



# **Executive Board of the United Nations Entity for Gender Equality and the Empowerment of Women**

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**Financial, budgetary and administrative matters**

## **Proposed approach for calculating the operational reserve for the United Nations Entity for Gender Equality and the Empowerment of Women**

### *Summary*

The present report outlines a proposed approach for calculation of an operational reserve in compliance with financial regulation 19.2(a) of the financial regulations and rules of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women). The proposed approach is submitted for the consideration of the UN-Women Executive Board.

The Executive Board may wish to review and approve the proposed methodology for calculation of the operational reserve and the establishment of a reserve for field office accommodation.



## I. Introduction

1. Financial regulation 19.2 of the financial regulations and rules of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) states:

Within the account held by UN-Women, the following reserves shall be established at levels set by the Executive Board:

(a) An operational reserve, the purpose of which is to guarantee the financial viability and integrity of UN-Women. The reserve shall be fully funded and held in irrevocable and promptly available liquid assets. The elements to be compensated for and covered by it shall be limited to:

- (i) Downward fluctuations or shortfalls in resources;
- (ii) Uneven cash flows;
- (iii) Increases in actual costs as compared to planning estimates or fluctuations in delivery; and
- (iv) Other contingencies that result in a loss of resources for which UN-Women has made commitments for programming.

The decision to make a drawdown from the operational reserve shall rest solely with the Under-Secretary-General/Executive Director, who will report all drawdowns to the Executive Board at its next regular session and, in between sessions, to members of the Executive Board as may be prescribed by the Board or whenever the situation in the Under-Secretary-General/Executive Director's opinion so merits;

(b) A fully funded reserve for field office accommodation for housing for internationally recruited, field personnel financed by UN-Women and for office accommodation; and

(c) Such other reserves as may be approved by the Executive Board.

2. With regard to subparagraph (b) of the regulation, it is the responsibility of international staff to provide their own personal accommodation. At the end of 2011, estimated commitments relating to field offices remained relatively low (\$1 million for 2011). A separate reserve for field accommodation is proposed under section VII below.

3. Other resources are normally credited to the other resources account in advance of UN-Women entering into commitments, in compliance with regulation 3.7(b) of the UN-Women financial regulations and rules, which states that "Contributions [to other resources] shall be paid in advance of the allocation made for the implementation of planned programme activities of UN-Women ...". Hence only regular resources (excluding assessed contributions) have been taken into account in reviewing the need for an operational reserve because there is limited risk of a cash shortfall of other resources.

## II. Existing UN-Women operational reserve

4. On 1 January 2011, when UN-Women became operational, \$21 million was transferred from the former United Nations Development Fund for Women (UNIFEM) that had been set aside by UNIFEM as an operational reserve. The approach taken by UNIFEM for calculating the operational reserve was to set a three-year ceiling on approved programme budgets from regular resources, then calculate the operational reserve as one third of the three-year ceiling, adjusted for anticipated delivery rates.

5. UN-Women merges and builds on the important work of four previously distinct parts of the United Nations system that focused exclusively on gender equality and the empowerment of women:

- (a) Division for the Advancement of Women;
- (b) International Research and Training Institute for the Advancement of Women (INSTRAW);
- (c) Office of the Special Adviser on Gender Issues and Advancement of Women ;
- (d) UNIFEM.

6. UN-Women is therefore fundamentally different, from an operational perspective, from UNIFEM. For instance, it has a larger and more diverse donor base, an expanded management and operational infrastructure, an expanded and different field office presence with designated UN-Women representatives and new organizational procedures and programme planning arrangements.

7. It is therefore necessary to redefine the approach to the operational reserve. A key objective in this regard is to maximize the resources available for programming, while ensuring the retention of an optimal operational reserve level that takes fully into account the risk profile of UN-Women and the impact of budgetary planning and liquidity management approaches already in place. As UN-Women became operational only on 1 January 2011, limited relevant financial information is available for historical analysis.

## III. Approaches by selected other United Nations organizations

8. As part of the analysis and to support the decision making process, UN-Women has also reviewed the methodologies adopted by other United Nations organizations to ensure that it builds on the experience of others in its assessment of the risks to be included and that a full understanding of the potential options has been achieved. These United Nations organizations have been chosen as they represent a cross section of entities that either have a relatively similar funding structure to UN-Women or are part of the joint budget harmonization process. A detailed overview of the current policies adopted by the respective organizations is presented in the annex to the present document. A summary of the positions taken is shown below:

<i>Organizations</i>	<i>Operational reserve</i>	<i>Liquidity</i>
United Nations Children's Fund	N/A	10% of following year's regular resources income
United Nations Population Fund	20% net of regular resources income and a reserve for field accommodation	
United Nations Development Programme	Complex risk based formula	
Office of the United Nations High Commissioner for Refugees	Greater of 10% of annual budgeted programme activities or \$10m	Fixed \$50 million

#### **IV. Key considerations and existing risk mitigators**

9. In reviewing and assessing the preferred approach, the existing procedures in place to minimize the exposure of UN-Women to liquidity risk have been identified to facilitate a decision on the level of operational protection that is needed going forward. The processes already in place within the organization to ensure close control over its cash position and ability to maintain operational functions are:

(a) Short-term imbalances between income and expenditure are primarily managed through the use of working capital (the pool of financial resources that an organization holds which can be used to meet its short-term obligations);

(b) With regard to regular resources (excluding assessed contributions), predictability and reliability are key to establishing the balance between income and expenditure planning. UN-Women is strongly encouraging multi-year pledges and expansion of the donor base. In 2011, 117 Governments contributed to core funds, up from 106 Government donors in 2010. Out of the core contributions from these 117 Governments, 30 were submitted as a multi-year pledge, whereas at the inception of UN-Women in 2010 very few pledges by donors from the Development Assistance Committee of the Organization for Economic Cooperation and Development were in the multi-year format. UN-Women has now obtained multi-year pledges from six major donors amounting to a significant portion (about 60 per cent in an amount of approximately \$72 million) of its total regular resources base. This is a development that will enhance the predictability of regular funding for UN-Women;

(c) At the end of 2011, the accumulated surplus (unexpended resources) of UN-Women amounted to approximately \$41 million available under regular resources (excluding assessed contributions). In addition, the existing operational reserve of \$21 million brought forward from UNIFEM will be maintained unless its use is required. These two elements provide significant security in respect of the potential implications of shortfalls or delay in receipt of funding.

## V. UN-Women financial management framework

10. UN-Women maintains close control over planning and allocation processes for its regular resources as well as over ensuring that its liquidity management is tightly controlled. To achieve this, and to minimize the existing risk in relation to cash shortfalls, the following measures are in place:

(a) **Institutional budget.** The institutional budget, which as the operational base of UN-Women has first call over the regular resources and totals \$132.3 million net (\$ 140.2 million gross) for the period 2012-2013, has appropriations that are approved by the Executive Board on a biennial basis, but are allocated to units on an annual basis. During the first year of the budget period, UN-Women therefore has flexibility to adjust the allocations for the second year. This ensures that the adverse impact of any likely decrease in funding can be reduced through close review of the variable elements of operating costs, in particular, and close management of staffing policies and hiring if required;

(b) **Regular resources and programme allocations.** UN-Women issues only annual core programme allocations, not multi-year allocations, allowing the level of resources allocated to each unit to be changed as circumstances evolve. The annual allocations are based on annual workplans, each of which undergoes a detailed review at headquarters before it can be approved and resources allocated. As a further risk management tool, a minimum of 10 per cent of the projected revenue receipts is held back at the beginning of the year, allowing adjustments in the fourth quarter if necessary;

(c) **Cash flow forecasting.** A cash flow forecast is prepared on a monthly basis for management reporting purposes, taking into account cash inflows, all known commitments and expected cash outflows. This analysis gives a clear indication of the anticipated level of receipts and expenditure and the projected cash balances available for the end of the year. Review of this cash flow forecast ensures that timely action can be taken should there be a shortfall in regular resources funding;

(d) **Liquidity management.** At the end of 2010, UN-Women carried forward \$15 million of accumulated surplus (unexpended resources) within its regular resources. At the end of 2011, this had increased to \$41 million, which is sufficient to cover approximately 4 months of estimated annual expenses. This, coupled with close review of cash inflows, further ensures that quick and decisive action can be taken if potential liquidity problems become apparent. The accumulated surplus is an integral part of the financial statements that carries forward the balance of unspent resources. This is in line with the organization's business model, which operates on a multi-year commitment basis, resulting in amounts being budgeted but not necessarily spent in any given period.

11. UN-Women uses Atlas to manage its operations. Atlas is an integrated enterprise resource planning system, which is also used by UNDP and other organizations of the United Nations system. The Atlas system facilitates the continuous monitoring of resource utilization, and therefore enables proactive management of liquidity levels to address evolving circumstances. Within Atlas, automated controls limit the risk of spending above approved allocations. These controls ensure that field offices cannot spend more than their original budget allocation and, if needed, this allocation could be reduced. At headquarters, the oversight of expenditures means that action can be taken if any areas are likely to exceed the budget.

12. Based on the existing financial management framework detailed above and the ongoing continual review of the operating capacity of UN-Women, a four month coverage of estimated annual expenses is therefore believed to be a suitable and sufficient level of available cash resources.

## VI. Operational reserve proposal

13. Taking into account the existing liquidity management structure, the financial management framework, the approach taken by other organizations and the existing operational reserve inherited from UNIFEM, UN-Women suggests application of a methodology that provides a level of security within the cash balance and minimizes the risk of cash shortfalls as much as possible. To achieve this, UN-Women proposes:

(a) Continuing to follow its current tight controls over liquidity management and holding approximately 4 months of estimated annual expenditure in hand;

(b) Sourcing 50 per cent of this balance through its existing accumulated surplus (unexpended resources) and holding the remaining 50 per cent within its operational reserve, subject to subparagraph (c) below;

(c) Ensuring that the operational reserve maintains a minimum balance equal to the \$21 million brought forward from UNIFEM.

14. Based on the above proposal, the potential levels of the operational reserve for the period 2012-2013 would be as follows:

(Millions of United States dollars)

<i>Year</i>	<i>Regular resources income</i>	<i>Estimated annual expenditure</i>	<i>Four months of estimated annual expenditure</i>	<i>Funding from accumulated surplus (50%)</i>	<i>Operational reserve (greater of 50% or \$21 million)</i>
2012	150.0	120.0	40.0	20.0	21.0
2013	200.0	160.0	53.3	26.7	26.7

15. This proposal achieves a balanced approach between both ongoing liquidity and cash flow management, coupled with the maintenance and development of the existing operational reserve. It combines the approach taken by other organizations and ensures that the risk to UN-Women of a cash shortfall is minimized.

## VII. Reserve for field office accommodation

16. In accordance with financial regulation 19.2, it is proposed to establish a reserve for field office accommodation. With the establishment of regional offices and the ongoing potential for increased participation in United Nations common premises, UN-Women may incur additional costs to finance its share, if needed, of related construction costs.

17. A reserve of \$1 million is proposed, against which UN-Women can make drawdowns, and which will be replenished from the accumulated surplus on an annual basis.

## Annex

### **Methodologies used by organizations that are similar to UN-Women**

#### **United Nations Children's Fund**

1. The United Nations Children's Fund (UNICEF) does not have an operational reserve, justified by the fact that it employs financial management techniques and processes to plan spending requirements against reasonable income expectations, while maximizing resources available to programmes. The primary financial management techniques and processes are:

(a) A medium-term financial plan, updated annually. This is a rolling four-year income and expenditure plan, which determines the affordable levels of regular resources for programmes;

(b) A multi-year funding framework. The annual pledging event is one element of the multi-year funding framework, at which donors are expected to make funding level commitments and provide payment schedules for the next year, and commitments or indications for the following three years. This predictability provides for assured programme planning and improved cash flow management;

(c) Country programme recommendations, which present for each country the results to be achieved and the financial resources required. The financial projections in the country programme recommendations are estimates based on the best information available at the time because they are forecasted for up to five years into the future, with limited assurance at the time of estimation of actual income;

(d) Every two years, an approved institutional (formerly biennial support) budget, which incorporates the relevant two-year projected regular resources budget for the programme, programme support, and management and administration of the organization;

(e) Integrated project and financial systems that enable UNICEF to continually monitor resource utilization and spot accumulating underemployed resources in the field, and therefore to manage cash levels to meet evolving circumstances.

2. To ensure adequate liquidity, UNICEF maintains year-end cash balances of regular resources income at approximately 10 per cent of the expected regular resources income for the following year.

#### **United Nations Population Fund**

3. The operational reserve held by the United Nations Population Fund (UNFPA) was established for the purpose of guaranteeing the financial viability and integrity of the organization. The reserve is fully funded and held in irrevocable and promptly available liquid assets. The level of the operational reserve, established at the end of each year, is calculated at 20 per cent of the net contribution revenue of regular resources for that year. The elements to be compensated for and covered by it are limited to:

(a) Downward fluctuations or a shortfall in resources;

- (b) Uneven cash flows;
  - (c) Increases in actual costs as compared with planning estimates or fluctuations in delivery;
  - (d) Other contingencies that result in a loss of resources for which UNFPA has made commitments for programming.
4. The decision to make a drawdown from the operational reserve rests solely with the Executive Director, who is required to report all drawdowns to the Executive Board at its next regular session and in between sessions.
5. The reserve has been increased gradually, with annual status updates presented to the Governing Council, including additions and drawdowns.

### **United Nations Development Programme**

6. The operational reserve of the United Nations Development Programme (UNDP), set in 1970, was initially a fixed (and unfunded) amount of \$150 million. Because the reserve was not funded, cash was not set aside and was therefore available for spending on programmes. Only after a liquidity crisis in 1975 did UNDP start to fully fund its operational reserve, starting with \$15 million in 1977. UNDP was given four years, up to 1980, to fund fully the \$150 million.
7. In 1980 a percentage basis was adopted at 25 per cent of estimated contributions or expenditure, whichever was higher. This was reduced to 20 per cent in 1990 on the basis that better information systems and procedures allowed a faster response to adverse financial risks.
8. The current approach of UNDP to the operational reserve was defined in a paper presented to its Executive Board in 1999 (DP/1999/5/Rev.1), based on a financial risk assessment. The formula is relatively complex, with separate elements for income, expenditure, liabilities and structural and cash flow related risks.

### **Office of the United Nations High Commissioner for Refugees**

9. The operational reserve of the Office of the United Nations High Commissioner for Refugees (UNHCR) is established in its financial rules at the higher of \$10 million or 10 per cent of budgeted annual programmed activities in the annual programme budget (pillars 1 and 2 of the programme). For the budget year 2012, the approved level is \$248.8 million. The operational reserve is primarily for funding unexpected, urgent expenses not already programmed for and is therefore not for the same purposes as the reserve of UN-Women.
10. More comparable is the UNHCR Working Capital and Guarantee Fund, which may be utilized to replenish the operational reserve and generally provides funding pending receipt of contributions pledged within limits set in the financial rules,<sup>a</sup> and to replenish the operational reserve. The Working Capital and Guarantee Fund is a fixed amount, currently set at \$50 million.

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<sup>a</sup> Up to one twelfth (8.3 per cent) of the annual budget (all pillars) during the year but not be more than 3 per cent of the annual budget at the end of the year.