

BIENNIALIZATION OF THE UNHCR PROGRAMME BUDGET  
A PRELIMINARY DISCUSSION PAPER

1. In August 2004, the Report of the Joint Inspection Unit 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, at its 55th session, should consider modifying the programme budget cycle from annual to biennial, in alignment with the UN regular budget cycle, in view of a number of positive results expected from the shift (Recommendation 3).*

2. In October 2004, in its General decision on Administrative, Financial and Programme Matters (A/AC.96/1003, para. 24(1)), the Executive Committee decided to refer this 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."

3. At the 7 December 2004 Planning Meeting on the work programme of the Standing Committee, it was agreed to undertake a preliminary analysis of the advantages and disadvantages of biennialization at the 32<sup>nd</sup> Meeting of the Standing Committee in March 2005 and to draw up a proposal for the organization of work on this issue during the year. Two informal consultative meetings are scheduled on 4 May and 14 June 2005 for the purpose of pursuing this analysis, and further meetings may be arranged as required. To help the Standing Committee's discussions on this issue, the attached matrix outlines some initial considerations. In the 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 I see merit in the arguments you propose for moving to a biennial budget, this is an issue on which, I believe, the Executive Committee will want to give in-depth consideration. 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 annual programme budget.*

4. Should the Executive Committee decide to proceed with the introduction of a biennial budget, the earliest opportunity would be for the biennium 2008-2009.

## Comparison of advantages and disadvantages of biennial budgeting for UNHCR

	Advantages	Disadvantages
<b>Planning</b>	<p>Multi-year budgeting offers a number of potential advantages over annual budgeting. These include: enhanced longer-term planning, improved programme evaluation, and less time spent by the Executive Committee and UNHCR in relation to the budgetary preparation process. Multi-year budgeting facilitates the integration of financial and strategic planning, thereby replacing “incrementalism” with a more strategic approach to resource allocation.</p> <p><i>Saves time and money:</i></p> <ul style="list-style-type: none"> <li>• A biennial budgeting cycle should, in the longer term (once teething problems are overcome), reduce the amount of time the Executive Committee and UNHCR staff devote to budget preparation and to the mid-year review.</li> <li>• A reduction in the number of hours devoted to the budget preparation could also be envisaged, representing significant savings that could be channeled into other important activities.</li> <li>• Annual budgeting places great pressure on staff and policy makers.</li> </ul> <p><i>Longer perspective:</i></p> <ul style="list-style-type: none"> <li>• The introduction of a biennial budget could facilitate long-term financial planning. Multi-year financial planning has been a recommended practice in the UN system for some time now.</li> <li>• Stable programmes and situations (e.g. Europe, HQ) could benefit from a longer-term planning and management perspective.</li> <li>• Some other types of programmes (e.g. 4Rs-type situations) also lend themselves better to two-year cycles.</li> <li>• Longer-term planning facilitates results-based budgeting as more realistic planning of time horizons can help to link expected programmatic outcomes with the cost of related outputs.</li> </ul> <p><i>Programme review and evaluation:</i></p> <ul style="list-style-type: none"> <li>• A biennial budget would allow more time for performance evaluation, thus encouraging managers to move in the direction of outcome-focused budgeting.</li> </ul>	<p>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 budgeted for as supplementary programmes which could lead to a proliferation of supplementary budgets over a two-year period.</p> <p><i>Difficulty in planning due to unpredictability of events:</i></p> <ul style="list-style-type: none"> <li>• 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 18 months). Accurate forecasting is important for UN organizations, partly because of the focus on balancing resources and spending, and partly because inaccurate forecasts disrupt smooth programme implementation. This is particularly true for UN agencies that are funded essentially from voluntary contributions.</li> <li>• The consensus is that forecasting is more accurate in organizations with annual budgets. Accuracy in forecasting in turn reduces the need for drastic budget revisions.</li> <li>• While biennial budgeting represents a longer-term commitment of policy direction and funding amounts than annual budgeting, the increase in the degree of certainty of policy and funding commitment may in fact be small.</li> </ul>

<p><b>Funding</b></p>	<p><i>Potential alignment with budget cycles of complementary sources of funding:</i></p> <ul style="list-style-type: none"> <li>• Some complementary sources of funding, in particular those related to development funding, make use of multi-year planning and programming.</li> <li>• 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. (However, while the process may be facilitated for the first year of the biennium, the problem continues to exist for the second year of the biennium.)</li> </ul>	<p><i>Difficulty with financial forecasting due to unpredictability of events:</i></p> <ul style="list-style-type: none"> <li>• One argument against the use of biennial budgets is the difficulty in forecasting income and expenditures in a rapidly changing operational environment such as UNHCR's.</li> <li>• Biennial budgets require that all the 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.</li> <li>• Changes in other variables may further complicate the ability to develop accurate estimates for budget development.</li> </ul> <p><i>Donors' own budgetary periods tend to be annual:</i></p> <ul style="list-style-type: none"> <li>• At the 2004 informal donor consultations on the 2005 budget, donors confirmed that their financial contributions towards UNHCR operations are resourced from annual budgetary allocations and that thus financing would continue to be carried out on an annual basis, irrespective of an eventual biennial budgeting process adopted by the Office. In the absence of any budgetary authority beyond one year, 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.</li> </ul>
<p><b>Other considerations</b></p>	<p><i>Harmonization:</i></p> <ul style="list-style-type: none"> <li>• All other major Funds and Programmes of the United Nations to which UNHCR's donors make contributions have a biennial budgeting cycle.</li> <li>• Harmonizing the budget cycle with other UN organizations would facilitate increased sharing of standards, methodologies, assumptions and templates, e.g. the handling of the impact of exchange rate fluctuations and 'recosting' the budget.</li> </ul>	