United Nations

E/ICEF/2006/AB/L.2

Economic and Social Council

Distr.: Limited
16 November 2005

Original: English

For action

United Nations Children's Fund
Executive Board
First regular session 2006
16-20 and 23 January 2006
Item 12 of the provisional agenda*

Private Sector Division work plan and proposed budget for 2006

Summary

The Private Sector Division (PSD) work plan and proposed budget for 2006 is presented to the Executive Board for approval.

In 2006, PSD plans to generate $584.4 million in net consolidated income, of which $334.4 million will be for regular resources and $250.0 million for other resources. This will be achieved with expenditures of $105.3 million.

The formal decision to be made on the basis of the present document is the adoption of the draft resolutions relating to the budget proposal contained in paragraph 31.

* E/ICEF/2006/1.

05-60822 (E) 061205

0560822

Contents

I. Overview

A. Introduction — outlook for 2005

1. The 2005 year results are significantly influenced by the inflow of the tsunami emergency funding, which is estimated to reach $450 million. The net consolidated income, including the tsunami funds, is expected to total $915.9 million. Excluding tsunami funding, forecast net income is $465.9 million. This is about 6 per cent lower than the 2005 approved plan and is a direct result of the negative impact on revenues of the stronger United States dollar.

2. The key PSD achievements in 2005 are projected as follows:

(a) Responding to the tsunami emergency by raising about $500 million in donations ($450 million to be recognized in 2005 and $50 million in 2006). Approximately 20 per cent of new (tsunami emergency) donors have been converted to regular resources contributors. Funds received from the corporate world represent over 16 per cent of all the tsunami-related emergency funds (as compared to 10 per cent normally);

(b) Full implementation of the private sector fund-raising (PSFR) strategy helped to focus on major income-generating areas such as pledge giving, corporate alliances, major gifts and legacies. Revenues from the first two areas mentioned above account for almost 50 per cent of all PSFR funds raised;

(c) A global HIV/AIDS campaign has been planned and launched. The five-year campaign combines fund-raising and advocacy to tackle the devastating impact of AIDS on children around the world;

(d) The new global cards and gifts strategy that sets the objectives and goals for the next five years and identifies the strategies that will generate the expected income growth has been approved;

(e) Development and implementation of a simplified and streamlined Joint Strategic Planning package. It provides an enhanced assessment and forward-looking strategic plan for each National Committee in terms of income generation, leadership, advocacy, management of financial contributions and communications.

B. 2006 objective

3. For 2006, the objective of PSD is to achieve net consolidated income of $584.4 million, comprising $334.4 million for regular resources and $250.0 million for other resources. Net of the tsunami emergency funds, the 2006 income will be $534.4 million or 15 per cent higher than in 2005; this growth is due primarily to the conversion of first-time tsunami donors from emergency to regular pledge contributors. See tables 1 and 1A.

C. Consolidated income and expense projections for 2006

4. Two formats of the PSD income statement are included in the present work plan and budget document: table 1 — PSD income statement; and table 1A — net income after allocation of operating expenses by revenue-generating activity (Management statement — supporting table 1).

5. Table 1 reflects PSD results contained in the financial report that is submitted and noted by the UNICEF Executive Board. This table is prepared in accordance with statutory requirements. Table 1A is a management statement showing the PSD operating results of its two revenue-generating activities, fund-raising and sales of cards and gifts. This statement presents the allocation of costs of both marketing and support services between fund-raising and sales to measure the net contribution of each activity.

6. As indicated in table 1, the PSD net consolidated income for 2006 is projected at $584.4 million. Without allocating operating expenses between the two revenue-generating activities, the projected 2006 net PSD income (regular resources) of $334.4 million comprises net operating income from private sector fund-raising of $302.7 million and from card and gift sales of $53.1 million, offset by the cost of investment funds of $21.4 million to support fund-raising and sales initiatives.

7. In 2006 (see table 1A), 83 per cent ($277.5 million) of the regular resources income is attributable to fund-raising activities, and 17 per cent ($56.9 million) to sales of cards and gifts.

8. In fund-raising, the net operating income (before investment funds) for regular resources for 2006 is projected at $295.5 million, compared to the 2005 latest estimate of $259.8 million (see table 1A). In addition, for 2006, $250.0 million of other resources income is projected.

9. In card and gift sales, for 2006, sales volume is projected at 118 million cards and gross proceeds are projected at $161.0 million. This is an increase of 4 million cards in sales volume and $6.6 million in gross proceeds over the 2005 latest estimates. After allocating operating expenses, the net operating income from card and gift sales (before investment funds) for 2006 is projected to grow to $60.3 million, compared to the 2005 latest estimates of $57.2 million (see table 1A).

10. Consolidated expenditure for 2006, as summarized in table 2, is projected at $105.3 million, which is $12.9 million (14 per cent) more than the 2005 latest estimates. This increase comprises:

(a) higher operating expenses of $6.5 million due to inflation of 4 percent, an increase in staff, mainly for fund-raising and at UNICEF country offices, termination indemnities for staff on abolished posts, the launch of fund-raising activities in new markets such as Croatia, the Islamic Republic of Iran, Montenegro, Romania, Serbia, Tunisia, and Viet Nam, the development and upgrade of computerized systems related to management of fund-raising and sales activities as well as additional consultancy research in licensing, distribution and finance areas;

(b) higher investment funds ($5.3 million) to expand implementation of the fund-raising and sales strategies to existing and new markets and to meet the 2006 income targets. Compared to 2005, the main increase in investment funds is in fund-raising. PSD will be investing in projects in India, the Russian Federation and other high-potential countries of Latin America and South-East Asia;

(c) higher cost of goods delivered ($0.8 million) to support the expected growth in sales;

(d) higher commissions ($0.3 million) due to further growth in sales at UNICEF country offices.

D. Human resources

11. The total number of posts will increase in 2006 by 14, from 216 to 230. The number of International Professional posts will increase by 9 (7 at headquarters to strengthen the key business areas of fund-raising and product development plus 2 new posts at field level with regional functions). The number of National Professional posts at field offices will increase by 4 to support increasing activities in Colombia, Mexico and Serbia and Montenegro. The number of General Service posts will increase by 1. The vacant post of regional manager for Latin America will be reclassified from a D-1 to a P-5 level.

Table 1. PSD income statement - 2004 actual, 2005 approved budget, 2005 latest estimates and 2006 proposed budget

(In millions of United States dollars)

	2004 Actual	%	2005 Approved Budget a/	%	2005 Latest estimates	%	2006 Proposed	%	Variance 2006 vs. 2005 Latest estimates $	Variance 2006 vs. 2005 Latest estimates %
Gross proceeds - card and gift sales	161.5		161.0		154.4		161.0		6.6	4.3
Less: Retention/commissions and direct expenses at country offices	59.0	36.5	56.1	34.8	54.3	35.2	56.0	34.8	1.7	3.1
Net proceeds - card and gift sales	102.5		104.9		100.1		105.0		4.9	4.9
Less: Cost of goods delivered	30.2	18.7	34.3	21.3	31.2	20.2	32.0	19.9	0.8	2.6
Operating expenses	23.3	14.4	26.2	16.3	25.7	16.6	28.1	17.5	2.4	9.3
Provision for doubtful accounts	1.9		1.0		1.0		1.0		-	-
Add: Other income	8.8		8.0		8.4		9.2		0.8	9.5
Net operating income - card and gift sales	55.9	34.6	51.4	31.9	50.6	32.8	53.1	33.0	2.5	4.9
Net operating income - PSFR	250.7		271.8		266.4		302.7		36.3	13.6
Less: Investment funds	14.2		17.1		16.1		21.4		5.3	32.9
Total net operating income	292.4		306.1		300.9		334.4		33.5	11.1
Less: Exchange rate adjustment	1.3									
Net income - regular resources	291.1		306.1		300.9		334.4		33.5	11.1
Add: PSFR other resources	218.8		190.0		615.0		250.0		(365.0)	(59.3)
Net consolidated income	509.9		496.1		915.9		584.4		(331.5)	(36.2)
										%
Card sales volume (millions)	*111*		*124*		*114*		*118*		*4*	3.5

a/ As approved by the Executive Board (decision 2005/2, paragraph 2).

Table 1A Net income after allocation of operating expenses by revenue generating activity
2004 actual, 2005 approved budget, 2005 latest estimates and 2006 proposed budget
Mangement statement - supporting table 1

(In millions of United States dollars)

	2004 Actual			2005 Approved Budget			2005 Latest estimates			2006 Proposed		
	Card and Gift Sales	Private Sector Fundraising	Total	Card and Gift Sales	Private Sector Fundraising	Total	Card and Gift Sales	Private Sector Fundraising	Total	Card and Gift Sales	Private Sector Fundraising	Total
Gross proceeds	161.5			161.0		161.0	154.4		154.4	161.0		161.0
Less: Retention/commissions and direct expenses at country offices	59.0			56.1		56.1	54.3		54.3	56.0		56.0
Net proceeds	102.5	261.0	363.5	104.9	285.0	389.9	100.1	280.0	380.1	105.0	320.0	425.0
Less: Cost of goods delivered	30.2		30.2	34.3		34.3	31.2		31.2	32.0		32.0
	72.3	261.0	333.3	70.6	285.0	355.6	68.9	280.0	348.9	73.0	320.0	393.0
Less: Marketing expenses	6.2	10.3	16.5	7.1	13.2	20.3	6.6	13.6	20.2	7.1	17.3	24.4
	66.1	250.7	316.8	63.5	271.8	335.3	62.3	266.4	328.7	65.9	302.7	368.6
Less: Support services	11.8	5.3	17.1	13.0	6.1	19.1	13.0	6.1	19.1	14.3	6.7	21.0
Provision for doubtful accounts	0.3	1.6	1.9	0.5	0.5	1.0	0.5	0.5	1.0	0.5	0.5	1.0
	54.0	243.8	297.8	50.0	265.2	315.2	48.8	259.8	308.6	51.1	295.5	346.6
Add: Other income	8.8		8.8	8.0		8.0	8.4		8.4	9.2		9.2
Net operating income before investment funds	62.8	243.8	306.6	58.0	265.2	323.2	57.2	259.8	317.0	60.3	295.5	355.8
Less: Investment funds	2.0	12.2	14.2	3.3	13.8	17.1	2.5	13.6	16.1	3.4	18.0	21.4
Total net operating income	60.8	231.6	292.4	54.7	251.4	306.1	54.7	246.2	300.9	56.9	277.5	334.4
Less: Exchange rate adjustment	0.5	0.8	1.3									
Net income - regular resources	60.3	230.8	291.1	54.7	251.4	306.1	54.7	246.2	300.9	56.9	277.5	334.4
Add: Other resources		218.8	218.8		190.0	190.0		615.0	615.0		250.0	250.0
Net consolidated income	60.3	449.6	509.9	54.7	441.4	496.1	54.7	861.2	915.9	56.9	527.5	584.4

Operating expenses												
Marketing expenses	6.2	10.3	16.5	7.1	13.2	20.3	6.6	13.6	20.2	7.1	17.3	24.4
Support services	11.8	5.3	17.1	13.0	6.1	19.1	13.0	6.1	19.1	14.3	6.7	21.0
Provision for doubtful accounts	0.3	1.6	1.9	0.5	0.5	1.0	0.5	0.5	1.0	0.5	0.5	1.0
Investment funds	2.0	12.2	14.2	3.3	13.8	17.1	2.5	13.6	16.1	3.4	18.0	21.4
Total operating expenses and investment funds	20.3	29.4	49.7	23.9	33.6	57.5	22.6	33.8	56.4	25.3	42.5	67.8
% to total operating expenses and investment fur	40.8	59.2	100.0	41.6	58.4	100.0	40.1	59.9	100.0	37.3	62.7	100.0

TABLE 2. Summary of expenditures -

2004 approved budget, 2004 actual, 2005 approved budget, 2005 latest estimates and 2006 proposed budget

(In millions of United States dollars)

	2004 Approved budget a/	2004 Actual	2005 Approved budget b/	2005 Latest estimates	2006 Proposed	Variance 2006 vs. 2005 Latest estimates	
						$	%
MARKETING							
Commissions - country offices	1.2	0.7	1.2	1.2	1.5	0.3	25.0
Cost of goods delivered	30.5	30.2	34.3	31.2	32.0	0.8	2.6
Operating expenses	22.3	21.6	25.2	24.8	29.4	4.6	18.5
Subtotal	54.0	52.5	60.7	57.2	62.9	5.7	10.0
SUPPORT SERVICES							
Operating expenses	18.6	17.1	19.1	19.1	21.0	1.9	9.9
INVESTMENT FUNDS	16.4	14.2	17.1	16.1	21.4	5.3	32.9
TOTAL EXPENDITURES	89.0	83.8	96.9	92.4	105.3	12.9	14.0

a/ In accordance with Executive Board decision 2004/2, para.2, the approved budget reflected is the medium projection (column II, table 7 of document E/ICEF/2004/AB/L.1).

b/ As approved by the Executive Board (decision 2005/2, para 2)

II. Marketing

A. Introduction

12. The PSD is responsible for revenue generation in collaboration with National Committees for UNICEF and other partners from fund-raising and sales initiatives.

B. Objectives for 2006

13. The objectives for 2006 are to achieve:

(a) Net consolidated income from fund-raising of $527.5 million (including $277.5 million for regular resources and $250.0 million for other resources) and $56.9 million from sales of cards and gifts;

(b) Net proceeds from fund-raising for regular resources of $320.0 million (14.3 per cent higher than the 2005 latest estimates);

(c) Gross proceeds from product sales of $161.0 million (4.3 per cent higher than the 2005 latest estimates) with a card sales volume of 118 million cards (3.5 per cent higher than the 2005 latest estimates).

C. Strategies for 2006

14. PSD income generation strategies for 2006 are the following:

(a) Continue promoting the four pillars of PSFR: regular monthly giving, major gifts, legacies and corporate fund-raising;

(b) Drive sales of UNICEF cards and gifts with a special focus on broadening their distribution through retailers and the Internet;

(c) Develop and implement the strategy on PSFR and sales activities at country offices with established PSD operations;

(d) Strengthen support for PSD activities in new markets with major income-generating potential by investing additional resources in selected country offices;

(e) Increase use of investment funds to support the global HIV/AIDS campaign as well as income growth at country offices;

(f) Leverage income generation activities that support UNICEF advocacy goals and are in line with the UNICEF medium-term strategic plan (MTSP).

Table 3. Marketing: expenses for 2004 actual, 2005 approved budget, 2005 latest estimates and 2006 proposed budget

(In thousands of United States Dollars)

Expenditures	2004 Actual	2005 Approved budget	2005 Latest estimates	2006 Proposed budget	Changes 2006 vs. 2005 Latest estimates	
					$	%
Commissions - country offices	723	1,160	1,184	1,509	325	27.4
Operating expenses						
International posts	4,909	5,686	5,483	7,502	2,019	36.8
Local posts	2,007	2,046	2,010	1,998	(12)	(0.6)
Other post related costs a/	206	387	337	522	185	54.9
Staff training	90	158	158	155	(3)	(1.9)
Other staff costs b/	818	923	1,196	975	(221)	(18.5)
Consultants	278	460	443	580	137	30.9
Travel	745	1,194	1,165	1,271	106	9.1
Other operating expenses c/	379	587	641	654	13	2.0
Furniture and equipment d/	60	83	85	85	-	-
Research and development	3,084	3,424	2,778	3,603	825	29.7
Country office expenses - product sales	3,206	3,836	3,667	3,945	278	7.6
Country office expenses - PSFR	2,800	3,933	4,433	5,551	1,118	25.2
Regional support center expenses	1,120	1,469	1,448	1,594	146	10.1
Provision for doubtful accounts	1,939	1,000	1,000	1,000	-	-
Subtotal operating expenses	21,641	25,186	24,844	29,435	4,591	18.5
Total expenses	22,364	26,346	26,028	30,944	4,916	18.9

a/ Terminination indemnity and reimbursement of taxes.
b/ Short-term assistance, staff welfare and overtime.
c/ Contractual services, rent and maintenance of premises, rental and maintenance of furniture, equipment, communications, supplies and materials, hospitality and miscellaneous services.
d/ Office equipment, computer equipment and computer software.
PSFR = private sector fund-raising.

D. Analysis of the 2006 proposed budget

15. Net proceeds from UNICEF PSFR activities for 2006 are projected at $570.0 million, of which $320.0 million are for regular resources and $250.0 million for other resources (see table 1A). This represents an increase of $75.0 million (16.9 per cent) compared to the 2005 latest estimates, net of the 2004 tsunami emergency funds. This increase is justified mainly by the anticipated conversion of first-time (tsunami-related) contributors to regular donors.

16. Gross proceeds from card and gift sales for 2006 are projected to range from a low of $158.0 million to a high of $164.0 million (see table 7). The medium projection is $161.0 million, an increase of $6.6 million (4.3 per cent) over the 2005 latest estimates.

17. Sales volume for 2006 is projected at 118 million cards, an increase of 4 million cards (3.5 per cent) over the 2005 latest estimates.

18. Net proceeds from card and gift sales for 2006, after deducting the amounts ($56.0 million) retained by National Committees, commissions paid to consignees and direct expenses at UNICEF country offices, are projected at $105.0 million, $4.9 million (4.9 per cent) higher than the 2005 latest estimates.

19. Other income for 2006 is also projected to grow, to $9.2 million, an increase of $0.8 million (9.5 per cent) over the 2005 latest estimates. This includes royalties from the sale of licensed gifts, sale of National Committee products, donations generated from brochure and order forms, bank interest and discounts on purchases.

20. Total operating expenses to support the fund-raising and sales activities in 2006 are projected at $29.4 million (see table 3), an increase of $4.6 million (18.5 per cent) when compared to the 2005 latest estimates. This is due mainly to several factors: (a) the increase in the number of regular posts by five, provision of termination indemnity for staff on abolished posts, two replacements of General Service posts with Professional posts and inflation ($2.3 million); (b) an increase in the expenses of UNICEF country offices and regional support centres ($1.5 million), mainly due to the strengthening of fund-raising activities, especially in new markets in the Middle East and Eastern Europe; and (c) the development and upgrade of computerized systems related to management of fund-raising and sales activities ($0.8 million).

III. Support services

A. Introduction

21. The Support Services group provides support to all PSD income-generating activities. It includes the Director's Office, Operations Support Services, Finance and Information Technology.

B. Objectives for 2006

22. Support Services aim for the following objectives:

(a) Cost of goods contained at the agreed maximum level;

(b) Enhanced information management and use of latest system and technology development to contain increasing staff costs;

(c) Harmonized and enhanced strategic planning and budgeting procedures along UNICEF MTSP and budget principles; further streamlining and enhancement of financial planning and reporting principles and procedures in collaboration with National Committees and the UNICEF Regional Office for Europe;

(d) Improved forecasting of fund-raising and sales projections by utilizing periodic reviews reported by National Committees;

(e) Harmonized and streamlined procedures for monitoring receivables and remittances.

C. Strategies for 2006

23. The following are strategies to achieve the above objectives:

(a) Transform the supply chain of PSD to reduce its length and depth;

(b) Pay further attention to internal procedures for strategic planning and budgeting;

(c) Enhance procedures and monitoring mechanisms to support fund-raising activities at UNICEF country offices;

(d) Promote fraud prevention and the use of self-assessment and audit principles, in collaboration with National Committees and UNICEF regional offices;

(e) Secure required resources and new approaches for support to smaller National Committees, including through relevant guidelines and procedures;

(f) Enhance collaboration with the UNICEF Regional Office for Europe in Geneva in the area of common services including additional support for human resources and information technology services;

(g) Fully implement reporting through the Revenue and Expenditure Report and the use of benchmarking mechanisms for dissemination of best practices. Support related accounting systems modifications in National Committees.

D. Analysis of the proposed budget for 2006

24. Total expenses for support services are projected at $21.0 million (see table 4), an increase of $1.9 million (9.8 per cent) compared to the 2005 latest estimates, which is primarily due to an in-grade increment, termination indemnity for staff on abolished posts and reclassification of four posts ($1.1 million), expanded use of short-term assistance for improvement/updating of the financial legal base. In operations, the increase is due to the expanding volume of work at peak periods ($0.2 million), additional consultancy in the finance and distribution areas ($0.1 million) and inflation impact on other operating expenses ($0.5 million).

Table 4. Support Services: expenses for 2004 actual, 2005 approved budget, 2005 latest estimates and 2006 proposed budget

(In thousands of United States Dollars)

Expenditures	2004 Actual	2005 Approved budget	2005 Latest estimates	2006 Proposed budget	Changes 2006 vs. 2005 Latest estimates	
					$	%
International posts	4,566	4,866	4,802	5,349	547	11.4
Local posts	3,000	3,310	3,295	3,564	269	8.2
Other post related costs a/	606	410	412	691	279	67.7
Staff training	-	-	-	5	5	-
Other staff costs b/	148	372	725	897	172	23.7
Consultants	11	72	72	87	15	20.8
Travel	246	369	369	390	21	5.7
Other operating expenses c/	7,989	8,825	8,621	9,198	577	6.7
Furniture and equipment d/	60	207	187	143	(44)	(23.5)
Research and development				100	100	-
Regional support center expenses	458	633	637	564	(73)	(11.5)
Total expenses	17,084	19,064	19,120	20,988	1,868	9.8

a/ Termination indemnity and reimbursement of taxes.
b/ Short-term assistance, staff welfare and overtime.
c/ Contractual services, rental and maintenance of premises, rental and maintenance of furniture, equipment, communications, supplies and materials, hospitality and miscellaneous services.
d/ Office equipment, computer equipment, computer software and plant equipment.

IV. Regional support centres and UNICEF country offices

A. Outlook for 2005

25. Gross proceeds generated by UNICEF country offices from PSD activities in 2005 are projected at $35.3 million (see table 5), with costs estimated at $15.4 million, resulting in a net operating income of $19.9 million. This is an increase of $7.9 million over the 2004 results, driven by growth on both PSFR ($6.6 million) and sales ($1.5 million), offset by a marginal increase in support services costs ($0.2 million). A significant portion of the revenue growth represents an impact of the tsunami-driven emergency funds raised through UNICEF country offices in 2005.

B. Objectives for 2006

26. The following are the objectives for 2006:

(a) Total operating income of $19.5 million including $15.7 million from fund-raising and $4.3 million from sales, offset by expenses of $0.6 million in support services;

(b) Net proceeds from PSFR of $26.3 million (7.6 per cent higher than the 2005 latest estimates);

(c) Gross proceeds from card and gift sales of $12.3 million (13.9 per cent higher than the 2005 latest estimates) with a card sales volume of 13.1 million cards (11.0 per cent higher than the 2005 latest estimates);

(d) The establishment of fund-raising priorities in selected new markets with high mid-term and long-term income potential from the private sector.

C. Strategies for 2006

27. The following are strategies to achieve the above objectives:

(a) Provide strategic direction, assistance and hands-on support to the UNICEF country offices in the priority countries;

(b) Develop and implement UNICEF country office private sector strategies to acquire new donors and buyers;

(c) Strengthen support for PSD activities in regions of the Central and Eastern Europe, the Commonwealth of Independent States and the Baltic States, and Middle East by investing additional resources, including for new posts with regional functions.

D. Analysis of the 2006 proposed budget

28. Total operating expenses for UNICEF country offices and PSD regional support centres in 2006 are projected at $11.7 million, an increase of $1.5 million, or 14.4 per cent, over the 2005 latest estimates. This increase is mainly due to an increase in the number of posts by 10, most of them for fund-raising, with an impact of $0.7 million on staff costs and an impact of $0.9 million on other operating expenses.

Table 5. Regional support centres and UNICEF country offices :
Income and expenditures for 2004 actual, 2005 approved budget,
2005 latest estimates and 2006 proposed budget

(In thousands of United States dollars)

	2004 Actual				2005 Approved Budget				2005 Latest estimates				2006 Proposed budget				Changes 2006 vs. 2005 Latest estimates	
	C&G sales	PSFR	O&F	Total	C&G sales	PSFR	O&F	Total	C&G sales	PSFR	O&F	Total	C&G sales	PSFR	O&F	Total	$	%
Volume of card sales (in millions)			-	-	14.7	-	-	14.7	11.8		-	11.8	13.1	-	-	13.1	1.3	11.0
Gross proceeds (RR + OR)	9,522	15,701		25,223	9,709	17,045		26,754	10,809	24,486		35,295	12,310	26,341		38,651	3,356	9.5
Less: Commissions paid to consignees	723			723	1,160			1,160	1,184			1,184	1,509			1,509	325	27.4
Net proceeds	8,799	15,701	-	24,500	8,549	17,045	-	25,594	9,625	24,486	-	34,111	10,801	26,341	-	37,142	3,031	8.9
Costs of goods delivered	2,650			2,650	1,472			1,472	1,496			1,496	1,685			1,685	189	12.6
Operating expenses:																		
International posts	380	327	246	953	506	545	416	1,467	342	646	416	1,404	438	783	298	1,519	115	8.2
Local posts	1,301	998	51	2,350	1,520	1,477	58	3,055	1,584	1,591	59	3,234	1,610	2,123	64	3,797	563	17.4
Other post related costs a/	121			121	31			31	1			1	1			1	-	-
Staff training	26	49	41	116	27	97	33	157	22	97	33	152	36	117	33	186	34	22.4
Other staff costs b/	424	307	45	776	479	482	7	968	514	574	10	1,098	649	833	11	1,493	395	36.0
Consultants	81	118		199	112	43		155	112	43		155	102	66		168	13	8.4
Travel	148	156	26	330	204	231	66	501	184	248	66	498	203	307	72	582	84	16.9
Other operating expenses c/	1,168	747	44	1,959	1,333	1,029	47	2,409	1,289	1,012	47	2,348	1,411	1,194	57	2,662	314	13.4
Furniture and equipment d/	44	26	7	77	59	51	6	116	49	54	6	109	52	82	29	163	54	49.5
Research and development	233	471		704	255	756		1,011	255	932		1,187	234	849		1,083	(104)	(8.8)
Total operating expenses	3,926	3,199	460	7,585	4,526	4,711	633	9,870	4,352	5,197	637	10,186	4,736	6,354	564	11,654	1,468	14.4
Other income	52	-	-	52	47	-	-	47	45	-	-	45	48	-	-	48	3	6.7
Net operating income before FDP & MDP	2,275	12,502	(460)	14,317	2,598	12,334	(633)	14,299	3,822	19,289	(637)	22,474	4,428	19,987	(564)	23,851	1,377	6.1
Percentage of gross proceeds	24	80		57	27	72		53	35	79		64	36	76		62		
Less: FDP	-	2,225	-	2,225	-	2,432	-	2,432	-	2,424	-	2,424	-	4,238	-	4,238	1,814	74.8
MDP	42			42	104			104	125			125	84			84	(41)	(32.8)
Net operating income after FDP & MDP	2,233	10,277	(460)	12,050	2,494	9,902	(633)	11,763	3,697	16,865	(637)	19,925	4,344	15,749	(564)	19,529	(396)	(2.0)
Percentage of gross proceeds	23	65		48	26	58		44	34	69		56	35	60		51		
Summary of expenditures:																		
Commissions	723	-	-	723	1,160	-	-	1,160	1,184	-	-	1,184	1,509	-	-	1,509	325	27.4
Cost of goods delivered	2,650	-	-	2,650	1,472	-	-	1,472	1,496	-	-	1,496	1,685	-	-	1,685	189	12.6
Total operating expenses (international posts, local posts, staff training, other staff costs, travel, other operating expenses, furniture and equipment, research and development, bad debts)	3,926	3,199	460	7,585	4,526	4,711	633	9,870	4,352	5,197	637	10,186	4,736	6,354	564	11,654	1,468	14.4
Investment funds	42	2,225		2,267	104	2,432		2,536	125	2,424		2,549	84	4,238		4,322	1,773	69.6
Total Expenditure	7,299	3,199	460	10,958	7,262	7,143	633	15,038	7,157	7,621	637	15,415	8,014	10,592	564	19,170	3,755	24.4

PSFR = Private Sector Fund-raising; O&F = Operations and Finance; C&G sales = Card and Gift sales;
RR = regular resources; OR = other resources; FDP = Fund-raising Development Programme, MDP = Marketing Development Programme

a/ Termination indemnity.
b/ Short-term assistance, staff welfare and overtime.
c/ Contractual services, rent and maintenance of premises, rental and maintenance of furniture, equipment, communication supplies and materials, hospitality, information support services and miscellaneous services.
d/ Office equipment, computer equipment and computer software.

V. Medium-term plan, 2007-2010

29. Table 6 presents the medium-term plan for PSD for the period 2007-2010. The plan is based on market trends, the previous years' financial results, and strategic plans developed and implemented in cooperation with National Committees and UNICEF country offices in PSD priority countries.

30. PSD objectives, as per the medium-term plan, are to achieve by 2010:

(a) Net consolidated income for UNICEF from PSD of $685.3 million, comprising $425.3 million in regular resources and $260.0 million for other resources;

(b) Net operating income from private sector fund-raising of $387.0 million for regular resources;

(c) Net operating income from private sector fund-raising of $260.0 million for other resources;

(d) Net operating income from sales of cards and gifts of $63.3 million for regular resources;

(e) Gross proceeds from card and gift sales of $188.0 million;

(f) Card sales volume of 133 million.

Table 6. PSD medium-term plan:
2004 actual, 2005 approved budget, 2005 latest estimates, 2006 proposed budget and 2007-2010 projections

(In millions of United States dollars)

	2004 Actual	2005 Approved Budget a/	2005 Latest estimates	2006 Proposed	2007	2008	2009	2010
					Medium-term projections			
Gross proceeds - card and product sales	161.5	161.0	154.4	161.0	167.0	174.0	181.0	188.0
Less: Retention/commissions and direct expenses at country offices	59.0	56.1	54.3	56.0	58.0	60.0	61.5	63.0
Net proceeds - product sales	102.5	104.9	100.1	105.0	109.0	114.0	119.5	125.0
Less: Cost of goods delivered	30.2	34.3	31.2	32.0	32.7	33.6	34.4	35.2
Operating expenses	23.3	26.2	25.7	28.1	31.0	34.0	35.0	36.5
Provision for doubtful accounts	1.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Add: Other income	8.8	8.0	8.4	9.2	9.5	10.0	10.5	11.0
Net operating income - PSD card and product sales	55.9	51.4	50.6	53.1	53.8	55.4	59.6	63.3
Net operating income - Private sector fund-raising	250.7	271.8	266.4	302.7	325.0	344.5	365.0	387.0
Less: Investment funds	14.2	17.1	16.1	21.4	22.5	23.4	24.3	25.0
Net operating income	292.4	306.1	300.9	334.4	356.3	376.5	400.3	425.3
Less: Exchange rate adjustment	1.3							
Net income - regular resources	291.1	306.1	300.9	334.4	356.3	376.5	400.3	425.3
Add: PSFR other resources	218.8	190.0	615.0	250.0	250.0	250.0	260.0	260.0
Net consolidated income	509.9	496.1	915.9	584.4	606.3	626.5	660.3	685.3
Card sales volume (millions)	*111*	*124*	*114*	*118*	*121*	*125*	*129*	*133*

PSFR = private sector fund-raising

a/ As approved by the Executive Board (decision 2005/2, para 2)

TABLE 7. RANGE OF BUDGETED INCOME AND EXPENDITURES FOR THE FISCAL YEAR 1 JANUARY - 31 DECEMBER 2006

(In millions of United States dollars)

	I Low projection	II Medium projection	III High projection
Budgeted income			
Gross proceeds - product sales	158.0	161.0	164.0
Deduct: National Committees' retention a/	50.0	50.5	51.5
Net proceeds	108.0	110.5	112.5
Add: Other income - net (table 1A)	9.0	9.2	9.7
Net proceeds - product sales	117.0	119.7	122.2
Private sector fund-raising - regular resources (table 1A)	310.0	320.0	330.0
Total net proceeds - regular resources	427.0	439.7	452.2
Budgeted expenditures			
Commissions - country offices	1.4	1.5	1.6
Cost of goods delivered	31.6	32.0	32.8
Marketing expenditures	28.6	29.4	30.3
Support services	20.5	21.0	21.7
Investment funds	20.4	21.4	22.0
Total expenditures - consolidated (table 2)	102.5	105.3	108.4
Net consolidated income - regular resources (table 1)	324.5	334.4	343.8
Add: Other resources - private sector fund-raising (table 1)	244.0	250.0	256.0
Net consolidated income - regular resources and other resources	568.5	584.4	599.8

a/ Excludes country office commissions - budgeted in expenditures.

VI. Draft resolutions

31. The draft resolutions for Executive Board approval relating to the PSD budget for 2006 are presented below.

A. Private Sector Division budgeted expenditures for the 2006 season

The Executive Board

1. *Approves* for the fiscal year 1 January to 31 December 2006 budgeted expenditures of $105.3 million as detailed below and summarized in column II of table 7 to document E/ICEF/2006/AB/L.2:

	(In millions of United States dollars)
Commissions — field offices	1.5
Cost of goods delivered	32.0
Marketing expenditures	29.4
Support services expenditure	21.0
Investment funds	21.4
Total expenditures, consolidated	**105.3**

2. *Authorizes* UNICEF:

(a) To incur expenditures as summarized in column II of table 7 to document E/ICEF/2006/AB/L.2 and to increase expenditures up to the level indicated in column III of the same table should the apparent proceeds from fund-raising and/or card and gift sales increase to the levels indicated in column III, and accordingly, to reduce expenditures below the level indicated in column II to the extent necessary, should the net proceeds decrease;

(b) To redeploy resources between the various budget lines (as detailed in paragraph 1 above) up to a maximum of 10 per cent of the amounts approved;

(c) To spend an additional amount between Executive Board sessions, when necessary, up to the amount caused by currency fluctuations, to implement the 2006 approved work plan.

B. Budgeted income for the 2006 season

The Executive Board

Notes that for the period 1 January to 31 December 2006, PrivateSector Division net proceeds are budgeted at $439.7 million (regular resources) as shown in column II of table 7 in document E/ICEF/2006/AB/L.2.

C. Policy issues

The Executive Board

1. *Renews* investment funds with $21.4 million established for 2006;

2. *Authorizes* UNICEF to incur expenditures in the 2006 fiscal period related to the cost of goods delivered (production/purchase of raw materials, cards and other products) for the 2007 fiscal year up to $32.7 million as indicated in the Private Sector Division medium-term plan (see table 6 of document E/ICEF/2006/AB/L.2).

D. Medium-term plan

The Executive Board

Approves the Private Sector Division medium-term plan as reflected in table 6 to document E/ICEF/2006/AB/L.2.

Annex I

PRIVATE SECTOR DIVISION: SUMMARY OF POST CHANGES PROPOSED FOR 2006

			Post Levels					Total			Grand
Detail	D2	D1	P5	P4	P3	P2	P1	IP	NO	GS	total
Base PAT 2005	1	5	7	23	30	11	0	77	23	116	216
Establish and abolish											
Marketing				2	2	3		7		-2	5
Support services								0		-1	-1
RSCs and UNICEF country offices				1		1		2	4	4	10
Total establish and abolish, PSD	0	0	0	3	2	4	0	9	4	1	14
Reclassifications, PSD											
Support services				1	-1			0			0
RSCs and UNICEF country offices		-1	1					0			0
Total reclassification, PSD	0	-1	1	1	-1	0	0	0	0	0	0
Total changes, PSD	0	-1	1	4	1	4	0	9	4	1	14
Total, Proposed 2006	1	4	8	27	31	15	0	86	27	117	230

IP = International Professional; NO = National Officer; GS = General Service;
PAT = post authorization table; RSCs = regional support centres.

Annex II

PRIVATE SECTOR DIVISION
COMPARISON OF POSTS:
2005 APPROVED BUDGET VERSUS 2006 PROPOSED BUDGET

	Post levels							Total			Grand
	D2	D1	P5	P4	P3	P2	P1	IP	NO	GS	total
Marketing											
Approved 2005		3	3	13	15	3		37		21	58
Proposed 2006		3	3	15	17	6		44		19	63
Change	0	0	0	2	2	3	0	7	0	-2	5
Support services											
Approved 2005	1	1	3	7	14	5		31		38	69
Proposed 2006	1	1	3	8	13	5		31		37	68
Change	0	0	0	1	-1	0	0	0	0	-1	-1
Total, PSD headquarters											
Approved 2005	1	4	6	20	29	8	0	68	0	59	127
Proposed 2006	1	4	6	23	30	11	0	75	0	56	131
Change	0	0	0	3	1	3	0	7	0	-3	4
RSCs and UNICEF country offices											
Approved 2005		1	1	3	1	3		9	23	57	89
Proposed 2006		0	2	4	1	4		11	27	61	99
Change	0	-1	1	1	0	1	0	2	4	4	10
Total, PSD headquarters, RSCs and UNICEF country offices											
Approved 2005	1	5	7	23	30	11	0	77	23	116	216
Proposed 2006	1	4	8	27	31	15	0	86	27	117	230
Change	0	-1	1	4	1	4	0	9	4	1	14

IP = International Professional; NO = National Officer; GS = General Service; RSCs = regional support centres

Annex III

Private Sector Division business plan, 2006-2009

1. The Executive Board, at its first regular session of 2002, requested PSD to submit as part of its work plan and budget proposal for 2003, a comprehensive business plan to be updated annually (decision 2002/6, E/ICEF/2002/8/Rev.1), and detailing the Division's contribution to the UNICEF MTSP. The current update of the business plan covers 2006-2009, coinciding with the UNICEF MTSP period.

I. Introduction

2. This business plan is the third update to the plan that was presented to the Executive Board in January 2003. It incorporates a series of strategic reviews that took place within PSD during work plan and budget preparation. Strategies and projections have been fine-tuned in the context of the Joint Strategic Planning (JSP) process in consultation with National Committees, Country Offices and other UNICEF divisions. The business plan is based on:

(a) The **MTSP** and the **Millennium Development Goals**, which determine the overall organizational and strategic priorities of UNICEF and stipulate the medium-term funding requirements. As such, the MTSP and the Goals ultimately guide PSD and National Committee fund-raising activities in terms of financial targets, investment priorities, advocacy support and brand development-related communication with the general public and institutional, private sector donors;

(b) The **global private sector fund-raising strategy**, which addresses the global donor community within the private sector, including individual donors, corporations and organizations. The strategy will be in its fourth year of progressive implementation, driven by an increasing number of JSPs, extensive training and a "share and compare" process aimed at improving best practices among National Committees and the use of investment funds linked to strategic priorities. The strategy continues to focus on best industry practices related to donor recruitment and successive upgrading, with the objective of maximizing donor "life-time value". During 2005, the process has started to develop the global PSFR strategy for 2006-2009;

(c) The new **global cards and gifts strategy**, which recognizes the role of UNICEF cards and gifts as an important source of regular resources as well as an effective and distinctive tool to promote awareness of UNICEF, convey advocacy messages, and establish a relationship with individuals and corporations who often become donors. Card and Gift activities complement fund-raising activities and can drive important synergies among buyers and donors. The main focus is on driving growth of innovative cards through broadening distribution via Retail and Internet, while creating an appropriate Gift assortment so that they become a profitable additional source of growth;

(d) The strengthened **JSP process**, which provides an assessment and forward-looking strategic action plan for each National Committee in terms of income generation, leadership, advocacy, management of financial contributions and communications. For income generation through sales and fund-raising, the JSP provides insight into the strengths of each National Committee relative to the state of the market and business development. The process then identifies and assesses specific areas for revenue growth/building under different assumptions related to the external environment and available human and financial resources. During 2004-2005, the JSP process has been carefully evaluated and reviewed in close cooperation with National Committees and the Geneva Regional Office to make it a more effective tool in the planning process;

(e) The **new brand model for UNICEF**, which was launched in 2003. The brand model defines the vision, positioning, values and essence of UNICEF. It provides the framework for the relationship between the brand properties, the MTSP, communication and the resource mobilization strategies.

II. Income targets for 2006-2009

3. The PSD objective is to raise $660.3 million in net consolidated income by 2009 (13 per cent higher than that for 2006 proposed), comprising $400.3 million for regular resources (20 per cent higher than 2006 proposed) and $260.0 million for other resources. The net operating income is expected to be $59.6 million from cards and product sales and $365.0 million from fund-raising, excluding the $260.0 million income from PSFR for other resources. Compared with 2006, the net operating income in 2009 is expected to increase by 12 percent for cards and product sales and 21 percent for PSFR (see table 6).

III. Fund-raising

A. Introduction

4. The current global private sector fund-raising strategy ending 2005 aimed to raise $450 million in net proceeds for UNICEF from PSFR by 2005. The target was reached in 2004 and will be dramatically surpassed in 2005 as a result of the tsunami income.

5. Private-sector tsunami income will approach $500 million. The tsunami will have a profound and lasting impact on UNICEF fund-raising in the years to come. Some 1.6 million new donors contributed to UNICEF and our tsunami relief programme for the first time. Many of these first-time donors are young, and use new media to make their payment. It is a challenge and an opportunity to convince these donors to remain with UNICEF and to support our long-term development programmes by becoming regular monthly donors providing regular resources contributions.

6. The current PSFR strategy runs to the end of 2005. A taskforce with representation from UNICEF and National Committees is currently working to replace this with a strategy for 2006 to 2009. This taskforce supported by the fund-raising “Think Tank” has agreed to set extremely ambitious targets for 2010. The targets will not be met through a “business as usual” approach but rather through fundamental rethinking of the fund-raising strategy.

7. The global AIDS campaign will be a major organizational priority in the years to come. PSFR will be expected to contribute a third of the financial target, which is

likely to be $1 billion. For that to happen, the focus will have to be on “raising much from few”, with specific emphasis on major gifts, corporate partnerships, trusts and foundations.

8. National Committees currently account for 95 per cent of all UNICEF funds raised from the private sector. To reach the ambitious long-term targets, both fund-raising in the National Committees and high-potential country offices will need to grow dramatically. During the year 2005, PSD started to materially invest in fund-raising in China, India and the Russian Federation, convinced that in these fast-growing economies considerable amounts of money would be raised in the years to come. Besides these three country offices, PSD will continue to support PSFR in high-potential countries in Latin America and South-East Asia.

9. Today UNICEF raises about $15 million in country offices almost exclusively for national other resources projects. In these countries, with time, it is hoped that donors will be progressively prepared to give for non-national cases as well.

10. A third “actor” on the PSFR scene is UNICEF headquarters. In a connected world, given our global brand awareness, UNICEF can successfully address the global marketplace, tapping into cross-country opportunities whenever they arise. Today this is done via corporate alliances, but there remain potential openings in new media, in television networks and the entertainment community. To reach this target, PSD will have to exploit the opportunities while respecting revenue-sharing principles among participating National Committees.

11. With high ambitions for income growth, we will have to respond to the needs of National Committees and country offices alike to be able to call on in-depth expertise in key areas of fund-raising within UNICEF areas such as major gifts/legacies and new media (Internet, messaging services such as SMS/MMS, digital television, etc.).

B. Fund-raising strategies

12. The medium-term targets will be reached by implementing the strategies described below.

13. **Cash appeals.** Direct mail is the foremost method used by UNICEF to raise funds from individuals giving small, one-off donations. In 2004, 31 per cent ($204.0 million) of the fund-raising proceeds were raised through cash appeals sent to more than 7 million donors. This technique will remain an important contributor. On-line donations will form an increasing share of cash appeal income. Emergencies have a major impact on income from cash appeals. Some 3 million donors gave close to $500 million for the tsunami, and 1.6 million of these donors were new to UNICEF.

14. **Regular monthly giving.** Asking for monthly committed gifts by automatic funds transfer (“pledge income”) is receiving increasing investment attention, both from National Committees and PSD, as it represents the biggest source of revenue growth. In pledge share of income, UNICEF lags behind some industry leaders and child sponsorship agencies. In 2004, pledge donations generated $162.0 million, or 25 per cent of fund-raising proceeds, and are projected to increase by more than 40 per cent, becoming 30 per cent of the total income by 2009. New recruitment methods include face-to-face fund-raising in city centres (now practised by more

than 10 National Committees) and television telethons. New creative initiatives will help UNICEF develop more attractive and competitive offers for donors. Noteworthy in this respect is the Global Parent concept, developed by the Australian National Committee, which has also been adopted by the National Committees of Canada, Ireland and Norway, with initial success. The search for new “pledge product offers” combining advocacy and fund-raising is expected to attract younger supporters. Such an offer linked to the global AIDS campaign is currently under development.

15. **Major gifts.** With the ongoing shift in income sources from institutions to individuals, major gifts represent an important growth area to fund-raising income. In 2004, 3 per cent ($22.0 million) of proceeds came from major gifts given by private individuals. Only two National Committees (the United States and the United Kingdom) have a fully developed and properly staffed major gifts programme in operation. By 2009, given the market’s overall potential, focused investment, training and PSD support will help to increase this revenue source to 6 per cent of the total proceeds.

16. **Legacies.** The fund-raising strategy calls for increased investment in legacies in key National Committee markets where opportunities have been identified. The implementation of this strategy is expected to grow legacy income to 8 per cent of the total.

17. **Corporate fund-raising.** Capacity-building among National Committees and selected country offices will remain a high priority in the pursuit of successful fund-raising alliances with the corporate sector. PSD, through its International Corporate Alliances section, will work with key markets to grow existing national-level relationships into more lucrative regional or global partnerships. Corporate fund-raising proceeds were $83.0 million, or 13 per cent of the total income, in 2004.

18. **Collections.** Collections, or donations that do not generate a name and address allowing follow-up with renewed appeals, form an important complementary source of income, which is expected to decrease from 9 per cent of net proceeds in 2004 to 6 per cent in 2009.

19. **Foundations/non-governmental organizations.** This category incorporates grant-giving foundations as well as service clubs such as Rotary and Lions. This income is expected to remain around 6 per cent of net proceeds.

20. **Reporting.** The improved Revenue and Expenditure Reporting mechanism has allowed PSD to track progress by revenue source and to start to measure performance across National Committees and country offices in a consistent manner. Enhanced Revenue and Expenditure Reporting was launched in 2003, allowing the comparison between 2003 and 2004 reporting. This responds to the enhanced analytical needs of National Committees and PSD alike.

IV. Marketing and sales overview

A. Introduction

21. Based on the recently approved new global cards and gifts strategy, the long-term objective is to increase regular resources for UNICEF through innovative products and services.

22. The goal is to generate $59.6 million net operating income by 2009, with $181 million gross proceeds and 129 million cards sold. This translates, from the year 2006, to an average annual growth of 4 percent in gross proceeds and net operating income.

23. The above goals are attainable. The fundamentals of the business are strong and, with the help of the new global cards and gifts strategy, selected breakthrough strategies have been laid down to fully exploit the potential of UNICEF cards and gifts globally. Moreover, given the focus on cost reduction, both through the transformation of the supply chain and capitalizing on growing economies of scale in National Committees, there is confidence that 2009 income targets will be met.

B. Marketing and sales strategies

24. PSD, National Committees and country offices will achieve the above goals by following the key business and organizational strategies described below.

25. **Focus on cards as the main engine for future growth.** The huge global cards market offers key opportunities for generating extra growth in the years ahead. A slightly growing global market and a very small UNICEF market share of 1 per cent leaves room for growth for many years to come. PSD will pursue greater growth from the consumer business, as this segment offers higher potential and requires lower investment compared to the corporate segment. Moreover, continuing to grow the corporate segment, but focusing on the current customer base (small- to medium-size enterprises) will offer valuable synergies in approach. Thirdly, the aim is to create a digital e-card business for UNICEF, on top of the existing paper card business. The five-country pilot test in 2004, promoting paid e-cards, gave initial positive indication of the viability of this project. This test will be continued in 2005 on a broader country basis before a potential global roll-out in 2006.

26. **Turn gifts into a profitable additional source of growth.** The dynamic growth of the gifts business over the past few years indicates high level of consumer interest in UNICEF offering these types of products within its portfolio. By improving the currently low profitability of gifts, the products will become an attractive additional contributor to the overall business goals. The key ways to improve the profitability of gifts are through improving the currently very high distribution-to-sales ratio (i.e., how many gifts are produced and delivered to the National Committees for each gift sold) and pursuing the most attractive sourcing model for each gift item (UNICEF development, off-the-shelf product, co-branding/licensing).

27. **Leverage the combination of product innovation and the UNICEF brand.** Innovation for UNICEF is the ability to bring to the market products that satisfy the needs of consumers in a new and unique way that outperforms the competitors.

Future competitive edge comes from the ability to conceive, develop and market products that deliver a very strong functional benefit while reinforcing UNICEF brand equity values. Cards with design linked to special UNICEF initiatives (HIV/AIDS, education, protection), gifts with the endorsement of UNICEF ambassadors and toys with special UNICEF significance, such as the wooden UNICEF toy village produced and marketed under a co-branding agreement with a leading toy manufacturer, are just a few examples for this approach.

28. **Significantly broaden distribution via retail and the Internet.** Research indicates that not being able to find UNICEF products is a key barrier to purchase. Expanding the distribution through high reach, efficient channels like retail and the Internet is thus a key opportunity. Significant progress was made in both areas in 2004 and demonstrated the potential of these channels. In retail, the outstanding deal with the Portuguese Post Office showed that large deals can be generated with appropriate retail commission and yet deliver net income ratio in line with our overall business. On the Internet, many National Committees have done excellent work to improve their Internet sites and to drive consumers to their webshops, resulting in the growth of this channel across the board.

29. **Transform the entire supply chain.** Making some fundamental changes to the supply system offers the chance for UNICEF to not only increase sales – as products are delivered more consistently on time to our partners – but also to reduce costs significantly due to improved distribution-to-sales ratios and improved, streamlined processes. The introduction of the new business planning cycle and the focus on reducing the distribution-to-sales ratio have already started to yield benefits in terms of cost savings and better customer service to our partners. In the years to come, PSD will continue to simplify processes, via automated forecasting, ordering and fulfilment, and will introduce improved inventory management systems.

C. Organization

30. In order to execute the above strategies, it is of great importance to ensure a strong organization with the right structure, capabilities and work processes in place. Elements of the above organizational strategy are as follows:

(a) **Drive synergy and integration among all areas: sales, fund-raising, corporate alliances and communication.** More consistency is needed in following a holistic approach to annual resource mobilization plans, campaigning and emergencies in National Committees and country offices, thinking together and aligning on target groups and channels. Learnings from National Committees and country offices indicate that approaching the business holistically and setting up the organization in line with this creates the basis for increased income-generating ability;

(b) **Ensure shared objectives and direction across the whole organization.** This will be achieved through a comprehensive deployment process behind the new global strategy and its annual review/renewal process with the involvement of the total organization;

(c) **Increase organizational capacities.** A managerial and functional training programme will be rolled out through the organization via hiring of staff with required skill sets and capabilities in both UNICEF and National Committees;

(d) **Foster leadership/ownership skills and encourage teamwork.** The above training programme, clear expectation-setting in individual work plans and reviews of performance in annual evaluations, and role modelling by supervisors will play a key role in this area;

(e) **Build expertise and foster a "search and re-apply" culture.** Knowledge in the strategic business areas will be generated and shared through the share & compare sessions, bi-annual strategic marketing meetings and through enriching the content of the marketing knowledge centre online in the area of sales and marketing. PSD will invest in building strategically important market and competitive knowledge through market research and ensure that internal decision making is more than ever supported by this knowledge.

V. Strategic emphasis for operations and finance

A. Operations support services

31. For Operations Support Services (OSS), the business plan for 2006 to 2009 will be heavily focused on one key target: to contain the cost of goods at a maximum level of 20 per cent of total sales. The 2005 budget submission had foreseen a higher cost of oil, now a reality. This has resulted in additional surcharges paid on freight, and for 2006, increases are expected in the cost of production as raw materials prices increase and energy costs are passed on to the products. Furthermore, consumers expect to be offered more complex and costly goods, and market trends confirm this preference. This means more treatment on greeting cards and higher buy-in prices for gift products.

32. Increased costs, as described above, cannot be offset completely by raising retail prices of cards and gift products. For OSS, this illustrates the need to become ever more efficient in procurement and distribution practices. Specifically, proactive measures must be taken with several strategies. Most important of these relate to taking full advantage of new business planning cycles, consolidating shipments to partners, operating with much lower distribution-to-sales ratio and enhancing the costs of the supply chain by reducing its length and depth. System enhancements will be instituted to improve the overview of inventory and sales.

33. The timely and proper execution of these strategies will maintain the needed service level to sales partners and ensure that the cost of goods remain in balance with the sales income from PSD cards and gift products. It is of prime importance that the awareness of cost of goods is reinforced in all parts of the supply chain - from PSD to National Committees and country offices to suppliers and service providers.

B. Finance and administration

34. During the next biennium, the main objective in finance and administration is to take full benefit of the consolidated functions in Geneva by harmonizing processes and procedures. This includes enhancement and streamlining of responsibilities in the section, enhancement of planning and budgeting procedures,

updating key operating procedures and financial circulars, as well as updating of financial rules of PSD. Implementation of required changes of business processes in the Finance and Logistics System (SAP) will be an important enhancement during this planning period.

35. As no additional staff has been proposed for the finance section, activities need to be carried out through work process enhancements and increasing efficiency in transaction processing and database management. One of the new ways to achieve this objective is the use of Cognos Enterprise Planning for collection, consolidation and reporting on data from National Committee partners. Collaboration with National Committees and regional and country offices will also be sought for development and harmonization of processes. PSD will be working in close collaboration with the Geneva Regional Office to have further gains through common services.

C. Human resources

36. PSD has a complex structure and considerable human resource issues. Human Resource (HR) management and staff relations will be strengthened at the strategic level through the securing of a full-time HR presence. Better strategic oversight and direction will be provided on HR issues of concern to Geneva, New York, Panama and Bangkok locations. The added post (in the Geneva Regional Office common services) would also be responsible for the training and learning activities of all staff in Geneva, as this function has not been fully performed by existing staff due to lack of resources and time.

D. Information technology

37. Additional human resource capacity in IT has been secured for FLS/SAP logistics to support the business growth. The supply chain enhancement was launched at the end of 2004 with the involvement and commitment of top management to streamline business processes. An SAP consultant was hired in 2005 to analyse production and controlling processes and provide recommendations for implementation. The implementation of recommended enhancements will be carried out in 2006. The vacant post of IT Officer will be filled in 2006 to ensure continuation and efficient support in this area.

38. PSD operations in the country locations have relied on a separate system, Sales Perfect/Donor Perfect. The objective is to bring this system into the standardized IT support environment with regularized processes. Management of the system will be regulated through a governance framework and process with clear standards, policies and guidelines. The objective is to improve the way business is conducted with Sales Perfect/Donor Perfect and to assist country offices in meeting their respective goals and objectives.

39. Cognos Enterprise Planning will help PSD to forecast, plan, measure performance and analyse important business activities in a highly collaborative, real-time fashion. It will allow the collection of data from country offices and National Committee partners, consolidate this data in a consistent and well-managed way, and permit immediate feed-back via templates into the SAP system. Functionally, Enterprise Planning is a leading driver-based planning tool.

40. The ongoing IT training programme has now become part of the new staff induction as well as an integral part of all staff duties, with the expectation that staff members continue to function at a higher performance and efficiency level.

41. Although continuing to increase individual productivity will remain a primary objective, stronger emphasis is being placed on team productivity, document management, and best practices and policies to continually improve existing working methods.