

CRITERIA FOR INCLUSION (MAINSTREAMING) OR NOT OF
SUPPLEMENTARY PROGRAMME BUDGETS INTO THE ANNUAL PROGRAMME BUDGET

Introduction

1. The 56th session of the Executive Committee in October 2005 requested UNHCR, in the course of 2006 and in consultation with the Executive Committee, to elaborate criteria for, and the financial consequences of, the non-inclusion of Supplementary Programme Budgets (SBs) in the Annual Programme Budget (AB).¹ In particular, the requirement of automatic SB inclusion (so-called mainstreaming) into the AB has become an important issue, as it is perceived within the Office that the automatic inclusion may be a cause for the growing under-funding of the AB. UNHCR's recent increased involvement in new IDP situations, given its potential financial impact, also warrants a re-examination of the way the SBs are managed.

2. This discussion paper addresses the issue from a broader context of management of the UNHCR Programme Budget. It analyses how the Unified Budget (UB) has been managed, and within that context, proposed additional criteria for SB non-inclusion (non-mainstreaming), together with additional measures to improve the management of the UNHCR Programme Budget.

Background

3. The UB was introduced on 1 January 2000, comprising the AB approved by the Executive Committee and any SBs subsequently approved in the course of the programme year by the High Commissioner. The main rationale of the UB was to allow the Executive Committee, through more visibility and transparency of activities, to exercise proper governance over the totality of UNHCR's activities and budgets. The Executive Committee would set the overall priorities of the UB, while providing the High Commissioner with considerable flexibility in managing programmes in response to changing circumstances.

Existing inclusion/mainstreaming criteria – time-based

4. With the move to the UB system, the Financial Rules of UNHCR were revised. Article 1.6 (g) of the Rules defines "Supplementary Programmes" as representing those activities that arise after the approval of the AB and before the approval of the next AB, and which cannot be fully met from the Operational Reserve (OR). The SBs will be funded through contributions in response to special appeals.

5. It should be noted that what distinguishes SBs from the AB is the timing of their creation and funding modality. The Financial Rules do not distinguish SBs from the AB in any programmatic terms. The AB and SBs are essentially the same in that both provide protection/assistance and durable solutions to refugees and/or other persons of concern, the main difference being their timing of approval/creation. However, the difference in timing could have implications for the funding of UNHCR programmes. For instance, if SBs are established later in the year and special appeals made, those SBs might not have much impact on the funding of the AB of that year. At the same time, those SBs carried over into the new year and

¹ Report of the 56th session of the Executive Committee, A/AC.96/1021 of 7 October 2005, para. 23 (c) General decision on Administrative, Financial and Programme Matters.

new SBs created during the year could reduce funding for the AB, assuming total funding from the donor community remains the same. This is the case in 2006 when there were 13 SBs amounting to over \$290 million at the beginning of the year.

6. The requirement of the Financial Rules that any SB activities to be continued should be mainstreamed into the next AB ensures that SBs remain an exception; are not unduly prolonged; and revert at the first opportunity to regular governance control by the Executive Committee.² This time-based rule helps maintain the integrity of the UB - there is always one integrated unified budget for UNHCR. This requirement has largely been met by the Office in the majority of cases. Between 2000 and 2006, 31 SBs have been established (not counting 8 IDP-related SBs established in 2006), of which 13 have been included in the AB of the following year, 12 within two years and only 6 remained as SB more than two years. The last group includes SBs for Iraq, Sudan and the Democratic Republic of the Congo (DRC). All SBs would eventually be mainstreamed into the AB in the spirit of the UB. The challenge is to develop pragmatic criteria for mainstreaming or delaying or postponing the mainstreaming of certain types of SBs.

Financial Trends

7. While the mainstreaming of SBs has been the norm, the Executive Committee has asked for the financial consequences of the continuation of SBs. Therefore it is necessary to review the financial trends of the UB. The following table (1) shows the budgetary trends of the UB since 2000.³

Table (1) Budget Trend (in millions – 2006 figures are current estimates)

	2000	2001	2002	2003	2004	2005	(2006)
AB	824.7	780.6	801.7	809.1	922.9	945.8	(1,103.9)
SB	90.6	117.1	228.1	330.6	278.0	412.2	(292.6)
AB+SBs	915.3	897.7	1029.8	1,139.7	1,200.9	1,358.0	(1,396.5)
SB % of total	10%	13%	22%	29%	23.1%	30%	(21%)

8. Between 2000 and 2005, the AB budgets grew from \$824.7 million to \$945.8 million (15%), further rising to \$1.1 billion in 2006. During the same period, annual SB budgets have grown from \$90.6 million to \$412.2 million (355%). The size and relative shares of the SBs have been on the increase.

9. Table (2) below indicates the total fresh contributions during the period 2000 to 2006. Between 2000 and 2005, the AB funding grew from \$640 million to \$799 million (25%), while in 2006 it is expected that fresh funding will remain at \$815 million. During the same period, annual SB funding has grown from \$58 million to \$287 million (395%). SBs have been growing fast, while the total funding for the UB is expected to be lower in 2006 than in 2005.

Table (2) Fresh Funding Trend (in millions - 2006 figures are current estimates)

	2000	2001	2002	2003	2004	2005	2006
AB	640	635	622	653	769	799	(815)
SB	58	135	185	269	158	287	(190)
UB total	698	770	807	922	927	1,086	(1,005)
SB % of total	8%	18%	23%	29%	17%	26%	(19%)

² In fact the definition of an SB in the Financial Rules implies that the SBs would automatically be “rolled up” into the next AB. In the decision adopted by the Executive Committee on supplementary activities (A/AC.96/959, para. 26(a)(i)) in 2001, this understanding was reiterated: “The Supplementary Programme would subsequently be incorporated into the next proposed Annual Programme Budget.” A decision not to roll up a Supplementary Programme into the next Annual Programme Budget would thus be, *prima facie*, an exception to the Financial Rules. Such exceptions would be based on the broad provisions of art. 1.2 of the Financial Rules which states: “Exceptions to these rules may only be made by specific decision of the High Commissioner, in a manner consistent with the Financial Regulations of the United Nations.”

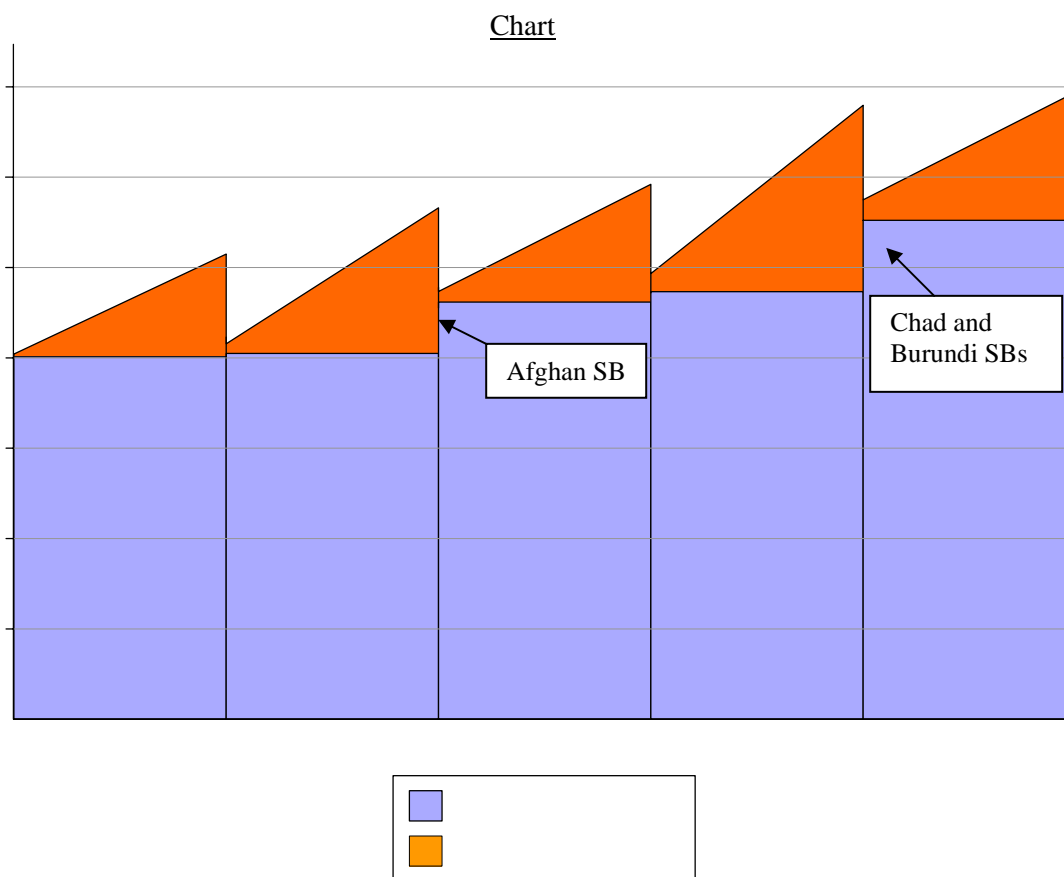
³ As the UN Regular Budget contribution and JPO Fund are not directly relevant, they are excluded from these calculations.

10. Table (3) below shows the trend in funding rates (fresh contributions over the budget) for the AB and SBs. It should be noted that, in general, and particularly in recent years, SBs have had a lower funding rate than the AB, although there are considerable variations in funding rates among SBs: depending on the type of emergency, location and “visibility”, some SBs have a funding rate below 35%; others are fully funded. The same SB may have a very different funding rate depending on the fiscal year.

Table (3) Funding Rate (2006 figures are estimates)

	2000	2001	2002	2003	2004	2005	2006
AB funding %	78	81	78	81	83	84	(74)
SB funding %	64	115	81	81	57	69	(65)
UB funding %	76	86	78	81	77	80	(72)

11. The Chart below shows the dynamics and financial impact of the SB “mainstreaming” into the AB since 2002. As SBs are established throughout the year, they are shown as “growing budgets”. There have been 3 cases when a large scale SB was “mainstreamed” and contributed to a noticeable growth in the AB. Part of the increase in the 2004 AB is explained by the inclusion of the Afghan SB. Part of the increase in the 2006 AB is explained by the inclusion of Chad and Burundi SBs amounting to \$110 million.



Growth in SBs and implications of time-based SB mainstreaming

12. The above financial analyses indicate that there has been an increasing trend in the size and share of SBs. It may therefore be assumed that, given the generally lower funding rate of SBs, automatic mainstreaming of all SBs (particularly large ones) would increase the budget of the AB, reduce its funding rate and also increase its earmarking rate (currently about 80%), as SBs are 100% earmarked. Also, given the widening gap between the budgets and fresh contributions received under the AB (for instance, the gap

between the 2006 AB budgets of \$1,103.9 million and the expected AB fresh contributions of \$815 million is glaring – \$290M, or 26% of the budgets), automatic mainstreaming of all SBs would reduce flexibility in the management of the AB.

13. It is this growth in SBs, and the impact of their subsequent mainstreaming into the AB, that has occasioned the decision of the Executive Committee to look into the issue. Therefore it would be useful to analyze the reasons for the increasing trend of growth in number and size of SBs and assess the implications of continuing SBs. Among the main factors contributing to the increasing SBs are the following:

- a. In the constrained funding climate of recent years, UNHCR has attempted to contain the growth of the AB. On two occasions, as mentioned above, it has not automatically “rolled up” some SBs;
- b. The introduction of “capping” of the AB, including the Operational Reserve, based on income projections at the beginning of the year, has reduced the ability of the Office to cope with changes in approved programmes or respond to new emergencies. Often, in order to address these situations, recourse has been the creation of SBs as a coping mechanism.

14. Thus, underfunding of the UB, particularly of the AB, can be considered to be the root cause of the increasing SBs and of subsequent non-inclusion of certain SBs. There is thus a vicious cycle: AB underfunding => increase in SBs => non-inclusion of certain SBs => more and longer-term SBs, and so on. It should be again stressed that the continuation of certain SBs does not mean that the Office gives lower priority to those SBs than that accorded to the AB; being an emergency response organization, UNHCR pays equal attention to both the AB and SBs.

15. The dilemma UNHCR faces is illustrated by the mainstreaming of Chad and Burundi SBs into the 2006 AB, which increased the 2006 AB by some \$110M. When it became clear that the 2006 AB would be substantially underfunded, heavy capping (20%) was imposed, forcing other (sub-) regions to sustain significant budgetary reductions, and causing considerable instability organization-wide. This situation would have been further compounded if the SBs for Darfur, Southern Sudan, DRC and Iraq had also been mainstreamed into the 2006 AB, given their relatively low funding rate. In other words, automatic mainstreaming of all SBs, particularly large ones, would worsen the general financial position of the AB.

Proposed criteria

16. Based on the above analysis, UNHCR would propose two criteria for not including SBs, or delaying inclusion, into the subsequent AB. These relate to:

- (i) the stability of the operation and therefore the predictability of programme needs; and
- (ii) the “fundability” of the SB and its possible adverse impact on the fundability of the AB.

(i) *Stability/predictability*

17. The first criterion relates to stability/predictability. This means primarily that the “caseload” or the number of beneficiaries has stabilized: for example, in an emergency situation, there are no longer ongoing influxes of refugees, and the host government, supported by UNHCR and its partners, has been able to bring a degree of control to the situation. As a result, it has been possible to assess needs, and design and cost programmes to address those needs.

(ii) *Fundability*

18. The second proposed criterion, presupposing that the situation being addressed by an SB has stabilized, is the projected “fundability” of the volume of the SB under consideration. If the “fundability” of such SBs is significantly lower than the projected funding of the AB, and due to their size, if this would disproportionately reduce the AB funding rate, then UNHCR would propose that the SB not be mainstreamed, or that mainstreaming be delayed until funding prospects improve.

19. The above two criteria should be used as a guide and flexibly, to avoid any mechanical decision.

Concluding Remarks

20. The above has not touched upon the way in which UNHCR’s work with regard to internally displaced persons (IDPs) should be programmed and funded. This issue should be addressed separately, but it has obvious implications for the discussion on the mainstreaming of SBs, if it is decided to establish such programmes as SBs. It is felt, however, that should there be a need for separate SBs for IDPs, the criteria above would adequately cover these situations.

21. Another topic not expressly addressed in this paper is the planned move to a biennial budget as from 2008. This question was raised in the conference room paper on the *Biennialization of the Programme Budget* (EC/55/SC/CRP.20, para. 14). At that time, the problems associated with the use of merely the time-based criterion as set out currently in the UNHCR Financial Rules was raised. At first sight, it might seem that the two-year programme cycle of a biennial budget might resolve some of problems discussed above. While this could be the case in some instances, namely for a SB that came on line early in the biennium, it could also be argued that the longer programme cycle would further compound the problem, with more SBs to deal with; moreover, the possible size of some SBs that may have been introduced late in the biennium, could prove to be particularly problematic. It is for these reasons, that the criteria developed above are also considered as suitable for a biennial budget cycle.

22. The analysis of the “life cycle” of previous SBs indicates that the majority of these have been mainstreamed, albeit with some delay. Mainstreaming has been the norm and continuation has been the exception. When mainstreaming was delayed, it was because of the concern that the mainstreaming of certain SBs could worsen the financial stability of the AB which itself has been suffering from chronic under-funding. The proposed two criteria, used judiciously, would abide by the spirit of the UB and allow the Office to balance the need to maintain the financial stability of the AB approved by ExCom with the need to respond to unforeseen emergencies under the SB.

Office of the Controller
13/06/2006