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**Report on implementation of the modified system for
allocation of regular resources for programmes***Summary*

At its annual session in June 1997, the Executive Board endorsed the modified system for allocation of general resources (now referred to as regular resources) available for programmes, as outlined in the annex to decision 1997/18 (E/ICEF/1997/12/Rev.1), and as described in document E/ICEF/1997/P/L.17. In the same decision, the Board requested the Executive Director to implement the decision accordingly, and to provide the Executive Board with a report for its review in 2003 on the implementation experiences with the modified system in order to improve its different components for its continuation. This report responds to that request and contains a draft recommendation for Executive Board approval.

* E/ICEF/2003/11.

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Executive summary

The Executive Board, in its decision 1997/18 (E/ICEF/1997/12/Rev.1), requested the Executive Director to submit a report on progress achieved and experience with the implementation of the modified system for allocation of general resources (now referred to as regular resources) available for programmes.

The modified system was introduced in 1999, and the secretariat has since implemented all of its features. The major results arising from implementation of the modified allocation system include:

(a) Progressively higher allocations, in absolute and proportional terms, to the children of low-income countries, in particular the least developed countries (LDCs) and those of sub-Saharan Africa. Against the target of allocation of 50 per cent of regular resources to sub-Saharan African countries, the allocation in 2003 is 49.5 per cent. With a target of 60 per cent of allocation of regular resources to LDCs, the allocation in 2003 is 54.3 per cent. The target allocation should be attainable by 2005;

(b) The allocation of a minimum of \$600,000 for core programming in each country programme. This provision has enabled UNICEF to continue, and in many cases, improve upon its efforts to mobilize Government and civil society around children's issues. It has been a particularly instrumental resource for support to the efforts of national Governments to prepare and undertake action plans related to follow-up to the United Nations General Assembly Special Session on Children held in 2002;

(c) The allocation of regular resources over and above the minimum allocation of \$600,000 available for country programmes, based on the three core criteria. The core criteria have favoured countries with high under-five mortality rates (U5MRs) and low-income countries. At the same time, as directed by the Board, changes in country allocations have been limited to a maximum of 10 per cent compared to the previous year's level to prevent abrupt changes and disruptions of ongoing programmes;

(d) The accommodation of evolving needs and special circumstances of children through an appropriate degree of flexibility. The use of the 7 per cent set-aside of regular resources has provided flexibility for both responding to opportunities for children and encouraging programme excellence, especially with respect to the five organizational priorities of the medium-term strategic plan (MTSP) for 2002-2005 (E/ICEF/2001/13 and Corr.1). The use of the set-aside is helping to accelerate improvement of the quality of national policies and programming for children affected by HIV/AIDS, as well as providing timely and vital support to achieving polio eradication and other initiatives related to immunization plus.

In addition, the report summarizes the results achieved related to regular resources allocations to LDCs, sub-Saharan Africa and allocation of the 7 per cent set-aside during the implementation period 1999-2002. It also reports that there are some 10 countries that are near or above graduation level for allocation of regular resources, and the Executive Director is in discussion with these countries regarding future modalities of cooperation.

I. Introduction

1. The Executive Board, in its decision 1997/18 (E/ICEF/1997/12/Rev.1), commended the secretariat for its implementation of decision 1996/34 (E/ICEF/1996/12/Rev.1) on the allocation of general resources (now referred to as regular resources) and the work undertaken, in close consultation with the Executive Board, in revising the regular resources allocation system. The Executive Board also endorsed the modified system for allocation of regular resources as outlined in the annex to decision 1997/18, and requested the Executive Director to “implement it accordingly”. In addition, the Executive Board decided to review in 2003 the modified system for allocation of regular resources in order to improve its different components for its continuation, and requested the Executive Director to provide the Executive Board with a comprehensive report to this end.

2. Thus, the objective of the present report is to inform the Executive Board of the actual experience in the implementation of the modified system with respect to the following two requests to the secretariat, as outlined in paragraph 5 (d) of the annex to decision 1997/18:

(a) To either assess its accuracy or adjust it to unexpected needs emerging during the first years of its implementation, and, in any case, to improve it in view of its continuation;

(b) To provide a comprehensive report on the progress made and the experience with the implementation of the modified system and on proposals for improvement, inter alia, ways and means to allocate 60 per cent of the general (regular) resources to the LDCs and 50 per cent to sub-Saharan Africa.

II. The modified allocation system

3. In its decision 1997/18, the Executive Board reaffirmed the principles of eligibility of all recipient countries on the basis of the fundamental characteristics of the operational activities of the United Nations development system, in line with relevant resolutions of the General Assembly. The Board also endorsed the present modified system for allocation of regular resources as outlined in the annex to the decision.

4. The decision sets forth four key aims or objectives for the modified regular resources allocation policy:

(a) To give progressively higher priority to the children of low-income countries, in particular the LDCs and those of sub-Saharan Africa;

(b) To enable UNICEF to continue to fulfil its mandate as the United Nations lead agency for children, advocating for children’s rights and needs, and ensuring high-quality policy and advice;

(c) To ensure the allocation of regular resources sufficient to strengthen the effective implementation of programmes in the respective countries;

(d) To accommodate evolving needs and special circumstances of children through an appropriate degree of flexibility.

5. In order to expedite progress towards the sustainable achievement of the above four objectives, the Executive Board deemed that the main features of the allocation system should be the following:

(a) At least two thirds of regular resources for programmes will be allocated on the basis of three core criteria: U5MR; gross national product per capita, presently defined as gross national income (GNI) per capita; and child population;

(b) Each country with a UNICEF country programme shall receive an allocation on the basis of the three core criteria using the existing formula and refined weighting system given in annex I of document E/ICEF/1997/P/L.17;

(c) Each country with a UNICEF country programme shall receive a minimum allocation of \$600,000 for core programming. This amount will be maintained when regular resources levels increase or remain constant;

(d) The minimum allocation will be used exclusively for programme assistance;

(e) No LDC is to receive an allocation below its calculated level under the then current system;

(f) Abrupt changes in country allocations shall be avoided by limiting them to a maximum of 10 per cent compared with the previous year's level;

(g) Countries having reached a combined threshold of GNI per capita above \$2,895 and a U5MR of less than 30 per 1,000 live births shall gradually be phased out of the allocation of regular resources for programme assistance. The Executive Director shall enter into open dialogue with countries near or above graduation level with the aim of examining possibilities for compensating regular resources from UNICEF with resources from Government (e.g. cost-sharing of continued UNICEF activities) or other sources (e.g. other resources);

(h) Countries covered by the three multi-country programmes (Central and Eastern Europe/Commonwealth of Independent States/Baltic States, Eastern Caribbean and Pacific islands) shall continue to receive a combined lump sum sufficient for viable and effective programme intervention;

(i) Special programmes (e.g. Palestinian children and women in Jordan, Lebanon, the Syrian Arab Republic and the Occupied Palestinian Territory) shall continue to be funded from regular resources as approved by the Executive Board;

(j) Seven per cent of the annual regular resources for programmes should be set aside to respond flexibly to the great diversity in country situations as well as to evolving needs and special circumstances. The Executive Director is required to report to the Executive Board on implementation of the use of the 7 per cent set-aside for flexibility, on a regular basis, in her annual report, as well as at any critical junction during implementation;

(k) The bulk of the net income from the sale of greeting cards and other products in developing countries shall continue to be allocated to the country of origin to finance Executive Board-approved unfunded supplementary-funded programmes;

(l) The estimated non-reimbursed year-end balances of the Emergency Programme Fund (EPF) will be allocated to individual countries on a case-by-case basis, charged against the regular resources set-aside for this purpose.

III. Links with the medium-term strategic plan for 2002-2005

6. In operational terms, the modified allocation system deals with the portion of regular resources available for programmes. Thus, implementation of the modified regular resources allocation policy is aimed at achieving the five organizational priorities of the MTSP: girls' education; immunization "plus"; fighting HIV/AIDS; early childhood development; and child protection.

7. The five key links that connect the major features of the modified allocation system for regular resources and the organizational priorities and framework of the MTSP are as follows:

(a) The modified allocation system and the MTSP organizational priorities address the accountability of UNICEF in complementary ways. The current MTSP describes UNICEF organizational priorities during 2002-2005, as well as the strategies and financial base necessary to achieve them. Regular resources are the foundation of UNICEF country programmes and enable the organization to deliver critical assistance to children to help meet the programme targets in the MTSP;

(b) The priorities of the MTSP and the modified allocation system both interact to focus UNICEF efforts sharply on ways to make major positive impacts on the lives of children through rights-based programming approaches;

(c) The MTSP sets forth UNICEF organizational priorities and underscores the importance of achieving results for and with children using a human rights-based approach to advocacy and programming. Likewise, the modified allocation system gives priority to UNICEF assistance for countries where the rights of children are at high risk, as evidenced by high child mortality rates, low income and the number of children in need;

(d) The modified allocation system is an important policy instrument for applying resources for the achievement of the MTSP organizational priorities. In so doing, UNICEF is able to focus its contribution towards fulfilment of the Millennium Declaration and achievement of its Millennium Development Goals;

(e) In future, if projected regular resources income differs from the current financial plan, the scale of programme engagement will need to be adjusted accordingly, with efforts being made to minimize abrupt changes.

8. The linkage of the regular resources allocation policy with individual UNICEF-assisted country programmes is equally evident. The magnitude of regular resources available for UNICEF-assisted country programmes is presented in the initial and revised financial projections of the MTSP. As part of the preparation of UNICEF-assisted country programmes, the indicative allocations for regular resources are presented in the draft country programme documents (CPDs) submitted to the Board for approval. The availability and predictability of regular resources are essential to the organization's capacity to deliver results-oriented programmes to the neediest and most disadvantaged children in accordance with the five priorities of the MTSP. Therefore, as the foundation for UNICEF country

programming, regular resources remain one of the highest priorities for UNICEF. In that context, it is relevant to recall that decision 1997/18 also underscores the importance of the urgent need to increase regular resources for UNICEF.

IV. Link with integrated budgeting

9. As UNICEF has moved to integrated budgeting, a close link has been established between the support budget and the programme budget through the processes of the CPD and the country programme management plan (CPMP). The use of regular resources for programmes is outlined in the CPD, which is submitted to the Board for approval of the aggregate indicative budgets, usually covering a period of five years. The CPD is revised, based on Board members' comments, and submitted for approval on a no-objection basis. The guidelines for preparing the CPMP emphasize the need to integrate the resources for programme support into the country programme planning process. The biennial support budget proposal is reviewed by the Advisory Committee on Administrative and Budgetary Questions prior to final review and approval by the Executive Board as part of integrated budgeting. The Executive Board approved a report on integrated budgeting in UNICEF at its first regular session of 1997 (E/ICEF/1997/AB/L.4 and decision 1997/3).

V. Implementation plan and results

10. After the Executive Board endorsed the modified system for allocation of regular resources, three major actions were taken:

(a) The Executive Director undertook to disseminate the Board decision throughout the secretariat and to inform other organizations of the decision. UNICEF staff at country, regional and headquarters levels were fully briefed on all policy and operational facets of the decision;

(b) UNICEF country, regional and headquarters offices undertook to inform and discuss the features of the implementation plan with all recipient countries and other interested parties at country, regional and global levels;

(c) The Executive Director instituted implementation of the decision with respect to operation of the modified system for allocation of regular resources for programmes with effect from 1 January 1999. The provisions of the modified system have been implemented consistently since that date, taking into account the special session of the General Assembly on children in 2002. This report presents the major results achieved.

11. During the period 1999-2003, the range of regular resources available for allocation to country programmes increased slightly from a low of \$316 million in 1999 to \$365 million in 2003. During the same period, the number of individual country programmes increased from the base of 115 in 1999 to 120 in 2003. This does not include multi-country programmes (42 countries).

12. During the same period, other resources income increased from \$529 million in 1999 to \$745 million in 2002. This was a significant increase in funds, allowing some country programmes to benefit considerably, but not others, as donor

organizations usually stipulate which countries should benefit from their contributions to other resources. Regarding the availability of other resources for emergency programme responses, the annual amount fluctuates in relation to overall need and availability of donor contributions. In recent years, it has ranged from \$197 million in 1999 to \$241 million in 2002.

13. This funding imbalance, if sustained, risks creating cascading negative effects on programmes financed from regular resources at the country level, on field office support budgets and on the headquarters support budget. The Executive Board endorsed decision 2003/9 (E/ICEF/2003/9 (Part II)) on an interim UNICEF cost recovery policy that will reduce the amount and proportion of regular resources used to subsidize the administrative costs of other resources over the coming years.

14. Each year, at least two thirds of the regular resources for programmes have been allocated on the basis of the three core criteria. One consequence, as predicted, is that there has been a change in the amount of regular resources available to most countries. However, in accordance with the Board decision, the secretariat has implemented the changes gradually since 1999 in order to avoid disruptions in ongoing programmes. Increases and decreases in regular resources for country programmes resulting from implementation of the modified allocation system have been limited to no more than 10 per cent per year compared with the previous year's level.

15. Another consequence is that the proportion of regular resources allocated to recipient countries in sub-Saharan Africa has increased from 37.8 per cent in 1998, the last year of the previous allocation system, to 49.5 per cent in 2003. Thus, the allocation target for sub-Saharan African countries has been nearly met, and will be sustainable using the current modified allocation system.

16. There has been progress each year in increasing the portion of regular resources for LDCs. The proportion of regular resources allocated to LDCs has increased from 45.8 per cent in 1998 to 54.3 per cent in 2003. However, the target of allocating 60 per cent of all regular resources for LDCs requires some additional time. Part of the reason for the slower progress in increasing higher allocations to LDCs relates to the fact that several LDCs have made good progress in reducing their U5MR, which commands a high weightage in the modified allocation system. However, it is expected that the target of 60 per cent of regular resources being allocated to LDCs will be reached within the next two years.

17. Five new individual country programmes were established between 2001 and 2003. This required separate allocations to each of these five countries, with each currently receiving the basic allocation of \$600,000 per year, plus any additional amount resulting from the application of the three criteria.

18. The secretariat updates the country databases annually with respect to the three criteria used in the modified system. The allocation of regular resources is then recalculated using those figures and the estimated available amount of regular resources for programmes. Revised annual allocations are then made; the changes do not exceed 10 per cent of the previous year's allocation, taking into the Board's provision to avoid disruptions in ongoing country programmes.

19. The minimum allocation of \$600,000 for each individual country programme has been used exclusively for core programming. As required, this amount has been maintained through the implementation period. Additionally, the support budget

costs for individual country programmes are covered from other regular resources. This provision of the modified system enables UNICEF to apply at least a minimum of core resources in a significant number of countries.

20. The modified system is also responsive to the rights-based approach as core initiatives at the country level include strategic support for improvement of national efforts in monitoring the situation of children and women. The resultant findings are used to strengthen national capacities to improve the designs of policies and programmes for children and women that relate to realizing the provisions of the Convention on the Rights of the Child and the targets of the Millennium Development Goals. Furthermore, this provision strengthens the capacity of UNICEF to fulfil its role as the world's lead agency for children, especially with respect to providing support to Member States in their efforts to keep the commitments set forth in the Declaration and Plan of Action of *A World Fit for Children*.

21. Since 1999, the Executive Director has also reported in her annual reports on utilization of the 7 per cent set-aside for flexibility, whose aims and results include:

(a) Encouraging excellence in performance in a number of programme initiatives, including those related to innovations in programme policy, design and implementation on a variety of topics pertinent to each country programme (e.g. rural sanitation and arsenic mitigation in south-east and south Asia);

(b) Responding to emerging opportunities to benefit children, including the introduction of new programming approaches to fulfil the rights of orphaned and vulnerable children, especially due to AIDS, in southern Africa, and other HIV/AIDS-related initiatives;

(c) Cushioning the impact of shortfalls in the estimates of regular resources available for country programmes. A major priority has been to strengthen support for National Immunization Days devoted to polio eradication and other important immunization-related initiatives;

(d) Reducing imbalances between regular resources and supplementary funds for Executive Board-approved country programmes, especially giving priority to low-income countries, in particular to LDCs (for example, in girls' education);

(e) Avoiding sudden changes in the level of regular resources allocations to individual countries resulting from the implementation of the modified system. This has been handled principally by moderating the decrease in allocation of regular resources per annum per affected country.

22. The countries covered by the three multi-country programmes have continued to receive a combined lump sum sufficient for viable and effective programme interventions. UNICEF also continues to provide assistance for Palestinian children and women in Jordan, Lebanon, the Syrian Arab Republic and the Occupied Palestinian Territory.

23. The Executive Director has undertaken to closely monitor and evaluate the implementation and impact on the situation of children in 10 countries reaching the combined threshold of GNI per capita of \$2,895 and U5MR of 30 per 1,000 live births. In so doing, UNICEF is reviewing the situation of 10 countries near or above the graduation level.

VI. Improving system implementation performance

24. Based on the experience of the past five years, the Executive Director is satisfied that the current criteria for allocation of regular resources to country programmes are consistent with the UNICEF mission and mandate. They are relatively simple, understandable, transparent, predictable and fair. She sees no need to change the basic criteria in the foreseeable future.

25. In pursuing achievement of the targets of the five MTSP priorities, the present modified system for allocation of regular resources is suitable for a results-based approach.

26. The annual allocation of the amount of \$600,000 as a minimum allocation for each UNICEF country programme is a "bare minimum" for core programming. The Executive Director believes that it is essential to continue to maintain this element of the modified system.

27. The target of 50 per cent of the allocation of regular resources to sub-Saharan African countries has been reached, and it is sustainable. Reaching and sustaining the target allocation of 60 per cent of regular resources for LDCs from the current level of 54.3 per cent should be attainable by 2005. The achievement of 50 per cent of the allocation of regular resources to sub-Saharan African countries is sustainable.

28. Over the course of implementation of the modified system, the value of the 7 per cent set-aside has proved itself, as reported by the Executive Director in her annual reports to the Executive Board. For example, use of the set-aside is helping to accelerate improvements in the quality of national policies and programming for children affected by HIV/AIDS. It has also provided timely and vital support to achievement of polio eradication and other initiatives related to immunization "plus". Consequently, the Executive Director believes that the 7 per cent set-aside from regular resources should be continued as an essential component of the modified system for allocation of regular resources.

29. In order to continue to avoid abrupt changes in country allocations, these should continue to be limited to a maximum of 10 per cent compared to the previous year's level.

30. Without changing the basic criteria and relative weights, the threshold figures used for calculating the weights of various components of the criteria will be updated at the beginning of each MTSP period. Thus, the threshold figures used at present for the highest and lowest U5MR and the lowest per capita GNI, and the cut-off point for low-income countries, will be updated in 2006.

VII. Draft recommendation

31. Based on the implementation plan and results of experience with the modified system for allocation of regular resources for programmes, the Executive Director *recommends* that the Executive Board adopt the following draft decision:

The Executive Board

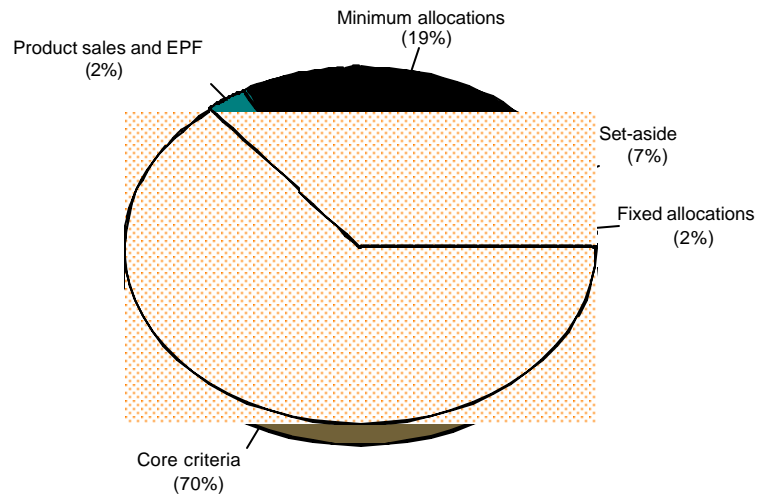
1. *Takes note* of the “Report on implementation of the modified system for allocation of regular resources for programmes”, as contained in document E/ICEF/2003/P/L.21;

2. *Decides* to maintain the modified system for allocation of regular resources for programmes as endorsed by the Executive Board in its decision 1997/18 (E/ICEF/1997/12/Rev.1);

3. *Requests* the Executive Director to continue to review the modified system for allocation of regular resources for programmes, especially in the context of the next medium-term strategic plan for 2006-2009, and to report back to the Board at its second regular session of 2007 on progress and developments in the implementation of the present decision.

Annex I

Allocation of regular resources available for programmes, 2003



Annex II

Allocation of the share of regular resources for programmes directly available for the country levels, by region and country groupings

	<i>Regular resources 1997 planning level (Percentage)</i>	<i>Modified system 2003 (Percentage)</i>
Share allocated directly to country level	95.4	93.0
Of which (by region) ^a		
Africa	37.3	49.5
Asia	40.1	32.6
Central and Eastern Europe, Commonwealth of Independent States and Baltic States	5.7	4.9
Americas and the Caribbean	9.5	6.2
Middle East and North Africa	7.4	6.8
Total	100.0	100.0
Of which (by country group)		
Least developed countries	45.8	54.3
Low-income countries	78.1	81.3
Countries with very high U5MR	34.1	43.6
Funds set aside for flexibility	4.6	7.0
Total	100.0	100.0

^a Allocations by region include the estimated value of net income derived from product sales and related operations (Private Sector Division) in developing countries, as well as their share of EPF.