

PROPOSAL FOR THE REDESIGN OF UNHCR'S BUDGET STRUCTURE

A. Purpose of the paper

1. This discussion paper has been written in response to the challenge of how to manage operations in respect of internally displaced persons (IDPs), and more generally, supplementary programme budgets (SBs), in the context of UNHCR's Unified Budget structure. It argues that the best solution is to redesign the Unified Budget in order not only to incorporate IDPs, but also to address other weaknesses in the current budget architecture, as well as future challenges, including the move to a biennial budget. The paper describes the current budget structure, identifies important weaknesses and highlights current and future challenges. It identifies a proposed option for redesign that will provide UNHCR with the flexibility it requires to operate in different institutional environments and to take advantage of different funding modalities, while also ensuring more effective ExCom oversight.

B. The current budget structure

2. On the basis of donor consultations in 1998 and 1999, UNHCR redesigned its budget architecture and created the current Unified Budget structure. The Unified Budget consists of an Annual Programme Budget (including the Operational Reserve and the "New or additional – mandate-related" (former OR II) category) and the Supplementary Programme Budget (for new situations arising after the approval of the Annual Programme Budget by ExCom).

3. The major difference between the Unified Budget and the previous budget structure is that the Unified Budget did away with the distinction between what were known as the General Programme and Special Programmes.

4. The rationale for creation of the Unified Budget was to provide a comprehensive, transparent picture of UNHCR's budget that would help ensure increased predictability of funding, reduced earmarking, enable more equitable distribution of resources across operations and ensure appropriate donor oversight.

C. Weaknesses in the current model

5. There are several important weaknesses in the current model:

- Operations start the year with unearmarked or broadly earmarked funds; as earmarked contributions are received, these replace unearmarked contributions. Often these contributions are based on detailed project submissions and are highly earmarked. This has caused much frustration in the Field and is a disincentive for field offices to actively seek additional, labour-intensive contributions.

- As donors increasingly decentralize their fund allocation processes, notably in relation to IDPs and development funding, and with the introduction of pooled funds that have to be applied for, and reported on, by the Field, UNHCR's current resource allocation process and budget structure are insufficiently flexible and responsive to these trends. As a result, they constrain UNHCR's capacity to mobilize funds and partner reliably at the country level.
- Mainstreaming Supplementary Budgets (SBs) is problematic. Since 2000 there has been a steady increase in the percentage of SBs within the Unified Budget from 10 per cent of the 2000 Budget to 30 per cent of the 2005 Budget. For 2006 SBs made up 22 per cent of the overall budget. The current UNHCR Financial Rules call for automatic mainstreaming of SBs after one year. However, as indicated in the note by the Controller for the 2006 Informal Donor Consultations¹, "automatic mainstreaming of SBs would reduce flexibility in management of the Annual Budget" and create significant financial resource management challenges that would likely result in increased capping of the Annual Budget.
- Additional concerns with respect to the Unified Budget relate to predictability of funding. The shared hope of UNHCR and donors was that the Unified Budget would result in more predictable funding for UNHCR's operations. This, however, has not been the case as the Unified Budget has not made a significant difference as the overall funding rate for UNHCR operations has remained around 80 per cent throughout the period from 2000 to 2006.
- The situation is the same with respect to earmarking, for which there was a shared aspiration that the degree of earmarking would decrease. This, however, has also not been the case as earmarking levels remained at 80 per cent of the budget for the period for 2004 and 2005.
- While it can be argued that the Unified Budget has resulted in more equitable distribution of resources across operations, it has done so in a manner that has also resulted in more across-the-board reductions of the Annual Budget in response to funding shortfalls.
- With respect to ExCom oversight of the UNHCR budget, the fact that SBs - which constitute on average one fifth of the UNHCR budget and are increasingly rolled over from year to year - are not approved by ExCom suggests that the Unified Budget has not facilitated ExCom's oversight and approval function for the totality of UNHCR's budget.

D. Current and future challenges

6. A budgetary challenge for UNHCR in the next few years will be how best to integrate the budgetary implications of UNHCR's expanded role for IDPs while at the same time ensuring that UNHCR's work on behalf of IDPs does not detract from its work on behalf of refugees.

¹ "Criteria for Inclusion (Mainstreaming) or Not of Supplementary Programme Budgets in the Annual Programme Budget", 15 June 2006.

7. The fact that UNHCR's planning and programming cycle is "out of sync" with that of the IDP cluster activities (included in the Consolidated Appeals Process²) will in all likelihood continue to lead to parallel planning, appeal and reporting procedures and to a proliferation of the number of SBs. In addition, the introduction of pooled funding mechanisms and the increasing decentralization of donor funding decisions will lead to country-based, tight earmarking and an increased role of the Field in fund raising and fund management.

8. Discussions to date have revolved around "mainstreaming" IDP programmes into the UNHCR budget. What is not clear is what such mainstreaming would mean. If mainstreaming simply entails adding IDP programmes into UNHCR's Annual Budget, there is considerable risk that this will significantly increase the size of the Annual Budget and inevitably decrease the likelihood of full funding of the Annual Budget. A likely consequence of this phenomenon will be increased across-the-board capping of UNHCR programme budgets irrespective of efforts to ensure targeted prioritization.

9. The introduction of a biennial budgeting process will also pose new challenges for UNHCR. In particular, the fact that ExCom will approve a two-year budget suggests that the number of Supplementary Budgets outside the approval of ExCom will increase as well as posing significant difficulties in terms of mainstreaming of SBs when planning for the next Biennium.

E. The case for redesign

10. Given both the problems associated with the current Unified Budget, and the future budgetary challenges UNHCR will need to meet in the coming years, there is a solid rationale for redesigning the Unified Budget structure in order to ensure that it is responsive to the work of the Organization, that it facilitates ExCom's oversight role, and that it meets the needs of donors.

F. Design principles

11. A redesigned structure for UNHCR's Unified Budget must be conducive to the implementation of results-based management. At a minimum, a redesigned budget architecture should ensure appropriate oversight by ExCom and facilitate management decision-making and prioritization. It should also accommodate UNHCR's role in the cluster approach for IDPs, while at the same time ensuring that core refugee programmes are protected within the budget and are not inadvertently impacted by UNHCR's increased work with IDPs. It should also provide possibilities for presenting costs of activities in different ways, e.g. by population of concern, type of intervention and sector.

12. A redesigned budget structure should also promote and facilitate partnership, particularly in terms of joint programming within UN/IASC country teams (which usually have different programming cycles) and enable UNHCR to take advantage of joint funding mechanisms.

13. Finally, a redesigned budget structure should provide flexibility in dynamic situations, particularly emergencies. It should also provide incentives for quality so that high quality programmes can be rewarded with increased funding, and facilitate funding of operations.

² The Consolidated Appeals Process (CAP) runs from February to November culminating with the launch of the consolidated Global Appeal. A mid-year review which updates the Global Appeal is published in July. Flash appeals are published on an ad hoc basis as soon as possible after the onset of a complex emergency or natural disaster.

G. The challenge of prioritization

14. Prioritization, the decision-making process by which the managers of the organization determine the relative importance of programmes, results, and activities and allocate resources accordingly is a key challenge in any large organization, and UNHCR is no exception. UNHCR's difficulties in prioritization stem not only from the fact that assessed needs always exceed available resources, but also because it has responsibilities that stem from its refugee mandate and is less able to pick and choose than are other operational agencies of the United Nations system. As a result UNHCR is able to prioritize much more effectively within programmes than across them.

15. UNHCR nevertheless recognizes the need for a more robust and effective prioritization system. UNHCR's new results-based management software, *Focus*, will be a major step forward in this regard. *Focus* will facilitate prioritization of both assessment results and planned programme interventions at country, regional and global levels. *Focus* will also enable UNHCR to introduce a new information structure that is protection-driven and enables a clearer view of the range of interventions UNHCR carries out, thus also facilitating prioritization decisions. In redesigning the budget structure, UNHCR needs to ensure that the new structure supports prioritization while recognizing the current limits to prioritize across programmes.

H. Design components/ features of a redesigned Unified Budget

16. The basic building block for the redesign of UNHCR's Unified Budget is to use populations of concern as the basic organizing principle rather than geographical regions and to structure the budget into four distinct components:

- Global Refugee Programme
- Global Stateless Programme
- Global Reintegration Programme
- Global IDP Programme

17. It is important to note that the purpose of this breakdown is not to indicate prioritization of one component or population over the other but instead to provide clarity in terms of how UNHCR's redesigned Unified Budget addresses the different categories of populations of concern.

18. In addition to these four components, the redesigned Unified Budget would include:

- Headquarters and Regional Operations Support
- Operational Reserve including firewalled emergency response
- New or additional activities - mandate-related

19. The Global Refugee Programme component would include all country of asylum refugee operations, plus capacity building of States, advocacy and resource mobilization as well as resettlement, local integration, and repatriation of refugees to countries of origin.

20. The Global Stateless Programme Component would include all UNHCR's programmes addressing statelessness including populations with undetermined nationality.

21. The Global Reintegration Programme component would include all country of origin returnee reintegration programmes.

22. The Global IDP Programme component would include country of origin IDP programmes.

23. The Global Refugee and Stateless Programmes would be funded on the basis of “programme funding” as would essential costs associated with UNHCR’s Headquarters and the capacity to carry out its designated role in IDP and reintegration operations. In order to provide the greater flexibility required to work in a framework of inter-agency collaboration and decision-making and to deal with a higher degree of uncertainty in relation to budgetary requirements, the Global Reintegration Programme and Global IDP Programme components of the new Unified Budget would operate on the basis of “project” funding.

24. To facilitate the breakdown of operations into these components, the new RBM Results Framework, which will be piloted with the *Focus* software, will introduce new programme categories i.e., “types of assistance” and “sectoral interventions” which are shown in Annex I to this document. Breaking down the budget in this way will also support prioritization.

I. Governance / budgetary approval by ExCom

25. In terms of ExCom oversight, ExCom would approve the new Unified Budget including all four components at its annual plenary session. In order to improve oversight, the current Standing Committee meeting structure would be adapted so as to allow UNHCR to present, and ExCom to review, revised budgets for country operations on a rolling basis in response to changes in the situation requiring budgetary adjustments as well as joint programming initiatives.

26. In the proposed model, Supplementary Budgets would be used in all components for any population of concern, to respond to unanticipated needs. Given the accelerated ExCom approval and review cycle as described above, SBs would in principle be integrated into UNHCR’s ExCom approved budget much more quickly than in the current practice, which operates on the basis of an annual approval cycle.

J. Advantages of the redesign

27. Redesigning the Unified Budget Structure in this way has a number of advantages including the following:

- First, there is a clear logic to organizing the budget in terms of populations of concern, as well as to showing clearly UNHCR’s work in countries of asylum and countries of origin. This enables a clear distinction between UNHCR’s work with refugees and IDPs.
- Another advantage is that the model will enhance UNHCR’s efforts to provide a global assessment of refugee needs based on international standards of refugee protection which can be reflected separately from reintegration and IDP needs that are much more country context-specific.
- While partnership is essential in all types of UNHCR operations and all programmes, the model recognizes the different nature of partnership and joint programming in reintegration and IDP contexts.
- The model effectively firewalls refugee programmes from reintegration and IDP programmes, thus avoiding the potentially negative impact of mixing all these types of programmes together so that they end up competing against each other.

- Presentation of UNHCR's Unified Budget would be enhanced as the budget would be presented, not only (as is currently the case) on the basis of geographical breakdowns at the country and sub-regional levels, but also in terms of country of origin and country of asylum breakdowns for reintegration and IDPs.
- The model will, it is hoped, facilitate fund raising, as UNHCR would be in a better position to mobilize other sources of funds for reintegration and IDP programmes, including those decentralized at the country level. The same holds true for additional development funding for local integration.
- It is important to emphasize that dividing the budget on the basis of country of asylum and country of origin does not mean that UNHCR should not pursue situational planning for populations and situations. Indeed, the situational approach should remain the basis for planning of operations and, as appropriate, should be reflected in management structures.

Annex I provides an overview of the proposed structure.

Annex I

DRAFT REDESIGNED UNIFIED BUDGET STRUCTURE

Major Programmes	Types of Intervention	Sectoral Areas of Intervention	Regional Programmes
Global Refugee ¹ Programme	<ul style="list-style-type: none"> • Emergency Response • Protection & Preparation for Solutions • Repatriation • Reintegration • Local Integration • Resettlement • Protection and Multiple Solutions • Capacity Building • Advocacy • Resource Mobilization • Headquarters and Regional Support 	<ul style="list-style-type: none"> • Favourable Protection Environment • Fair Protection Systems and Processes • Security from Violence and Exploitation • Freedom of Movement and Individual Documentation • Essential Needs and Services • Community Participation and Self-Management • Durable Solutions • External Relations Support • Supply Chain/ Logistics • Programme Management and Support 	<ul style="list-style-type: none"> • Africa • Asia and the Pacific • Europe • The Americas • The Middle East and North Africa
Global Stateless Programme ²			
Global Reintegration Programme ³			
Global IDP Programme ⁴			

¹ The Global Refugee Programme would be funded through the “programme funding” mechanism.

² The Global Stateless Programme would be funded through the “programme funding” mechanism.

³ The Global Reintegration Programme would be funded through a combination of the “programme funding” mechanism for costs associated with the essential capacity required for UNHCR to operate and “project funding” mechanism for operational activities.

⁴ The Global IDP Programme would be funded through a combination of the “programme funding” mechanism for costs associated with the essential capacity required for UNHCR to operate and the “project funding” mechanism for operational activities.