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United Nations Office for Project Services budget estimates for the biennium 2020-2021

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the budget estimates for the biennium 2020-2021 for the United Nations Office for Project Services (DP/OPS/2019/5). During its consideration of the budget estimates, the Advisory Committee met with representatives of the Executive Director of UNOPS, who provided additional information and clarification, concluding with written responses received on 15 July 2019.

2. The presentation of the resource estimates for UNOPS for the biennium 2020-2021 is, for the most part, aligned with the harmonized approach adopted by UNDP, UNFPA and the United Nations Children's Fund (UNICEF), based on decisions 2010/32, 2011/10, 2012/27 and 2013/9 of the Executive Board. It differs in that, due to the self-financed business model of UNOPS, two years is regarded as the most appropriate planning cycle, rather than the four-year budget cycle followed by UNDP, UNFPA, UNICEF. The harmonized approach to budget presentation includes seven functional clusters, with key performance indicators and associated baselines, targets, and resources for 2020-2021, which are included in the UNOPS report. The results and budget framework for UNOPS for the 2020-2021 biennium are aligned with the UNOPS global structure (DP/OPS/2019/5, paragraphs 67-98).

Financial resources

3. UNOPS estimates that for the biennium 2020-2021, the opening and closing balances of its operational reserve would amount to $192.9 million and total revenue would amount to $181 million, comprising $138.5 million in management resources, $22.5 million for write-offs, provisions and contingency surplus, and $20 million earmarked for strategic investment. UNOPS would use the management resources to fund its core functions and allocate a portion of its surplus – calculated as approximately

12 per cent of estimated revenue for the biennium – to mitigate potential financial risks that may have to be absorbed within its own resources. The portion of the revenue earmarked for strategic investments would be used to improve the quality of its processes and the competencies of its personnel, including: continuing the development of its delivery platform; supporting the platform through investments in knowledge management and improvements to the information and communications technology infrastructure; and developing the internal leadership capacity of UNOPS (DP/OPS/2019/5, table 4 and paragraphs 104 and 112-115). The resource plan for 2020-2021, as contained in the report on budget estimates for the biennium 2020-2021 for UNOPS, is reproduced below.

Table 1. Resource plan from the budget estimates for 2018-2019 and 2020-2021

Resources available	2018-2019 Budget estimates	2018 (actuals) and 2019 (projection)	2020-2021 Budget estimates
Operational reserve beginning of period	**131.6**	**158.6**	**192.9**
Total revenue on budget basis	179.3	173.4	181.0
Total available	310.9	332.0	373.9
Use of resources			
Management resources	**132.7**	**121.9**	**138.5**
Provisions/liabilities	26.6	11.3	22.5
Strategic investments from surplus	20.0	14.1	20.0
Total use of resources	179.3	147.3	181.0
Balance of resources			
Net revenue on budget basis	0.0	26.1	0.0
Net financial income	0.0	19.6	0.0
IPSAS basis difference*	0.0	-7.3	0.0
Actuarial gains/losses for the period	0.0	2.4	0.0
Increase in fair value reserve	0.0	-6.6	0.0
Budget basis to IPSAS reconciliation	0.0	-11.5	0.0
Change to the operational reserve on IPSAS basis	**0.0**	34.3	0.0
Operational reserve at end of period	**131.6**	**192.9**	**192.9**

*IPSAS=International Public Sector Accounting Standards

Revenue

4. The present report on budget estimates for UNOPS indicates a revenue target of $181 million for the 2020-2021 biennium, which represents an increase from the $173.4 million projected for biennium 2018-2019 (see paragraph 3, above). UNOPS proposes a target of zero net revenue for biennium 2020-2021, which means that the operational

reserve will remain above the required minimum at the end of the biennium (DP/OPS/2019/5, paragraphs 24 and 26).

5. The report provides updated projections for the 2018-2019 biennium, based on the audited financial statement for 2018 and the approved budget for 2018-2019, which includes an opening balance of $158.6 million for operational reserve against the budgeted $131.6 million. The revenue target now projected for the biennium amounts to $ 173.4 million, which is 3.3 per cent below the estimated target of $179.3 million but would exceed the actual revenue of the 2016-2017 biennium ($169.2 million). Whereas the increase in revenue for 2018-2019 would result from increased implementation of projects, the increase in revenue for 2016-2017 was due to an increased recovery rate (DP/OPS/2019/5, paragraphs 20-22 and table 4, and DP/OPS/2017/7, paragraph 9).

6. The report further indicates that projected management resources for 2018-2019 biennium would amount to $121.9 million, against the budgeted $132.7 million; projected write-offs, provisions and contingency surplus would amount to $11.3 million, against the budgeted $26.6 million; and projected strategic investment would amount to $14.1 million against the budgeted $20 million. Due to the increasing revenue, the reduced management expense, and the requirement to invest additional funds in its delivery platform, UNOPS expects to end the 2018-2019 biennium with $26.1 million net revenue on budget basis, against the budgeted target of zero net revenue. With accounting-related adjustments, UNOPS expects that, by the end of the 2018-2019 biennium, the operational reserve will be $192.9 million, against the budgeted $131.6 million (DP/OPS/2019/5, paragraphs 20-23 and table 4).

7. **The Advisory Committee notes that, compared with the budgeted amounts for the 2018-2019 biennium, reduced amounts are projected for management resources, write-offs, provisions and contingency surplus and strategic investment; nevertheless, an increased amount is indicated for the opening balance of the operational reserve, and a further increase is projected for its closing balance. The Committee also notes that the projected net revenue for the biennium 2018-2019 is above the approved target of zero net revenue. The Advisory Committee trusts UNOPS to explain further the increases in the operational reserve and the approved net revenue target for the biennium 2018-2019 to the Executive Board at the time of its consideration of the budget estimates for the biennium 2020-2021 (see paragraphs 11-16, below).**

8. The Advisory Committee was informed, upon enquiry, that in 2018 UNOPS provided services to 244 partners, including peacekeeping missions, for a total amount of $1.87 billion. The estimated and actual revenues for the period from 2004-2005 to 2020-2021 were provided to the Committee and are reflected in the table below.

Table 2. Annual revenue figures for UNOPS from biennium 2004-2005 to 2018-2019
(*in millions of dollars*)

Biennium	Budget estimates forecast	Gross revenue (actuals*)	Net revenue (actuals*)
2004-2005	88.0	118.7	102.2
2006-2007	108.7	125.9	109.1
2008-2009	133.3	158.6	135.2
2010-2011	140.1	168.0	150.2

2012-2013	148.7	160.1	132.8
2014-2015	139.2	173.9	151.0
2016-2017	138.7	184.2	169.2
2018-2019	179.3	187.5	173.4
2020-2021	181.0		

*Except for 2019, which is still based on projection

Self-financed business model

9. The report indicates that the viability of the UNOPS self-financed business model requires that its revenue cover management costs and operational risks. UNOPS therefore operates on the principle of full cost recovery, which includes its direct and indirect costs. In 2013, UNOPS implemented a revised cost-recovery model with the approval of the Executive Board (DP/OPS/2019/5, paragraph 17). Upon enquiry, the Advisory Committee was informed that the cost-recovery model, introduced by UNOPS in 2013 and updated in 2018[1], is based on an individual assessment of each signed engagement to ensure full cost recovery within each project. The indirect costs are based on the complexity, size and risk associated with an engagement agreement: greater complexity or risk would indicate higher indirect costs to UNOPS and therefore a higher management fee, while greater volume would indicate lower indirect costs (reflecting economies of scale) and consequently a lower management fee.

10. The Advisory Committee recalls that, in their report, the Board of Auditors had noted that in January 2016 UNOPS issued additional guidance to country offices on how they might calculate a risk increment in excess of the indirect cost. That guidance was intended to result in a more systematic approach to the incorporation of risk into pricing. However, the extent to which risk was already factored into the indirect cost was unclear to the Board. The Board noted that, if risks overall did not materialize to the extent envisaged in project pricing, there was no process for returning “increments” to the engagement partner (see A/71/5/Add. 11, chapter II, paragraph 94). While examining the same matter in its most recent report, the Board of Auditors concluded that UNOPS had not made progress in implementing its recommendation to develop a policy for the use of accumulated financial surpluses arising from the receipt of “risk increments” that ultimately were not required (see A/73/5/Add.11, chapter II, annex). **The Advisory Committee trusts that UNOPS will review the overall management fees it charges as part of its cost-recovery model to assess the potential financial surplus arising from “risk increments”, as indicated by the Board of Auditors, and take steps to implement the related recommendation of the Board. The Advisory Committee further trusts that UNOPS will redouble its efforts to establish its management fees at realistic levels (see paragraph 7, above).**

[1] The updated cost-recovery model of UNOPS stipulates that direct costs pertain to the activities carried out to deliver the benefits to a particular engagement agreement or client(s), and are determined using activity-based costing principles and charged as absolute amounts. Indirect costs are incurred by the management and administration of UNOPS activities and policies. They are to be recovered as management fees from engagements and charged as absolute amounts and/or fee percentages (UNOPS Operational Directive OD.EO.2018.01, paragraphs 3.3 and 3.4).

Operational reserve

11. The report on the UNOPS budget estimates for the biennium 2020-2021 indicates that since 2009 the operational reserve has remained above the minimum set by the Executive Board. As indicated in paragraph 6, above, UNOPS projects that the 2018-2019 biennium will end with an operational reserve of $192.9 million. For the biennium 2020-2021, the operational reserve is estimated to remain at the same level (DP/OPS/2019/5, table 4). The report underscores that the reserve plays a key role in assuring partners that UNOPS can deliver on its commitments as a self-financed United Nations organization without core funding support (ibid., paragraph 23).

12. In its previous report on the UNOPS budget estimates for the biennium 2018-2019, the Advisory Committee noted that the operational reserve increased from an estimated $82.8 million in 2014-2015 to $131.6 million at the end of 2016, and was expected to remain at that level in 2017, 2018 and 2019. The Committee recalls its recommendation that UNOPS undertake an analysis of the actual amount of reserve needed for its operations and include that analysis in the next budget estimates (see DP/OPS/2017/7, paragraph 6).

13. The Advisory Committee further recalls that the Board of Auditors noted in its most recent report that in 2013 the Executive Board had approved a policy to establish a minimum operational reserve at the equivalent of four months of the average management expenses for the previous three years. As at 31 December 2017, that equated to $20.7 million. The reported operational reserves as at 31 December 2017 were $158.64 million, which exceeded the minimum target by $137.94 million. In the view of the Board of Auditors, the reported surpluses had continued to contribute to the operational reserve. In that context, the Board further noted a response provided by UNOPS indicating that, in its budget estimates for the biennium 2018-2019, UNOPS had reassessed the use of available resources and had established an additional budget for investments and risk mitigation. Nevertheless, the Board of Auditors concluded that UNOPS had not revisited the levels of its minimum operational reserves and had not identified specific areas for the potential use of reserves (see A/73/5/Add.11, chapter II, paragraphs 13-16).

14. Upon enquiry, the Advisory Committee was provided with the relevant provisions, in regulation 22.02 of the Financial Regulations and Rules of UNOPS, which include those listed below. Within the UNOPS accounts, the following reserves may be established:

(a) An operational reserve at a level set by the Executive Board. The purpose of the operational reserve is to guarantee the financial viability and integrity of UNOPS as a going concern.

(b) A growth and innovation reserve to invest in the future revenue generating ability of UNOPS. Transfers to this reserve will be limited to 50 per cent of the excess operational reserves, over and above the level set by the Executive Board. The specific approval of the Executive Board shall be required if the amount to be transferred exceeds 50 per cent of the excess operational reserves.

(c) The decision to draw from these reserves shall rest solely with the Executive Director who shall report all drawdowns to the Executive Board.

15. The Committee was further informed of decision 2016/12 of the Executive Board, which noted the healthy financial position of UNOPS and supported the creation of a seed capital fund aimed at using a portion of UNOPS operational reserves to make targeted contributions to early-stage investment projects in UNOPS-mandated areas. The objective would be to leverage high-impact transformational initiatives in countries

with a United Nations field presence, in collaboration with like-minded donors and investors and in line with the strategic priorities of the respective Governments and the United Nations coherence agenda (decision 2016/12, paragraph 4). The Committee was also informed that through the above decision, the Executive Board indicated how the Executive Director might consider operationalizing the authority granted through financial regulation 22.02 (b).

16. **The Advisory Committee considers that the existing surplus in the accumulated operational reserve, which is above the level of the minimum requirement set by the Executive Board, the relevant Financial Regulations and Rules and decision 2016/12 of the Executive Board provide opportunities for UNOPS to use the surplus in its operational reserve for making contributions to investment projects in its mandated areas. In this regard, the Committee shares the views of the Board of Auditors and trusts UNOPS to identify specific areas and a roadmap for the potential use of the surplus in its reserve (see paragraph 7, above).**

Social Impact Investment Initiatives (‘S3I’)

17. The report on the UNOPS budget estimates for the biennium 2020-2021 indicates that, following the launch of its social impact investment initiative (known as ‘S3I’), UNOPS is creating institutional capacity to strategically identify and finance social impact investment projects. In 2018, UNOPS made its first investment under the social impact investment initiative to drive progress towards the Sustainable Development Goals. By May 2019, UNOPS had deployed $38.8 million of its reserves to ‘S3I’ projects, mainly as investments in infrastructure for renewable energy and affordable housing, and had committed a further $20 million (see DP/OPS/2019/5, paragraphs 15-16). Upon request, the Advisory Committee was provided with the following information about the projects undertaken under ‘S3I’:

Table 3. Social impact investment initiative projects

S3I investment	Project description	UNOPS cash investment
Renewable energy - Mexico	Recapitalization and operating a 22-megawatt wind energy farm	$8.8 million
Social housing - Ghana	100,000 housing units	$5 million
Social housing - Kenya	100,000 housing units	$5 million
Social housing - India	100,000 housing units	$2.5 million
Social housing - the Caribbean	100,000 housing units	$2.5 million
Renewable energy - multiple	Deals under review	$15 million
Total		$38.8 million

18. **The Advisory Committee notes the first investment made by UNOPS under its social impact investment initiative, financed by its reserves, and encourages UNOPS to make further concerted efforts in this regard. At the same time, the Committee expects that, in accordance with UNOPS Financial Regulations and Rules, further details, such as the type of reserve and its proportion utilized for making such investments, will be provided to the Executive Board at the time of its**

consideration of the budget estimates for the biennium 2020-2021. The Committee looks forward to receiving updated information on this matter, including the status of the reserve created and the amount expended, in the next budget estimates.

Staff and personnel

19. The report on the UNOPS budget estimates for the biennium 2020-2021 indicates that the total number of staff posts funded by direct and indirect costs has remained stable, at approximately 750, since mid-2017 (DP/OPS/2019/5, table 3). Upon request, the Advisory Committee was provided with the updated number of UNOPS personnel, as follows:

Table 4. Number of UNOPS personnel, by category, as of 31 December 2018

Contract modality	Staff	Contractors	Total
UNOPS personnel	756*	3,683	4,439
Partner personnel		7,232	7,232
Combined personnel	756	10,915	11,671

*Includes partner staff and staff in organizations where UNOPS is providing hosted initiative secretariat services, who are subject to the same policies and procedures as UNOPS staff

20. As indicated in the report, the number of posts funded through management resources is projected to decrease from 146 in 2018-2019 to 128 in 2020-2021. The net reduction of 18 posts funded through management resources reflects an increase of two D-2 level posts and a decrease of three D-1 level posts, eight other international professional posts, and nine 'all other' posts. The decrease in the number of staff funded by the management budget reflects continued UNOPS efforts to attribute direct costs to appropriate cost drivers, while the changes in senior staff reflect realignment of regional portfolios (DP/OPS/2019/5, table 3 and paragraph 107). The Advisory Committee was informed, upon enquiry, that UNOPS systematically identifies functions and processes that should be recovered as direct costs, due to which the cost of some posts previously recovered as indirect cost has now been budgeted for recovery as direct costs. UNOPS explained that this costing methodology ensures that projects are not cross-subsidized.

21. With regard to the changes affecting posts at D-1 level and above, the Advisory Committee was provided, upon enquiry, with the table below, showing a net decrease of one post resulting from the increase of two D-2 level posts and the decrease of three D-1 level posts.

Table 5. Changes of director-level posts between 2018-2019 and 2020-2021

	Budget estimates 2018-2019			Budget estimates 2020-2021
Level	**Functional title**	**Nature of change**	**Level**	**Functional titles**
D2	Director, Communications and Partnerships	HQ restructuring, position abolished. New position created as Director, Communications Group	P5	Director, Communications Group
D2	Director, Corporate Support Practice Group	HQ restructuring, position abolished. New position created as Director, Shared Service Center	D1	Director, Shared Service Center
D1	Regional Director, Middle East Region	Position level reclassified from D1 to D2	D2	Regional Director, Middle East Region

D1	Director of New York Office/General Counsel, LG	Position level reclassified from D1 to D2	D2	Director of New York office/General Counsel
D1	Regional Director, Europe and Central Asia Region	Position level reclassified from D1 to D2	D2	Regional Director, Europe and Central Asia Region
D1	Regional Director, Asia Region	Position level reclassified from D1 to D2	D2	Regional Director, Asia Region
D1	Country Director, Haiti	Position level reclassified from D1 to P5	P5	Country Director, Haiti
D1	Deputy Director, People and Change Group	Position level reclassified from D1 to P5	P5	Deputy Director, People and Change Group
D1	Director, ICT Group/Chief Information Officer	Position changed funding from management budget to centrally managed direct cost budget		
D1	Director, Peace and Security Cluster	Position level reclassified from D1 to P5	P5	Director, Peace and Security Cluster
		New position as part of headquarters restructuring	D1	Deputy Director, New York Office
		Headquarters restructuring, new position	D1	Director, Management Support Centre
		New position	D1	Ethics and Compliance Officer
P5	Country Director, Nepal	Position level reclassified from P5 to D1	D1	Director, Nepal Hub

22. Whereas for the 2020-2021 biennium the number of posts funded through management resources would be reduced by 18 (see paragraph 19, above), the estimated resources for posts under management resources amounting to $27.1 million represent an increase of $1.6 million when compared with the 2018-2019 biennium (DP/OPS/2019/5, table 5). The Advisory Committee was informed, upon enquiry, that in accordance with regulation 14.02 of Financial Regulations and Rules of UNOPS, the Executive Director has the authority to redeploy resources within the approved management budget and to increase or reduce the total approved management budget allotment (including the number of employee posts in the employee table and their grades, up to and including the D-2 level), provided that the net revenue target established by the Executive Board for the budget period remains unchanged. The Committee was also informed that, to ensure that the Executive Director of UNOPS is able to exercise her/his authority in line with the UNOPS Financial Regulations and Rules in the light of changing business realities during the biennium, staff costs are projected at the same level for the budget estimates for the 2020-2021 biennium as they were for the 2018-2019 biennium, adjusted for inflation (see also DP/OPS/2019/5, paragraph 103). **The Advisory Committee notes the relevant provision of the Financial Regulation and Rules of UNOPS and considers that a review of the provision may be merited.**

General comments

Refund

23. The Advisory Committee recalls that, pursuant to a memorandum of understanding between UNOPS and the United Nations Secretariat adopted in 2014, UNOPS provides a refund to the Secretariat upon reaching an agreed threshold of cumulative annual fees of $16 million, and that 2016 was the first year for which the refund mechanism had been implemented (see DP/OPS/2017/7, paragraph 16). Upon enquiry, the Advisory Committee was informed that UNOPS has refunded to the United Nations Secretariat the amounts of $2.2 million and $ 2.3 million for 2016 and 2017, respectively, and that a refund in the amount of $2.3 million is due to be paid for 2018. For 2019, the estimated

refund amount is $2.4 million. **The Advisory Committee trusts that the amount due to the United Nations Secretariat will be paid in a timely manner.**

Procurement

24. The report indicates that, with its mandate and technical expertise in public procurement, UNOPS is a resource for building public procurement capacity and transparent, accountable, institutions. UNOPS works to build the capacity of small and medium-sized enterprises and women- and youth-owned businesses, improving their access to the Global Marketplace through initiatives such as the 'UNOPS Possibilities Forum' and the 'UNOPS Possibilities Portal' (DP/OPS/2017/7, paragraphs 34 and 55). Upon enquiry, the Advisory Committee was informed that the UNOPS Possibilities Forums provide inspiration and support to small and medium sized enterprises through capacity-building in procurement and entrepreneurship. The UNOPS Possibilities Portal enables potential suppliers, particularly small and medium-sized enterprises, to increase the visibility of their innovative and unique solutions with UNOPS procurers and project managers worldwide. The Committee was further informed that UNOPS encourages local procurement and, through the incorporation of smaller lots in its tenders, encourages small and medium-sized enterprises to participate in the process. **The Advisory Committee notes the steps taken and further encourages UNOPS to facilitate the participation of small and medium-sized enterprises in the competitive bidding process.**

25. In respect of the timelines of formal methods of solicitation followed by UNOPS, the Committee was informed, upon enquiry, that the minimum bidding time, using an invitation to bid, can range from 15 days for goods or works to 21 days for services, and from 1 to 5 days for procurement required under emergency situations. The Committee was further informed that under emergency situations, simplified processes, in compliance with the procurement principles of UNOPS, can be used. For instance, it is recommended that in such situations priority be given to suppliers experienced in supplying United Nations system entities in emergency operations so as to reduce lead times and the risk of contract failure. **The Advisory Committee is concerned that the bidding time of 15 to 21 days may not be sufficient for new vendors and trusts that UNOPS will continue to align its procurement policies and practices with those of the United Nations Secretariat and other United Nations entities (see DP/OPS/2017/7, paragraph 20).**

Resource mobilization from the private sector

26. In the biennium 2020-2021, UNOPS proposes to further develop solid structures for governance and the management of risks associated with mobilizing resources, including from the private sector (see paragraphs 15-16). Upon enquiry, the Advisory Committee was informed that resources mobilized from the private sector would be channelled through specific means created with the relevant government for each project. **The Advisory Committee looks forward to receiving further details in the context of the budget estimates for UNOPS for the next biennium.**

Shared Service Centre

27. The report indicates that the UNOPS Shared Service Centre provides human resources and associated financial services to United Nations partners worldwide. During the 2020-2021 biennium, through its Shared Service Centre, UNOPS expects to offer more standardized processes within areas such as information and communications technology support, treasury, grants management, procurement, and human resources services (DP/OPS/2019/5, paragraphs 7-8). With respect to the role of the Shared Service Centre in the future, the Advisory Committee was informed, upon enquiry, that

the demand for UNOPS services had increased over the past several years, and that UNOPS foresees a further increase in the volume of its shared services delivery. **The Advisory Committee looks forward to receiving updated information in this regard in the next budget estimates for UNOPS.**

Conclusion

28. **Taking into account its observations and recommendations above, the Advisory Committee recommends approval of the revenue target in the amount of $181 million and of the continuation of the policy of setting a target of zero net revenue for the biennium 2020-2021.**