

Board of Trustees

Fifty-Ninth Session

UNITAR/BT/59/FC/11/2

Finance Committee

Eleventh Session

26 November 2018

Geneva, Switzerland

REPORT OF THE ELEVENTH SESSION OF THE FINANCE COMMITTEE OF THE BOARD OF TRUSTEES

1. The Finance Committee convened on 26 November 2018 in Geneva.
2. The following members of the Committee and observers were present at the session:

Committee members:

Ms. Diana Chavez (Chair)
Mr. Valentin Zellweger

Ex Officio:

Mr. Nikhil Seth, Executive Director, UNITAR

Secretary of the Committee:

Mr. Brook Boyer, Secretary of the Board

Observers:

Ms. Marina I. Dinca Vasilescu, Head, Operations Unit, UNITAR
Mr. Joel Thalla, Chief, Finance and Budget Section, UNITAR
Mr. Samir Yeddes, Permanent Mission of Switzerland, Geneva

3. The Chair called the meeting to order and introduced the provisional agenda as circulated by the secretariat covering the items under finance and budget (item 7) of the provisional agenda of the Fifty-Ninth Session of the Board of Trustees. The Committee adopted the agenda as proposed.
4. Under item 7a, "Audited financial statements for the year-ended 2017 and Report of the Board of Auditors", the Chair referred to the item's annotation, the Financial Report and Audited

Financial Statements for the year ended 31 December 2017 under Annex 9 of the Board's documents.

5. The Executive Director drew the Committee's attention to the overall positive conclusion of the Board of Auditors and the report's unqualified opinion. He noted that the operating results yielded a net surplus of \$4.626 million, after adjusting for an actuarial loss of \$0.319 million as against a net deficit of \$ 0.172 million posted previous year, and that the reported net surplus of revenue over expense in 2017 is \$4.626 million (2016: deficit \$0.172 million). He reported that the surplus is attributed to the increase in voluntary contributions through multi-year agreements. He drew the Committee's attention to the fact that under the International Public Accounting Standards (IPSAS), revenue from non-exchange transactions can be recognized in one financial year and the related expenses recorded in another where agreements are signed late in the financial year and span over a multi-year period. The result of this accounted increased the net assets by \$4.307 million on IPSAS basis. Finally, the Executive Director reported that as at 31 December 2017, the liquidity position of UNITAR was stable and that Institute had sufficient liquid assets to settle its obligations. The key liquidity indicators showed improvements compared to situation at 31 December 2016 due to fewer current liabilities and higher current assets when compared to the previous year. He referred to the Board of Auditors' overall opinion that "the accompanying financial statements present fairly, in all material aspects, the financial position of UNITAR as at 31 December 2017 and its financial performance and cash flows for the year ended, in accordance with the International Public-Sector Accounting Standards."
6. The Executive Director reviewed the main recommendations from the external audit as contained under the item's annotation in the Board documents and made reference to the need for UNITAR to review its funding policy for after-service health insurance liabilities; to use up-to-date VAT exemption forms; and define criteria for the evaluation of consultants and to establish a roster linking performance to areas of expertise. Regarding the fourth recommendation, he noted that the Anti-Fraud and Anti-Corruption Policy was revised to include relevant paragraphs from the United Nations Secretariat policy and that corruption was included in the risk universe of the Institute's enterprise risk management system, and that an accompanying Enterprise Risk Management Policy was developed. He reported that the three outstanding recommendations as at 31 December 2016 were now implemented. **The Committee commended the Executive Director on the Institute's healthy financial state and recommended that the Board take note of the Report of the Board of Auditors, approve the Revised Anti-Fraud and Anti-Corruption Policy and the Enterprise Risk Management Policy, and request Management to report to the Board on the implementation of the policies at a subsequent session.**
7. Under item 7b, "Internal audit", the Chair referred to the Terms of Reference of the internal audit on human resources under Annex 12. On request, the Director for Operations briefed the Committee on the scope and preliminary findings of the audit and remarked that a final report was expected soon and would be placed before the Committee and Board at its Sixtieth Session in 2019. **The Committee took note of the audit's Terms of Reference.**
8. Under item 7c, "Report on the application of the cost recovery approach and update on the General Fund", the Chair recalled that Management approved the cost recovery formula which distinguishes between programme support costs (PSC) and direct service costs (which vary between 6 per cent for pass through funds and 11 per cent for projects managed by UNITAR). The Executive Director noted that the present cost recovery approach has been in place since its formal implementation on 1 July 2013. He noted that while the approved cost recovery rate is 18 per cent, the average rate applied during the 2016-2017 biennium was 14.58 per cent, leaving a cost recovery gap of \$1.325 million for the two-year cycle. He also noted that the non-earmarked contributions to the general operations of \$1.355 million in 2016 and \$0.265 million in 2017 defrayed the gap. He explained that some donor agreements are signed with DSC and PSC rated below 18 percent and particularly with the PSC rate below 7 per cent, and he noted that Board's approval of amendments to the cost recovery rates for GEF-funded projects, whereby a reduced DSC rate of 2 per cent was revised down from the \$1 million to \$500,000 in 2015 and 2016. He drew the Committee's attention to the list of exceptions granted for various projects for the period from 2016-2018 under annex 13. Referring to the proposed

revision to the Programme Budget for the Biennium 2018-2019, he informed the Committee that the cost recovery gap is expected to be \$816,508, taking into account the average cost recovery rate of 15 percent and the budgeted costs for the Executive Office, Operations, and Strategic Planning and Performance. With expected non-earmarked contributions to the General Fund estimated at \$504,355 and investment income of \$240,000, there would be a marginal deficit of \$72,153 which could be overcome with additional resource mobilization efforts.

9. On the status of the General Fund, the Executive Director explained that the Fund is used to meet the institute's general expenses and consists of cost recovery, in addition to non-earmarked contributions and investment revenue. He informed the Committee that due to the decreasing non-earmarked contributions from 2017 and the uncovered cost recovery gap, UNITAR has used its operational reserves to sustain general operation expenses, and that as of 30 September 2018, the operational reserve stood at \$1.7 million, equivalent to 4.86 months whereas the reserve should be between 9 and 12 months. The Executive Director did not express optimism on increasing non-earmarked contributions to the General Fund, despite appeals made to Members States. **The Committee took note and recommended that the Board take note of Management's report on the application of the cost recovery mechanism and the situation of the General Fund.**
10. Under item 7d, "Report of the Advisory Committee on Administrative and Budgetary Questions", the Chair noted that Management had presented the proposed Programme Budget for the Biennium 2018-2019 to the Advisory Committee on 29 October 2017 and that given the relationship item 7e, Proposed Revision to the Programme Budget for the Biennium 2018-2019, it would be of use to discuss the two items in tandem. The Executive Director mentioned that the hearing with the Advisory Committee, while useful, produced numerous questions and that it was apparent that the autonomous character of UNITAR and its business model was not fully understood.
11. The Executive Director referred to the report's conclusion that UNITAR was in a sound financial position, and that the Advisory Committee noted that despite the downward revision of the overall budget by \$1.78 million (3.1 per cent), the overall level of the revised budget would represent an increase of 8.2 per cent compared to the approved budget level for the biennium 2016-2017. The Advisory Committee also noted that the income and expenditures of UNITAR have been closely aligned in the past several biennia, except for the biennia 2004-2005 and 2014-2015, and that it noted the projected decrease in the level of unearmarked voluntary contributions, as well as the new approaches to pursue income mobilization and encourages UNITAR to continue its efforts to secure unearmarked voluntary contributions.
12. The Executive Director also reviewed the other observations and recommendations in the report, including Advisory Committee's reference to the General Assembly's principle of full cost recovery and the need to comply with existing cost recovery policies and rates when earmarked financial support is provided, UNITAR's efforts to develop partnerships with various sectors and the encouragement to further broaden and diversify the partnerships across all geographic regions, the recommendation to take measures to fill the vacant budgeted posts expeditiously, and undertake additional measures in support of the Secretary-General's system-wide strategy on gender parity and provide an update thereon in the next budget submission, and to develop in-house capacity and expertise to reduce the Institute's reliance on individual contractors and consultants.
13. The Advisory Committee requested updated information on UNITAR's funding of its After-Service Health Insurance liabilities will be provided in its next budget submission, as well as an update on partnerships, as well as updated information on exchange rate gains or losses to be included in UNITAR's future budget reports, even though the Advisory Committee considered UNITAR's currency risks to be low.
14. In response to a question on the Horizontal Learning Services (HLS) referred to in the report of the Advisory Committee and its absence in the organizational chart in the budget, the Executive Director referred to the closing of the Knowledge Systems Innovation (KSI) Programme Unit and that there needed to be thought given on how the Institute would take the work of KSI forward to promote learning methodologies, innovation and quality across UNITAR

programming, and that as rightly pointed out, HLS was not yet budgeted or presented in the organization chart given the gap in the General Fund. While noting the utility of the concept, he expressed reluctance to include the service in the budget until the need for such a service would become clear and the funding available, and he looked forward to a discussion with the Board on the importance of such a service. On a question related to the vacant posts in UNOSAT, the Executive Director mentioned that filling the posts was a budgetary question and filling the posts would be dependent on the donor contributions being made. The Chair expressed satisfaction that UNITAR would be working on the “how” and “when” Horizontal Learning Services could be operationalized. **The Committee recommended that the Board take note of its observations and the Report of the Advisory Committee on Administrative and Budgetary Questions.**

15. Under item 7e, “Proposed Revision to the Programme Budget for the Biennium 2018-2019”, the Chair noted that the proposed budget, attached as Annex 14 of the Board’s documents) amounts to \$55.56 million, which represents a decrease in \$1.78 million from the initial biennium budget adopted by the Board in 2017. The Executive Director noted that the budget revision continued to reflect the strategic repositioning of the Institute under the Peace, People, Planet and Prosperity pillars, in addition to the UNOSAT and multilateral diplomacy pillars. He indicated that despite the decrease, UNITAR remained on a growth path and that the reductions were due largely to several projects not materializing as planned or, in the case of the Pakistan Evidence and Learning Platform, the unplanned closure of the project. He noted that growth was very disparate, however, with some areas such as UNOSAT, the Peace and Planet pillars, Agenda 2030, multilateral diplomacy, but that some other areas, such as Public Finance and Trade, were unfortunately not performing well. Fortunately, the over performing areas outweighed the underperforming areas. He noted that the Knowledge Systems Innovation Programme Unit was being closed. Finally, from a results perspective, he noted that half of the results areas in the revised budget are related to Goal 16 (Peace, Justice and Inclusive Societies), and that UNITAR planned to reach over 70,000 over the course of the biennium, with 80 percent associated with learning outcome related programming. The Chair referred to The UNITAR We Want and the importance of being innovative and selective in programming. **The Committee recommended that the Board take note of its observations and adopt the Revision to the Programme Budget for the Biennium 2018-2019 as proposed.**
16. Under item 7f, “Update on the use of the revolving fund from the General Fund”, the Chair recalled that at its Fifty-Sixth Session (2015) the Board approved the establishment of a revolving fund of \$1 million to provide loans to programmes for cashflow support purposes to ensure programmatic activities are not interrupted by delays in donor fund transfers. The Executive Director indicated the fund at reached its limit and that additional loans were not possible at present. He noted that the fund proved to be a useful mechanism overall but that some issues, such as donor funding not materializing, proved to be constraining. He anticipated that over time Management would be able to make use of the revolving fund more effectively. Referring to the IPSAS accounting standards, the Chief of Finance and Budget cautioned that the auditors may test the recoverability of some of the loans given their age, and that this may require UNITAR to write off the amounts. Given the weakness of the General Fund, this may require UNITAR to set aside provisions from within the revolving fund, which would result in few funds available for loan purposes. **The Committee took note and recommended that the Board take note of the update on the use of the revolving fund from the General Fund.**
17. Under item 7g, “Update on the implementation of the Resource Mobilization Strategy”, the Chair recalled that Management provided an update on the strategy’s implementation at the Fifty-Eighth Session (2017), further to the Board’s request for annual updates. In addition to taking note of Table I of the item’s annotation and the progress made against some of the strategy’s indicators, the Chair referred to the item’s narrative on partnerships and resource mobilization and the need to re-think the Institute’s approach to resource mobilization and partnerships in general. Along these lines, the Chair noted the progress made in mobilizing income from the business sector, as presented in Table I, and Management’s proposed revision to its Policy Guidelines for Disbursement of Funds to Implementing Partners, as contained under annex 16.

18. The Executive Director reviewed the progress to date in some of the indicators, such as the increase in proportion of multi-year projects and the (financial) size of projects. He referred to the Board's discussion at its Fifty-Eighth Session on the suitability of some of the targets and that even if targets were not being met, they may represent the strategic direction that the Institute aims to pursue.
19. The Executive Director indicated that much progress was still needed in terms of reversing the decline of non-earmarked contributions to the General Fund. He noted the increase from 2.77% for the 2016-2017 cycle to 5% presently of income from the business sector and noted that it was largely attributed to business partners, e.g. Diageo, AB InBev and the Federation of Industries of Brazil and UniCaja Bank, contributing to the road safety initiative. On this point, he noted that there were many opportunities to develop partnerships with the business sector, including businesses seeking to develop awareness on the 2030 Agenda. Finally, he noted the reference in the annotation to the proposed revision to the Policy Guidelines for Disbursement of Funds to Implementing Partners (annex 16 of the Board's documents). Upon request, the Secretary of the Board, in his capacity as Director of the Division for Strategic Planning and Performance, recalled that the Board had approved the present set of policy guidelines in 2016, and that implementing partners were limited to government ministries; UN entities and other organizations; and non-governmental organizations, academic institutions, foundations, etc. He mentioned the desire to broaden the range of implementing partners and to engage in more meaningful strategic engagements with the business sector, and that including the business sector as an eligible implementing partner could bring benefits, particularly those business partners having technical capacities for projects. He mentioned that this would require approval by the Executive Director and that a due diligence exercise would need to be performed prior to selecting the partner and identifying the partner in project documents or donor agreements. He indicated that the present proposal for revisions to the guidelines foresaw a due diligence exercise for all implementing partners at the threshold of \$100,000, and that there were other proposed revisions, including the need for programmes to evaluate the performance of implementing partners in addition to existing narrative and/or financial reporting requirements. Finally, the Director indicated that the Management group was recently consulted on the proposed revisions and that no objections were received.
20. The Chair emphasized the importance of undertaking due diligence and that a strengthened UNITAR communication strategy was required to work effectively with the business sector, and that she anticipated that time would be available for discussion. In response to a comment on due diligence, the Director mentioned the exercise should not only apply to possible implementing partners from the business sector, but also other sectors. The Executive Director observed the need to undertake such exercises but that there would need to be a permissible level of risk, and that the Chair's experience with the Global Compact and the business sector would be of much benefit to UNITAR in defining the permissible level of risk. The Chair mentioned that the timing appeared to be quite opportune with the current discussions ongoing with the Global Compact. On partnerships in general, reference was made to the University of St. Gallen and its comprehensive programme on Sustainable Development Goals.
21. In response to question on charging overhead with implementing partners, the Chief of the Finance and Budget Unit indicated that full cost recovery would be taken given UNITAR's reporting, fiduciary responsibility and risk management over project funds. On questions related to partners with UN research and training institutes (RTIs) and the vacant post of Manager for the Partnership and Resource Mobilization Unit, the Executive Director indicated that post despite its importance has been maintained vacant due to the situation of the General Fund, and the Committee on Resource Mobilization has been used as an alternative. On partnerships with other UN RTIs, the Executive Director mentioned cooperation with UNRISD and UNIDIR. **The Committee recommended that the Board take note of its observations, the update on the implementation of the Resource Mobilization Strategy and approve the changes to the Policy Guidelines for Agreements with Financial Implications for the Disbursement of Funds to Implementing Partners.**
22. Under item 7h, "Establishment of a Strategic Framework Fund", the Chair recalled that the Board welcomed the UNITAR 2018-2021 Strategic Framework which provides the strategic direction for the Institute over four years and a blueprint for contributing to the implementation of the 2030 Agenda for Sustainable Development and other 2015 outcomes. The Chair also

recalled the Board welcoming the pledge from the State of Qatar to make a \$1.5 million contribution to UNITAR over three years and that the tranche of this contribution was made in 2018 and that in accordance with the contribution agreement, funds would be used to support the strategic framework at the discretion of the Executive Director. The Chair noted Management's proposal to establish the Strategic Framework Fund, which would provide an opportunity to mobilize support towards the Framework's implementation covering both strategic objectives and the strategic enablers, and that the Fund would provide increased leverage and flexibility for UNITAR.

23. The Executive Director referred to the ways in which UNITAR receives contributions, either for programmatic purposes for which funds are tightly earmarked for specific activities (i.e. special purpose grants, or SPGs), or that the funds are non-earmarked for the General Fund. He indicated that there needed to be mechanisms between tightly earmarked SPGs and non-earmarked funds, and that the proposed establishment of the Strategic Framework Fund would provide such a mechanism. Referring to the contribution from the State of Qatar, the Executive Director listed the activities and projects that the Qatari funds have supported, and that this approach towards softly or loosely earmarking funds appears to be a promising. He referred to a recent mission to Stockholm and Sweden's intention to contribute to the Fund through the Swedish International Development Agency in the second quarter of 2019. The Committee reacted positively to the initiative, and the Executive Director noted the prospects that other donors may also be contributing to the Fund. **The Committee took note and recommended that the Board approve the establishment of the Strategic Framework Fund and the Fund's Governing Principles.**
24. Under item 7i, "Update on the implementation of the UNITAR Investment Management and Review Strategy", the Chair recalled Management's update on the strategy at the Fifty-Eighth Session and asked the Executive Director to update the Committee. The Executive Director reported that investment revenues had improved when compare to previous years, and that the investments amounted to \$177,000 in 2017 with an average return of 1.33 per cent, as opposed to \$114,000 at 0.95 per cent in 2016. **The Committee took note and recommended that the Board take note of the update of the UNITAR Investment Management and Review Strategy.**
25. Under "Any other business", the Chair opened the floor to any additional matters. There were none.
26. The Committee adjourned.