

OPERATIONAL RESERVE CATEGORY II:
OBSERVATIONS ON THE PILOT PROJECT

I. BACKGROUND

1. In the annual budget for 2004, the High Commissioner proposed the introduction, on a trial basis, of a second category to the Operational Reserve.¹ The reasoning behind this proposal was essentially to raise the level of the Operational Reserve in the proposed 2004 Annual Programme Budget beyond that specified in UNHCR's Financial Rule 6.6 (which currently sets the Reserve at 10 per cent of programmed activities) in order to provide obligation authority to receive and use additional contributions to address needs that were not included in the budget.

2. To meet this additional purpose of the Operational Reserve,² the Operational Reserve was divided into two categories: one covering the traditional use of this Reserve; another providing room for additional contributions:

(a) The first category of the Operational Reserve corresponded to the traditional purposes as defined under Financial Rule 6.5: namely, to cover new, unforeseen situations. This category was set at the level of 7.5 per cent of the proposed programme activities. The level was selected to ensure full funding of the Operational Reserve under this category.

(b) The second category of the Operational Reserve was set initially at US\$50 million. It was to be used exclusively to accommodate additional contributions for expanded or new activities, in order to cover unmet needs that were considered as falling within the Mandate of the Office, but which had not been included in the annual programme budget because of resource considerations.

3. The key concept of the second category was to address unmet needs through additional resources. As UNHCR moves towards applying needs-based assessments in drawing up its programmes, making use of recognized standards and indicators, it has been faced with the challenge of addressing resource gaps directly or through partners. Here, the High Commissioner has underlined the importance of partnerships, notably through the mechanism of participatory planning exercises with all interested parties: host governments, operational and

¹ A/AC.96/979, paras 28-31

² The ACABQ in its comments on the proposal (A/AC.96/979, paras 11-12) argued that the High Commissioner was already authorized to accept such additional contributions that were in accord with the Mandate of the Office.

implementing partners, refugees, and the donor community. Additional contributions from donors have been envisaged as one way of bridging the resource gap to meet assessed needs.

4. In proposing to have a second category, however, the High Commissioner stressed that additional contributions should not come at the expense of the contributions that would normally come from a donor for the activities already specified in the budget. This additionality was to be determined in consultation with the donor concerned.

5. In adopting this proposal on a trial basis, the Executive Committee asked that it be presented with periodic reports on the status of both categories of the Operational Reserve through its Standing Committee.

II. EXPERIENCE TO DATE

6. At the 30th meeting of the Standing Committee (29 June–1 July 2004), the conference room paper *Update on programmes, budgets and funding for 2004, and projections for 2005*³ and a related *Aide-Memoire* on budget and funding issues⁴ gave a preliminary report on the use of and experience with Category II of the Operational Reserve. In addition to discussions at the Standing Committee, further consultations with Executive Committee members and Standing Committee observers were held on the subject.

7. As at 1 July 2004, \$21.3 million had been received in contributions towards Category II of the Operational Reserve. The list of transfers from this category of the Operational Reserve is shown in Table I.5B of the 2005 Annual Programme Budget document.⁵ A copy of this list is attached for ease of reference. In the same period, transfers from Category I (the “traditional” Operational Reserve) have amounted to \$28.3 million, which is higher than the \$24.5 million recorded at the same date in 2003.⁶ It thus appears that the experiment with Category II of the Operational Reserve has been neither to the detriment of Category I, nor to the overall level of funding. At 1 July 2004, overall funds available to UNHCR exceeded those at the same date in 2003.⁷

8. From the experience to date, several observations may be made. Some delegations, in the light of resource trends and the facility thus provided to them to respond to their particular protection and assistance concerns, are quite positive about the pilot project. Some other delegations have expressed reservations, or at least posed the question, as to whether the existence of the second category would not lead to “re-prioritization” of the budget approved by the Executive Committee. In response to these concerns, it should be noted that contributions to Category II have been made more or less evenly across regions and Headquarters. Another aspect to consider is that the bulk of the contributions are for “core” mandate activities.

³ EC/54/SC/CRP.8

⁴ EC/54/SC/CRP.8/Add. 1

⁵ A/AC.96/992

⁶ A/AC.96/979, Table I.5

⁷ See A/AC.96/992, Table I.2

9. From an administrative viewpoint, the management of the pilot project has posed some challenges. It is sometimes difficult for UNHCR to ascertain that a specific contribution offered is “additional” to what is already envisaged from a specific donor. The determination of additionality becomes more difficult when it comes to multi-year contributions. Furthermore, funding pledges made conditional on co-funding arrangements have been difficult to accept unless there was prior identification of co-funders pledging additional contributions.

10. The above suggests that procedures on the management of Category II of the Operational Reserve still need to be refined and improved. These include:

- establishing criteria for the inclusion of multi-year contributions into future annual programme budgets;
- refining the criteria for the acceptance of funding pledges made conditional on co-funding arrangements; and
- establishing internal procedures for coordinating fund-raising activities by various units within UNHCR.

III. CONCLUSION

11. The pilot implementation of the second category of the Operational Reserve has so far shown a positive result in terms of its original aim, i.e. to accommodate additional contributions to cover unmet needs without diverting contributions from the annual programme budget and in a flexible way. However, it is rather difficult to provide a definitive assessment and evaluation of the pilot implementation on the basis of only seven months’ experience. There could be long-term implications that are currently unforeseeable, and there may be even better measures to address the original concerns that led to its introduction.

12. Therefore, the High Commissioner proposes that the pilot project continue under the 2005 budget, with a view to making a concrete proposal to the Standing Committee in March 2005. A final recommendation, including the views of the Advisory Committee on Administrative and Budgetary Questions (ACABQ), would then be presented to the Executive Committee at its fifty-sixth session in 2005.