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Medium-term strategic plan for the period 2003-2006: financial plan and related recommendation

Summary

By its decision 2000/3 (E/ICEF/2000/8 (Part I)), the Executive Board changed the medium-term strategic plan (MTSP) from a four-year rolling plan, updated every two years, to a four-year fixed period, commencing with the plan for the period 2002-2005 (E/ICEF/2001/13 and Corr.1). The financial medium-term plan is contained in each MTSP, but is updated each year. Thus, the present document contains financial information for the period 2003-2006.

The plan is intended to enable the Executive Board to review the previous year's financial plan as well as the updated income projections. As such, the plan provides the Board with a basis for determining the level of programme submissions that should be prepared for its 2004 sessions.

The Executive Director *recommends* that the Executive Board approve the medium-term financial plan as a framework of projections for 2003-2006, including the preparation of up to $151 million in programme expenditures from regular resources to be submitted to the Executive Board in 2004. This amount is subject to the availability of resources and to the condition that estimates of income and expenditure made in the present plan continue to be valid.

In this framework and as discussed in paragraph 24 of the present report, the Executive Director also *recommends* that the Executive Board authorize the establishment of a funded reserve to count towards the contingent liability of after-service health insurance, with an amount of $30 million allocated to this reserve in 2003 and $10 million per year for the period 2004-2006.

* E/ICEF/2003/11.

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I. Funding targets for 2003-2006

1. In its decision 1998/22 (E/ICEF/1998/6/Rev.1), the Executive Board requested the Executive Director "to report on the funding targets necessary to achieve the goals of the medium-term plan (MTP) in the context of the resource mobilization strategy adopted by the Board in January 1999".

2. By its decision 1999/8 (E/ICEF/1999/7/Rev.1), the Executive Board endorsed the funding target of annual growth in income of 7 per cent, to reach $1.5 billion by 2005, as a challenge for the mobilization of regular and other resources from Governments, the private sector and all other donors. This challenge has been retained in the framework of the medium-term strategic plan (MTSP) for the period 2002-2005 (E/ICEF/2001/13 and Corr.1), and similar growth patterns are anticipated for 2006.

3. A review of progress in terms of funding indicates that the aggregate target of $1.5 billion will be achieved by the end of the MTSP period, with income of $1,504 million projected for 2005. However, the balance between regular and other resources will continue to favour other resources, which are expected to constitute about 55 per cent of income by 2005.

II. Medium-term financial plan for 2003-2006

A. The financial plan process

4. In accordance with the specific financial requirements of UNICEF, the financial plan is a framework of projections used to:

(a) estimate future regular and other resources income, based on the most current information;

(b) plan affordable levels of regular resources programme expenditures;

(c) determine the budgetary estimates necessary to support programme expenditures;

(d) maintain the liquidity requirement.

5. The financial plan projects income based on pledges and indications received during the pledging event, recent trends in contributions, the fund-raising objectives of the Programme Funding Office and the work plan of the Private Sector Division (PSD). Projected expenditures are based on information on the outstanding amounts of approved programmes plus estimated expenditures on future programmes. Programme and budget plans, implementation experience and available resources provide the basis for the yearly phasing of expenditures.

6. The Executive Board approves budgets for country programme cooperation and the support budget for financing from regular resources. UNICEF has a biennial support budget cycle, which is reviewed by the Executive Board every two years. UNICEF prepares estimates for country programmes of cooperation to cover a longer period according to the national planning cycles of the countries involved and in harmony with the members of the United Nations Development Group.

7. Total programme expenditures out of regular resources, projected in the present plan, are based on forecasts of future regular resources income. Also, future country programme expenditures from regular resources are based on planning levels established on the basis of the modified system for allocation of regular resources for programmes approved by the Executive Board in 1997 (E/ICEF/1997/12/Rev.1, decision 1997/18). The Executive Board will review this system at its second regular session of 2003 (E/ICEF/2003/P/L.21).

8. Except in specific circumstances approved by the Executive Board, spending from other resources begins upon receipt of pledges for other resources programmes previously approved by the Executive Board or, in the case of emergencies, as part of the Consolidated Appeal Process.

9. Actual amounts of income and expenditure can differ from projections due to the facts that:

(a) income depends on voluntary contributions;

(b) the rate of expenditure depends on a number of factors, many of which are beyond the control of UNICEF;

(c) fluctuations of rates of exchange add significant uncertainty to income and expenditure projections.

10. UNICEF does not have credit facilities to cover potential differences from planned income and expenditures. If regular resources income is lower than estimated, the main regulators of expenditures are:

(a) adjustment of the amounts of new programmes submitted to the Executive Board for approval;

(b) reduction of the existing support budget;

(c) adjustment of spending on already approved programmes.

11. Since the effect of these regulators operates with a time lag, UNICEF must maintain a certain amount of cash as a liquidity provision. In addition to providing a cushion for planning contingencies, the liquidity provision covers the cash flow imbalance that normally occurs in the first part of the year when disbursements typically exceed receipts, especially for regular resources. To meet this requirement, the UNICEF liquidity policy recommends a minimum year-end regular resources convertible cash balance equal to 10 per cent of projected regular resources income for the following year. This financial plan sets planned regular resources expenditure at a level that guarantees the compliance with this target. In its decision 2003/8 (E/ICEF/2003/9 (Part II)), the Executive Board decided that UNICEF should continue to manage its liquidity in accordance with the liquidity requirement. It should be noted that firm and indicative pledges and early payments by Governments, in accordance with decision 1999/8, enhance the predictability of the availability of resources.

12. In order to minimize the negative impact of uncertainties about income on programme implementation, UNICEF continuously reviews progress against the plan, identifies deviations and prompts corrective action as necessary. In this framework, UNICEF revises the financial plan each year on a “rolling basis” to reflect the most current income estimates. UNICEF uses the revised estimates to

update the annual expenditure phasing and to determine the level of estimated programme cooperation to be prepared for the following years.

13. The end purpose of this plan is to enable the Executive Board to review the financial performance of UNICEF in 2002 and the updated income projections. In this framework, the plan provides the Executive Board with a basis for deciding the total level of affordable programmes to be submitted in 2004.

B. Performance in 2002 compared with the previous medium-term financial plan

14. Figure I provides a comparison between the actual results for 2002, the projections of the financial plan and the 2001 results.

Income

15. Total contributions to UNICEF in 2002 amounted to $1,454 million, an increase of $229 million (19 per cent) over contributions of $1,225 million in 2001. This amount was higher by $100 million (7 per cent) than the previous financial plan target of $1,354 million for 2002. After adjustments, $1,447 million was recognized as income in 2002, compared to $1,218 million in 2001.

16. The increased income in 2002 is largely the result of improved performance of private sector fund-raising activities and the positive impact of exchange rate fluctuations. Private sector contributions to regular resources increased by $118 million (72 per cent). This includes a one-time legacy contribution of $56 million that was included in the income projections presented to the Executive Board in 2002. There was also additional income of $34 million because of the growth in private sector fund-raising income and $18 million from the sale of cards and products by National Committees for UNICEF. Private sector income is contributed primarily through PSD and mobilized by the National Committees.

17. Overall, regular resources increased by 29 per cent to $709 million, from $551 million in 2001. Government contributions increased by $17 million (5 per cent). In line with the harmonized budget presentations of the United Nations Development Programme, the United Nations Population Fund and UNICEF, certain biennial support budget costs (including income tax reimbursement and government contributions towards local costs) amounting to $7.5 million in 2002 have been subtracted from total income. For 2001, the amount subtracted was $7.9 million. After these adjustments, total regular resources income from Governments was $360 million in 2002, compared to $343 million in 2001.

18. Total other resources contributions (both regular and emergency) for 2002 were $745 million, an increase of close to $72 million (11 per cent) as compared to 2001 and of $17 million (2 per cent) in relation to the financial plan projections. Other resources (regular) contributions amounted to $505 million in 2001, an increase of $66 million (15 per cent) as compared to 2002 and close to 3 per cent more than projected in the financial plan. Other resources contributions for emergencies amounted to $240 million, an increase of $5 million (2 per cent) over 2001, which is in line with the projections in the plan.

19. In 2002, as in previous years, UNICEF derived its contributions principally from two sources: Governments and intergovernmental organizations, which

contributed $913 million (63 per cent) of total contributions; and non-governmental or private sector sources; which provided $482 million (33 per cent), the bulk of which was contributed by National Committees for UNICEF. The other income category (including interest income and other miscellaneous sources) amounted to $59 million or 4 per cent of total contributions. The breakdown was similar in 2001, when 64 per cent of contributions derived from government sources. In 2002, other income was positively affected by foreign exchange gains. As anticipated in the plan, interest income, the main component of the other income category, decreased largely because of lower global interest rates. Excluding the one-time legacy contribution, regular resources amounted to 47 per cent of total contributions. This represents a slight improvement over the 45 per cent share of regular resources in 2001.

Expenditures

20. In line with the financial plan projections for 2002, total expenditures amounted to $1,267 million (excluding adjustments), an increase of $29 million (2 per cent) over 2001 expenditures of $1,238 million. Management and administration expenditures were $79 million (6.5 per cent of total expenditure) and programme support amounted to $145 million (11.5 per cent of total expenditure). Regular resources expenditures decreased from $606 million in 2001 to $572 million in 2002 (close to 6 per cent). This decrease was largely due to lags between allotments and access to increased income during the year. These expenditures are projected to increase in the coming years, as indicated in the current plan. Other resources expenditures increased by 10 per cent as compared to the earlier projections, amounting to $695 million, up from $633 million in 2001.

21. Direct programme assistance amounted to $1,043 million (a 3 per cent increase over 2001), or 82 per cent of overall expenditure. Total support budget expenditure (management and administration and programme support) for 2001 amounted to $225 million, slightly less than 2001.

Cash balances

22. The 2002 year-end cash balance (excluding $175 million in trust funds for procurement services and other activities) was $629 million. This was $182 million more than the 2001 balance. In general, the increase in cash balances in 2002 resulted from the significant increase in income. Efforts to reduce accounts receivable through improved collection of funds, mainly through the National Committees and contributions from major donors, have had a positive impact on this balance.

23. The regular resources cash balance at the end of 2002 was $178 million. This consisted of $169 million in convertible currencies and $9 million in non-convertible currencies. The convertible regular resources cash balance was $93 million higher than in 2001 due to the differential between income and programme expenditures for the year. These cash balances are expected to peak in 2003. Following this accumulation of cash balances, it is planned that this level will be lowered gradually to provide for commensurate growth of expenditures over the coming years, while maintaining prudential liquidity.

24. The secretariat is proposing the establishment of a new funded reserve for after-service health insurance, to be initiated in 2003. This proposal is being made in

the light of a recommendation by the Board of Auditors in its report for the biennium ended 31 December 2001[1] that UNICEF provide in the accounts a funded reserve to cover contingent liabilities arising from after-service health insurance for staff, in conformity with good practices in this area, including within the United Nations. Thus, the financial plan includes projected provisions of $30 million in 2003 and $10 million per year for 2004, 2005 and 2006. The secretariat will monitor this reserve and continue to consult with other United Nations organizations to ensure adequate planning for this contingency.

25. Cash available after the coverage of funded reserves is expected to peak in 2003 at $183 million and will decrease thereafter to $168 million, $145 million and $117 million respectively for 2004, 2005 and 2006. These levels provide for sustained coverage of the liquidity guideline during the plan period.

26. The 2002 other resources cash balance amounted to $451 million, $88 million (24 per cent) more than the balance at the end of 2001. This increase is largely due to the surplus of income over expenditures as well as to enhanced collection efforts on pledges from Governments.

27. In addition to income and expenditures, movements in non-cash assets and liabilities on the balance sheet also affect year-end cash balances. Increases in assets reduce cash balances, while increases in liabilities increase cash balances.

28. Regular resources accounts receivable, amounting to $321 million, is the largest non-cash asset on the UNICEF balance sheet. In 2002, this balance sheet item increased by 11 per cent compared to 2001 due to the increase in PSD income. Contributions receivable (the second largest non-cash item), composed essentially of other resources, decreased to $154 million (27 per cent), due mainly to increased efforts to collect pledges from donor Governments.

29. Inventories consist of the Supply Division warehouse at Copenhagen and PSD stock. The Supply Division uses inventory to meet the requirements for standard supply and equipment items for UNICEF programmes (both regular and emergency) as well as for procurement services. At the end of 2002, inventories reached $27 million, representing an increase of $1 million from 2001.

30. Contributions for following years received in advance appear as a liability on the UNICEF balance sheet. At the end of 2002, other resources contributions received in advance amounted to $1.4 million.

31. For regular resource cash balances, changes in non-cash assets and liabilities reduced the cash availability by $34 million during the year. For other resources, the net effect on cash balances of all changes in non-cash assets and liabilities was an addition of $42 million in cash.

C. Financial plan for 2003-2006

32. A comparison of this year’s financial MTP to last year’s plan is shown in table 1.

33. Total planned programme expenditures for 2003 through 2006 are projected with an upward trend. This is done to reflect an increase in income (in both resource

[1] A/57/5/Add.2, paras. 21-23.

categories) and improved absorption capacities of programme countries as evidenced by programme expenditure trends in 2001 and 2002 and the expenditure levels registered in the first six months of 2003.

Income projections for 2003-2006

34. Table 3 shows, inter alia, income projections from various sources for the period 2003-2006. These projections are set for planning purposes and do not imply a commitment by individual donors since all contributions to UNICEF are voluntary. They are in United States dollars using the June 2003 United Nations rate of exchange.

35. The financial plan forecasts total income for 2003 of $1,400 million, close to 4 per cent lower than 2002 income (which was exceptionally boosted by the one-time legacy). For 2003-2006, the plan forecasts average annual increases of 3 per cent. By 2005, the end of the current MTSP period, it is expected that the aggregate funding target of $1.5 billion will be achieved. The current projection for 2005 is $1,504 million. In terms of the balance between regular and other resources, other resources are expected to constitute a larger share of the aggregate income (approximately 55 per cent) as compared with the earlier projections of 52 per cent.

Regular resources income

36. Table 2 shows the various sources of regular resources income. The breakdown is as follows:

(a) **Government contributions.** A total of 62 Governments pledged or made indicative pledges to UNICEF at the United Nations Pledging Conference and at the pledging event held during the first regular session of the Executive Board in 2003, compared to 51 Governments in 2002. Of the 62 countries, 30 were high-income countries, 16 were middle-income countries and 16 were low-income countries. A total of 14 countries increased their contributions, 35 maintained their contributions and 1 decreased its contribution. Eleven donors resumed pledges and one country pledged for the first time. Nineteen countries indicated a payment schedule and 10 countries indicated multi-year pledges. The pledges and/or indications for 2003 regular resources amounted to $392 million, $67 million more than the $325 million pledged for 2002. This amount is also $26 million more than actual income for 2002. Based on the June 2003 United Nations exchange rate, UNICEF projects 2003 regular resources income from Governments to be $400 million;

(b) **Private sector contributions.** The projections reflect a revised estimate of the PSD work plan (E/ICEF/2003/AB/L.3) which was approved by the Executive Board at its first regular session of 2003. Net income from the private sector includes proceeds from the sale of greeting cards and other products, and private sector fund-raising. The financial plan forecasts private sector income of $210 million in 2003 and annual increases on the order of 6 per cent for the period 2004-2006;

(c) **Other income.** Other income consists mainly of interest income and includes gains/losses as a result of exchange rate movements and other miscellaneous items. Other income is forecast to be $30 million in 2003 and $35 million per year for 2004-2006, levels that account for the fact that interest income is unlikely to recover entirely to previous years' levels. Other income may benefit from modest gains in exchange rates due the appreciation of some donor currencies in relation to the United States dollar.

Other resources income

37. UNICEF receives contributions for other resources for programmes and for emergency relief. Table 2 shows the forecast of these contributions separately. The revised financial plan for the period 2003-2006 forecasts about a 4 per cent annual increase in total other resources income.

Liquidity

38. To meet liquidity requirements, the UNICEF liquidity policy recommends minimum year-end regular resources convertible cash balance equal to 10 per cent of projected regular resources income for the following year. This financial plan sets planned regular resources expenditures at a level that ensures continuous strict compliance with this requirement, as shown in table 5.

39. Programmes funded from other resources are normally fully funded before implementation begins. Therefore, the cash balance for other resources is higher than for regular resources. The year-end cash balance can vary widely depending on the timing of the receipt of funds and the implementation of programmes. For example, if large cash contributions are received late in the year, the year-end cash balance will be high because most of the spending on the related programmes will occur in the following year. In this financial plan, it is projected that the other resources cash balance will increase by an average of 6 per cent per year during 2003-2006.

Projected programme expenditures

40. At the beginning of 2003, there was an unspent balance of approved regular resources programme commitments of $1,243 million planned for implementation from 2003 through 2006 (see table 3).

41. Regular resources programmes proposed to the Executive Board in 2003 amount to $210 million. The plan also provides for the preparation of $151 million in regular resources programmes for approval by the Executive Board in 2004. Levels of planned programme expenditure will be adjusted continuously based on updated information about projected income.

42. The 2003-2006 level of planned spending is in line with the goal of maximizing programme expenditures while maintaining regular resources liquidity. The estimated yearly phasing of expenditures on approved, new and future programme recommendations is shown in table 3.

43. The plan proposes regular resources programme expenditures of $390 million in 2003, $50 million more than the amount originally planned for 2002, so as to be in line with the higher implementation rates registered in the first half of 2003. Planned programme expenditures for 2004, 2005 and 2006 are $400 million, $410 million and $425 million, respectively. These levels take into account the objective of optimizing use of resources within the bounds of income and sound liquidity.

44. The unspent balance of programme cooperation from other resources was $657 million at the end of 2002. The financial plan forecasts that other resources

programme expenditure will be in line with the expected income levels for 2003-2006.

45. Based on income projections in the plan, total expenditures (excluding write-offs and reimbursement costs) for 2003 and 2004 are forecast to be $1,368 million and $1,413 million, respectively. The financial plan forecasts total programme expenditures to increase to $1,465 million in 2005 and $1,522 million in 2006. However, actual spending will be adjusted in line with the level of achievement of income projections set in the present plan.

46. The current financial plan forecasts that following the increase in the support budget in 2003 (largely due to increased costs for international staff salaries, in line with salary increases in the United Nations system, and other additional costs), the years up to 2006 will see an increase of 4 per cent per year, which takes into account higher other resources income and recovery income following the adoption of the new UNICEF recovery policy. The additional recovery income will allow for a reduction of the net support budget expenditures, releasing additional regular resources from the support budget to programme assistance.

Assets and liabilities

47. As explained in paragraph 27 above, movements in non-cash assets and liabilities affect year-end cash balances. Line 4 in tables 4, 5 and 6 shows the forecasted effect of these movements.

48. At its 1990 regular session, the Executive Board approved a capital asset fund to be used for field office accommodation and staff housing (E/ICEF/1990/13, decision 1990/26). At the end of 2002, about $14 million remained to be spent from the fund. Estimated spending from this fund is $4 million during the period 2003-2006.

49. All the above items — income, expenditure and liquidity — are summarized in table 4, with a breakdown of regular resources in table 5 and other resources in table 6. Figures II through V show actual and forecasted financial information by source of funds.

Trust funds

50. Trust funds are earmarked resources entrusted to UNICEF from various sources, including Governments, other United Nations organizations and non-governmental organizations, mainly to cover the cost of procurement of supplies and services undertaken by UNICEF on behalf of other development partners. They also include financing provided by sponsors to cover the costs of Junior Professional Officers.

51. As per Regulation 5.3 of the UNICEF Financial Regulations and Rules, trust funds are not considered UNICEF income and are recorded separately and distinguished from funds that are part of income and are spent for programmes approved by the Board.

52. In the past, trust funds for non-procurement services activities have been fairly limited, accounting for just a few million dollars. This situation changed dramatically with the emergence of the Oil-For-Food Programme (OFFP) in Iraq in 1996. Since 1997, when UNICEF began its financial participation in this

programme, the total amount of funds allocated has amounted to $500 million, with cumulative disbursements and obligations up to 2002 amounting to $419 million. The total amount disbursed from trust funds accounts other than procurement services in 2002 was $201 million, down from $247 million in 2001. While the Security Council's decision to phase out OFFP in the fall of 2003 will lead to a reduction in trust fund activity associated with Iraq, it is forecast that other trust account activities and increases in procurement services will more than offset the reduction. The plan forecasts an increase in the activities of the Global Alliance for Vaccines and Immunization (GAVI), which is supported by the $750 million committed by the Vaccine Fund to GAVI. These funds will be matched by funds from other contributors, of which $210 million have been disbursed to recipient countries in supply deliveries ($189 million) and cash grants ($21 million). In addition, a number of agreements, funded through the International Development Association, have been initiated in partnership with UNICEF. In 2000, the first financial flows began for UNICEF-implemented projects funded by the World Bank in Bangladesh, followed by Yemen in 2001 and Azerbaijan in 2002. In 2002, these activities amounted to 3 per cent of trust funds.

53. Table 7 reports on trust fund activity in 2002 and projects conservatively receipts and disbursements during the MTSP period. Overall in 2002, UNICEF received $345 million for these trust accounts and disbursements and obligations amounted to $346 million.

III. Recommendation

54. The Executive Director recommends that the Executive Board approve the following draft recommendation:

The Executive Board

(a) *Takes note* of the medium-term financial plan (E/ICEF/2003/AB/L.7) as a flexible framework for supporting UNICEF programmes;

(b) *Approves* the medium-term financial plan as a framework of projections for 2003-2006 (summarized in table 4 of document E/ICEF/2003/AB/L.7), including the preparation of up to $151 million in programme expenditures from regular resources to be submitted to the Executive Board in 2004. This amount is subject to the availability of resources and to the condition that estimates of income and expenditure made in this plan continue to be valid;

(c) *Approves* the establishment of a funded reserve for after-service health insurance with an initial contribution of $30 million in 2003 and $10 million per year for the period 2004-2006, to be adjusted on the basis of future financial projections.