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**Executive Committee of the  
High Commissioner's Programme**

Distr.: Restricted  
6 September 2021  
English  
Original: English and French

**Standing Committee**  
82<sup>nd</sup> meeting

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**Proposal to establish financial regulations for  
UNHCR***Summary*

The purpose of this paper is to inform Member States of the Executive Committee of the High Commissioner's Programme (ExCom) about UNHCR's proposal to establish its own financial regulations, and to seek endorsement for initiating the process to develop the organization's financial regulations to govern the funds at its disposal.

UNHCR proposes to initiate a process to obtain authority from the United Nations General Assembly for UNHCR to have its own financial regulations specifically applicable to the organization, similar to that of other United Nations entities. Following their approval by ExCom during its seventy-third plenary session, these financial regulations would be promulgated by the High Commissioner.

The draft decision on this process is included as Annex I of this paper for consideration by the Standing Committee at its eighty-second meeting in September 2021.

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## I. Introduction

1. UNHCR has experienced tremendous growth in the last decades, from a resource-based budget of around \$1 billion in 2001 to a needs-based budget of almost \$9.1 billion in 2020. The organization is now the fourth largest United Nations entity in terms of expenditure outside the United Nations Secretariat (after the United Nations Children Fund (UNICEF), the United Nations Development Programme (UNDP) and the World Food Programme (WFP), which all have their own specific financial regulations. During this time of growth, the organization has adapted its support mechanisms to better enable the expanded operational delivery. While the organization has always adapted to current contexts, it is currently going through a significant process of transformation to simplify, streamline and modernize its systems, processes and policies over the next few years, including a comprehensive review of its financial regulatory policy. This presents an important opportunity to address policy inconsistencies that have emerged over the years and connect the various pieces of regulatory content in a way that maximizes their utility.

2. There are three levels of financial governance that guide UNHCR. The United Nations Financial Regulations are broad legislative directives governing the financial management of the United Nations. They are the foundation of the financial framework and define broad legislative directives governing the financial management of UNHCR. Within the framework of the financial regulations, the High-Commissioner formulates and promulgates the financial rules, which not only further define the parameters within which staff and the administration must exercise their responsibilities, but also constitute a statement on how the financial regulations are to be implemented. The third level of the financial governance are the internal financial policies issued by UNHCR.

3. Over the years the alignment of the entire framework has become somewhat challenging as the United Nations Financial Regulations are designed to provide guidance for an organization funded by assessed contributions, whereas UNHCR is nearly 99 per cent funded by voluntary contributions, with a significantly different governance structure to that of the United Nations Secretariat. Consequently, and for the reasons outlined below, UNHCR proposes to initiate a process to obtain authority from the United Nations General Assembly for UNHCR to have its own financial regulations specifically applicable to the organization, similar to that of other United Nations entities.

## II. Rationale for adopting financial regulations specific to UNHCR

### A. Background and analysis

4. When UNHCR was created in 1950, it was intended to be a temporary office to address the refugee problem in the aftermath of the Second World War, and its governance structures were anchored in those of the United Nations. Referring to the funds raised through voluntary contributions and the United Nations regular budget, Article 22 of the Statute of the Office of the High Commissioner for Refugees<sup>1</sup> states: “Administrative arrangements for the custody of such funds and their allocation shall be agreed between the High Commissioner and the Secretary-General in accordance with the Financial Regulations of the United Nations and rules promulgated thereunder by the Secretary-General.”

5. Within the boundaries of the United Nations Financial Regulations, UNHCR established its first set of financial rules in 1957 ratified by General Assembly resolution 1166 (XII) in which the General Assembly decided with respect to appeal of funds “that appropriate financial rules for the use of all funds received by the High Commissioner under the terms of the present resolution shall be established, in consultation with the Executive Committee of the High Commissioner’s Programme, and in accordance with the Statute of the High Commissioner and the Financial Regulations of the United Nations.”

<sup>1</sup> Resolution 428 (v) 1950

6. UNHCR's financial rules have evolved over time in response to the changes the Office was faced with, and they have been subject to various revisions. The most recent updates to these rules were in 2011 and 2020. In 2011, UNHCR changed its rules to formalize the adoption of the international public sector accounting standards (IPSAS) (A/AC.96/503/Rev.10). The most recent change of the financial rules was approved at the seventy-first plenary session of ExCom in 2020 (A/AC.96/1209), with the primary purpose to introduce impact areas to our results-based management framework (A/AC.96/503/Rev11).

7. However, amending specific provisions of UNHCR's financial rules, triggered by reform processes or other considerations, does not lead to a comprehensive and coherent framework for budgetary and financial management. This is because such amendments cannot be accompanied by the context of the higher legislative provisions contained in the United Nations Financial Regulations. In this context, the following aspects of UNHCR's context are of particular relevance:

- (i) In 2003, the General Assembly removed the temporal limitation on the continuation of the Office of the High Commissioner (which had previously been renewed every five years, following an initial life span of three years) and decided to continue the Office until the "refugee problem is solved".
- (ii) While UNHCR had a budget of approximately \$3 billion in 2003 and revenue under \$1 billion, today the organization has a needs-based budget of over \$9.1 billion and is raising almost \$5 billion in revenue annually.
- (iii) UNHCR's transformation process began five years ago (EC/72/SC/CRP.17). The United Nations General Assembly's affirmation of the Global Compact on Refugees (GCR) represented a seminal development during the transformation process that has reshaped how UNHCR and the international community responds to refugee crises. UNHCR's role in implementing the GCR and the broader United Nations reform process are key drivers of the organization's transformation.
- (iv) Responding to this evolving landscape, UNHCR has made significant structural changes at Headquarters to strengthen support for solutions and programme planning, implementation, monitoring and reporting on results. Decentralization and regionalization have moved strategic direction, management guidance, technical support and key decision-making processes out of Headquarters and closer to the operations. UNHCR has reinforced these more visible structural changes with greater delegation of authority for management to the point of delivery. UNHCR is further revising the framework of roles, accountabilities and authorities for country operations, regional bureaux and headquarters divisions to support the organization's decentralized and regionalized architecture.
- (v) A new multi-year planning, budgeting, monitoring and reporting result-based management (RBM) approach was launched in 2021. This new approach enables operations to develop longer-term protection and solutions strategies using a simplified results chain and a new global results framework, aligned with the Global Compact for Refugees and the Sustainable Development Goals.
- (vi) Supporting the above transformations, UNHCR is significantly upgrading main systems used across the organization for financial and human resources management, e.g. COMPASS for RBM.

8. All of this transformation comes with significant opportunities to streamline UNHCR's financial regulatory framework to achieve increased efficiencies in response to transformed structures, modern system and current challenges, starting with the financial regulations.

9. While the High Commissioner, in consultation with ExCom, may amend the financial rules as and when deemed necessary, UNHCR has no ability to amend the United Nations Financial Regulations to reflect its frameworks. As elaborated in Part C below, UNHCR's assessment is that these regulations are no longer fully adequate and fit for purpose for the Office's current needs. UNHCR would benefit from regulations that are designed to address the specific programming environment in which it operates, with financial rules that complement them.

10. The General Assembly, through successive resolutions, laid down the mandate of the High Commissioner and conferred upon the Office of the High Commissioner the authority to receive funds and incur expenditures to provide international protection and seek solutions for persons of concern to UNHCR. The delegation of such broad authority by the General Assembly was to provide adequate freedom of action to the organization in its operational activities. In exercising the powers entrusted to them for the execution of their functions, over the years High Commissioners have established financial policies and procedures that are suitable for UNHCR, but often deal with matters that are not adequately covered by the United Nations Financial Regulations, some of which are outlined below.

11. While UNHCR has operated under the umbrella of the United Nations Financial Regulations since its inception, the organization is going through a significant process of transformation and modernization. With a foundational instrument underpinning present and future approaches that has become increasingly removed from UNHCR's evolving needs, the Office would be limited in designing and implementing more modern policies and efficient processes in some areas or continue to expand the gap of inconsistencies. For UNHCR to be fully equipped to take advantage of upcoming opportunities and face the challenges of the current environment, a comprehensive review of applicable financial regulations is required. As UNHCR is currently engaged in transforming its regulatory framework, this is the optimal time to produce a foundational document for UNHCR that is consistent with its policy framework.

12. In reviewing the possibility of UNHCR formulating its own financial regulations, the Office consulted and sought the advice of the United Nations Office of Legal Affairs; the Secretary of the United Nations General Assembly on Administrative and Budgetary Questions (Fifth Committee); and the Assistant Secretary-General for Programme Planning, Finance and Budget and Controller of the United Nations.

## **B. Financial regulations of other UN entities**

13. UNHCR's proposal to develop its own financial regulations would not be the first among the United Nations organizations. A review of the structure of the financial regulations and rules adopted by other United Nations entities shows that other organizations similar to, or even smaller than, UNHCR benefit from their own regulations.

14. UNICEF's experience is most similar to that of UNHCR. UNICEF's accounts were maintained in accordance with the United Nations Financial Regulations and Rules until 31 December 1987 when its Executive Board adopted UNICEF's financial regulations and rules in accordance with a decision by the United Nations Economic and Social Council (ECOSOC) and as approved by the General Assembly.

15. At the time, the Advisory Committee on Administrative and Budgetary Questions (ACABQ) had acknowledged that although a number of United Nations Financial Regulations would require only adaptations to describe the corresponding aspects of UNICEF's financial operations, others, such as those dealing with the United Nations programme budget and the necessary provisions of funds through assessment of contributions from Member States, were inapplicable to the needs of UNICEF. It also concluded that the methods for management of the programmes could not be conveniently accommodated under the United Nations Financial Regulations. They advised on the possibility of establishing a specific set of rules and regulations for UNICEF in the same way as UNDP had. (E/ICEF/1985AB/L.2).

16. UNICEF's Executive Board requested that ECOSOC recommend the General Assembly to authorize UNICEF's Executive Director to promulgate the financial regulations required to meet UNICEF's needs, following approval by their Executive Board. ECOSOC endorsed this conclusion and recommended that the General Assembly authorize promulgation of appropriate regulations, which the General Assembly did. The Executive Board subsequently adopted UNICEF's financial regulations, and the Executive Director established UNICEF's financial rules.

17. WFP is governed by the General Regulations approved by the United Nations General Assembly and the Conference of the Food and Agricultural Organization of the United Nations (FAO). Pursuant to Article XIV.5 of these General Regulations, WFP's Executive Board has been granted the authority, after receiving advice from ACABQ and the FAO Finance committee, to establish financial regulations to govern the management of the WFP Fund.

18. UNDP, an organization with \$4.8 billion in revenue in 2019, promulgated its own set of financial regulations in 1966, shortly after its establishment in 1965.

19. The United Nations Population Fund (UNFPA), an organization with \$1.5 billion in revenue in 2019 and previously under the framework of UNDP's financial regulations and rules, established its own financial regulations in 1974.

20. The United Nations Entity for Gender Equality and the Empowerment of Women (UN Women), which had revenue of \$527 million in 2019, has had its own financial regulations since its inception in 2011. It receives approximately two per cent of its contributions from the United Nations regular budget. Consequently, its financial regulations and rules integrate language on the United Nations role with respect to this portion of the budget.

### **C. Limitations of current United Nations Financial Regulations when applied to UNHCR**

21. While the Office has achieved its objectives operating under the United Nations Financial Regulations, UNHCR-specific regulations would strengthen the clarity and transparency of its financial framework and create the opportunity to focus on the special aspects of UNHCR's programme which are not adequately covered by the United Nations Financial Regulations.

22. The United Nations Financial Regulations and Rules (ST/SGB/2013/4) contain many articles that refer to funding, governance structures, processes and terminology that are not relevant or applicable to UNHCR, such as for example references to elements specific to peacekeeping operations or the International Court of Justice. They are so numerous that it becomes unclear which regulation and rule apply to UNHCR, and how to translate language that is quite specifically designed for the United Nations Secretariat to the current UNHCR context.

23. The United Nations Financial Regulations outline the framework of a programme budget cycle that is primarily focused on assessed contributions from Member States, including budget submission and approval processes that are distinct from UNHCR's. Examples include a regulation on the results-based budget framework which uses differing terminology than the UNHCR structure and requires elements that do not exist at UNHCR which adopted a needs-based budget. It sets the budget period at two years, whereas UNHCR defines the budget period outside of the financial regulations and rules to allow for flexibility without requiring changes to the foundational document should periods change. United Nations supplementary budgets are submitted to the General Assembly and reviewed by the ACABQ, whereas the High Commissioner has the flexibility to issue supplementary budgets and informs ExCom, allowing timely responses to humanitarian emergencies.

24. While the primary focus is on the administration of the assessed contributions paid by Member States, the UN Financial Regulations include rather limited regulations related to voluntary contributions, such as in the areas of voluntary pledges, earmarked contributions

and revenue-producing activities, while these areas are of particular importance and relevance to UNHCR.

25. Despite the United Nations Financial Regulations and Rules having different approval mechanisms for the regulations than from the rules, they are presented as an integrated document, showing the financial regulation followed by the relevant set of financial rules necessary for its implementation. This allows the reader to understand the financial and internal control framework in a single comprehensive document. In the case of UNHCR, such a document cannot be easily developed because its financial rules are promulgated through a separate legislative document that is disconnected, in terms of structure and sometimes terminology, from the United Nations Financial Regulations, as they are two documents drafted and approved by different bodies. As the terminology in the United Nations Financial Regulations is distinct in many areas from UNHCR's and given that they include many sections that are not applicable to UNHCR, it is a significant challenge to partner the UNHCR rules with the parent regulation. It is unlikely that a reader of the UNHCR financial rules can obtain a complete understanding of the financial and internal control framework without the context of their regulations.

#### **D. Proposal to establish UNHCR financial regulations**

26. UNHCR proposes to establish its own financial regulations in a single document with a consistent presentation of financial regulations and their corresponding rules. The governance mechanism would be similar to that of other United Nations entities with the High Commissioner promulgating the financial regulations following their approval by ExCom. Should ExCom agree with UNHCR developing its own financial regulations, the High Commissioner would also be required to revise the financial rules to complement the regulations.

27. In developing its own regulations, UNHCR will continue to be guided by the principles for good financial management and diligent accountability advocated by the United Nations Financial Regulations or other relevant United Nations policies and administrative instructions. At the same time, the quality of the financial information and reporting to ExCom and the practice of their review will be strengthened, as this will be institutionalized in the new financial regulations. The High Commissioner will promulgate the financial regulations only after approval by ExCom.

### **III. Conclusion**

28. A set of financial regulations and rules well adapted to its specific needs, would provide UNHCR with a foundation on which the organization could build increased efficiencies when developing corresponding policies, procedures and processes. In this context, UNHCR would like to initiate a process to be granted the authority to develop its own financial regulations, to be approved by ExCom. This would allow for: more agile mechanisms for financial management; consistency with UNHCR's specific policies and procedures, including annual budgeting and accounting; better meeting the long-term requirements of UNHCR; and consistency with other United Nations entities.

29. In light of the above, UNHCR:

- (i) requests that approval from the General Assembly should be sought to grant to the High Commissioner the authority to promulgate financial regulations specific to all of UNHCR's operations, independent of the United Nations Financial Regulations, after approval by ExCom;
- (ii) will prepare a draft of financial regulations for ExCom's approval and a complementing set of new financial rules to be promulgated by the High Commissioner.

30. Subject to positive consideration by the Standing Committee of this proposal, UNHCR will submit a formal recommendation to ExCom at its seventy-second plenary session in October 2021 to endorse the process of seeking approval from the General Assembly. In 2022, following consultation with the ACABQ and the United Nations Fifth

Committee, a General Assembly resolution will be sought endorsing the establishment of UNHCR's financial regulations. In parallel, UNHCR will work with ExCom Member States throughout 2022 on drafting the new financial regulations together with the complementing rules, most of which will be drawn from the existing set of approved rules, institutionalizing the consistency and quality of reporting ExCom has come to expect from UNHCR.

31. A draft decision to initiate this proposal is presented in Annex I. Subject to the endorsement by ExCom at its seventy-second plenary session, the decision will be submitted to the United Nations General Assembly for endorsement 2022. During that same period, UNHCR will present to ExCom the proposed set of financial regulations for approval, together with the corresponding financial rules for information, with a proposed effective date as of 1 January 2023.



## Annex

### **Draft decision requesting UNHCR to develop its own Financial Regulations**

*The Standing Committee,*

*Having considered* the proposal to establish financial regulations for the funds administered by the High Commissioner for Refugees, as set out in conference room paper EC/72/SC.CRP.22,

*Requests* the High Commissioner to submit to the seventy-second session of the Executive Committee for endorsement the Committee's Decision to recommend that the General Assembly authorize the High Commissioner to promulgate, after approval by the Executive Committee, the financial regulations for the use of all funds received by the High Commissioner, addressing the specific needs of UNHCR and in accordance with the mandate of the Office of the High Commissioner; *also requests* the High Commissioner to present a proposal for financial regulations for consideration and approval by the Executive Committee, following such approval by the General Assembly; and *requests* the High Commissioner to prepare a draft for promulgation of UNHCR financial rules complementing the draft financial regulations for the use of all funds received by UNHCR and appropriate to its needs.

*Acknowledges* that until such time as these financial regulations and rules are established, Paragraph 8 of General Assembly resolution 1166 shall continue to apply, including any financial rules issued thereunder;

*Further requests* the High Commissioner to obtain comments from the Advisory Committee on Administrative and Budgetary Questions on these proposed financial regulations and rules prior to submission to the Executive Committee.