the different budget lines (e.g. resulting from allocations from the Operational Reserve, Category I) within the approved overall budget level. In October 2008, at the Executive Committee's plenary session, a revised UNHCR Biennial Budget 2008-2009 will be presented, which would include adjustments for currency and inflation and unforeseen developments other than those that were able to be accommodated through supplementary programmes.