

## BIENNIALIZATION OF UNHCR'S PROGRAMME BUDGET

### 1. INTRODUCTION

1. The Report of the Joint Inspection Unit (JIU) 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 (ExCom) should consider modifying UNHCR's programme budget cycle from annual to biennial (*Recommendation 3*).

2. In the former High Commissioner's preliminary comments on this recommendation of the JIU, contained in his letter to the Chairman of the JIU dated 20 August 2004 (EC/54/SC/CRP.21 Annex III), he noted that while there were merits with the proposal of the JIU:

*It could be argued that this move could adversely affect the flexibility of our programmes and the optimal allocation of resources. The two elements, namely a multi-year planning cycle and flexible revision capability at an operational, resourcing level, are not necessarily mutually exclusive; but the Office must avoid losing the flexibility needed to enable it to react and adjust its allocation of resources. A key consideration will be whether our donors feel they can be more responsive under their own annual budgets to a UNHCR biennial programme budget.*

This observation is still central to any final decision on any proposed move to a biennial budget.

3. Following a preliminary discussion of the subject in October 2004, ExCom, in its General Decision on Administrative, Financial and Programme Matters (A/59/12/Add.1 para. 24(l)), decided to refer the JIU recommendation for further consideration by the Standing Committee in the course of 2005, based on further analysis by UNHCR, with a view to reaching a decision on the matter no later than the 56<sup>th</sup> Session of the Executive Committee. A preliminary analysis was considered at the 32<sup>nd</sup> meeting of the Standing Committee in March 2005 (EC/55/SC/CRP.7).

4. This note builds on document EC/55/SC/CRP.7. It puts forward a tentative preference for a possible move to a biennial budget and the reasons for this. This preference is a relative judgment, made after weighing up the arguments for and against such a move. In indicating a tentative preference, the Senior Management of UNHCR hopes to focus the debate, and to be in a better position to make a firmer proposal in September 2005, with the support of the new High Commissioner. The continuing debate, in the meantime, needs to consider further the important reservations and concerns that would need to be addressed. Should the new High Commissioner recommend such a move to the Executive Committee, and should the Committee decide to proceed with the introduction of a biennial budget, the earliest opportunity for doing this would be for the biennium 2008-2009.

5. The main reasons for moving to a biennial programming/budget cycle are twofold:

- this would support and facilitate UNHCR's efforts to move to results-based management and budgeting;
- this would enhance UNHCR's efforts to be part of UN-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.

6. The principal concerns regarding such a move are how to maintain, improve and avoid compromising the flexible resourcing of UNHCR's programmes. The former High Commissioner alluded to this question in his preliminary comments on the issue. These points, both positive and negative, are developed further below.

## II. ADVANTAGES

7. The principal argument in favour of a move to a biennial budget relates to the current initiatives in UNHCR to introduce results-based management and budgeting. It is arguable that results-based management and budgeting may be better served by a longer programming/budgeting cycle that is more consistent with strategic planning, and which would give a more reasonable timeframe for monitoring outcomes/impacts.

8. As noted already in EC/55/SC/CRP.7, a biennial programming/budgeting cycle offers a number of potential advantages over an annual cycle. These include: enhanced longer-term planning, improved programme evaluation, and less time spent by the Executive Committee and UNHCR on the programme/budgetary preparation process. Multi-year programming/budgeting facilitates the integration of financial and strategic planning, thereby replacing "incrementalism" with a more strategic approach to resource allocation. Stable programmes and situations (e.g. Europe, Headquarters) could benefit from a longer-term planning and management perspective. Some other types of programmes (e.g. "4Rs"-type situations) also lend themselves better to a two-year cycle. A biennial programme/budget cycle would allow more time for performance evaluation, thus encouraging managers to move in the direction of outcome-focused budgeting. It should also lead to better, more results-based reporting.

9. The second argument given in favour of a move to a biennial budget cycle relates to the alignment of UNHCR's programming/budget cycle with the rest of the United Nations. All major funds and programmes of the United Nations plan and budget on a biennial basis, including UNDP, UNEP, UNWRA, UNICEF and WFP. Most recently, the International Atomic Energy Agency and the International Tribunals for the Former Yugoslavia and for Rwanda have also adopted biennial budgeting.

10. Harmonizing the planning/budget cycle with other UN organizations would facilitate increased sharing of standards, methodologies, assumptions and templates, e.g. Common Country Assessments (CCA); the handling of the impact of exchange rate fluctuations; and 'recosting' the budget. In addition, some potential complementary sources of funding for UNHCR programmes, in particular those related to development funding, make use of multi-year planning and programming. UNHCR could benefit from this by submitting multi-year programmes facilitated by biennial budgeting, a process which is currently surrounded by a number of caveats in the absence of an approved programme for the second year.

### III. DISADVANTAGES

11. On the other hand, there are a number of significant questions concerning the proposed move to a biennial budget. The main challenges relate primarily to the resourcing of an approved budget and the subsequent implementation of programmes in a more predictable manner, however in reality, these complications already affect the implementation of the current approved annual programme budget. A biennial cycle would not solve these; it might even compound them. Other arguments point to the risk of continuing unpredictability having to be addressed by the same existing mechanisms (e.g. setting and adjusting quarterly obligation levels in the light of resource flows) over a two-year period.

12. The complex, ever-changing emergency nature of UNHCR's work makes it hard to incorporate these exigencies into a biennium plan. New emergencies would have to be addressed by recourse to the Operational Reserve Category I or be budgeted for as Supplementary Programmes. While this might lead to a proliferation of such programmes, it could be argued that the longer anticipated lifespan of a Supplementary Programme would provide time for the emergency to stabilize before having to mainstream the outstanding needs into the subsequent proposed biennial budget.

13. It is obviously more difficult to plan accurately for a biennium (requiring forecasts of events 36 months away) than for an annual budget (requiring forecasts for 18 months ahead). Accurate forecasting is particularly important for UNHCR, partly because of the focus on balancing resources and spending, and partly because inaccurate forecasts disrupt programme implementation. This is particularly challenging as UNHCR depends on largely unpredictable voluntary contributions. There is general consensus that forecasting is more accurate in organizations with annual budgets. Accuracy in forecasting in turn reduces the need for drastic budget revisions. While biennial budgeting represents a longer-term commitment of policy direction and levels of funding than annual budgeting, the increase in the degree of certainty of policy and funding commitment may in fact be small.

14. One argument against the use of biennial budgets for an organization like UNHCR is the difficulty of forecasting income and expenditures in a rapidly changing operational environment. Biennial budgets require that all estimates and forecasts (which already represent a challenge for a twelve-month period) are established for a 24-month period. Forecasting donor funding, new emergency situations, and many other variables in the budget, is likely to be difficult. Changes in other variables may further complicate the ability to develop accurate estimates for budget development.

15. In the consultations to date, some donors have stated that their financial contributions towards UNHCR operations are resourced from annual budgetary allocations and that this will most likely continue, irrespective of an eventual biennial budgeting process adopted by the Office. In the absence of any budgetary authority beyond one year, some donors may not be able to give reasonably reliable indications of projected contributions beyond that same time frame. As a result there may be a potential breakdown between a UNHCR biennial budget and a reasonably predictable expectation of available funding.

#### IV. CHANGES REQUIRED UNDER BIENNIAL BUDGETING

16. If the proposed change to a biennial budgeting cycle is adopted, a series of changes in the budgeting and financial procedures and Financial Rules of UNHCR would be required. In accordance with demonstrated best practices within the United Nations system, the key changes envisioned are as follows:

17. Biennial budget and appropriations: The budget document would be for a biennium and would have to be titled Biennial Programme Budget. There would also be a change to biennial appropriations as the biennium could be treated as a single financial period so that resources would be available for the implementation of the approved Programme Budget over a two-year period.

18. Supplementary Programme for two years: A move to biennial budgeting would imply that Supplementary Programmes would be established for a period up to two years, and that these programmes would be mainstreamed at the end of the biennium.

19. Biennial audits: The financial period for the purposes of auditing could also be established as two years, with external audit reports being provided at the end of the second year of the biennium. The ACABQ has long argued that this would be in UNHCR's interest as it would give more time for the follow-up of recommendations.

20. Interim reports at the end of the first year: Interim financial performance reports and income and expenditure statements could be prepared at the end of the first year of each biennium. These reports could be in the form of summaries of the organization's financial position and would be presented to the Standing Committee and/or the Executive Committee.

#### V. CONCLUSION

21. As noted above, the arguments in favour of a move to a biennial programming-budget cycle do not appear to be particularly advantageous. The tentative proposal in favour of such a move is based on relative merits as set out in paragraph 5 above. The essential challenge for UNHCR would therefore be to find ways to mitigate the negative aspects of such a move. This is where the ongoing debate should focus, so that by the time of the next Executive Committee plenary session, the new High Commissioner can be in a position to make a proposal which would meet with the broad support of member States.