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A. Introduction

1. The Executive Director presents in this report a summary of the financial situation of the United Nations Population Fund (UNFPA) for the year ended 31 December 2000.
2. The financial items in this report have been presented in accordance with recommendations by the United Nations Board of Auditors (A/53/217) as well as with Executive Board decision 97/6 on the harmonization of the budgets of UNDP, UNICEF and UNFPA. The information provided in table 1 is consistent with the current presentation of UNFPA financial statements for the year ended 31 December 2000.

B. Overview

3. As shown in table 1, "Income and expenditure for the year ended 31 December 2000", income to UNFPA from all sources totalled \$410.8 million (1999: \$325.6 million). This is made up of \$260.7 million of Regular Funds and \$150.1 million from Other Funds. Expenditure totalled \$211.0 million for Regular Funds and \$66.8 million for Other Funds. Together with fund transfers of \$3.5 million to Regular Funds and \$8.0 million from Other Funds this resulted in a net surplus of \$53.2 million to Regular Funds and of \$75.3 million to Other Funds. As discussed in more detail below, of the \$53.2 million surplus in Regular Funds, \$28.0 million was required to replenish the operational reserve, and the remaining \$25.2 million will be fully utilized in programme expenditures in 2001. The surplus of \$75.3 million in Other Funds relates mostly to trust-fund projects intended to last for more than one year.

C. Income to Regular Funds

4. Government contributions to Regular Funds in 2000 were \$254.6 million. This represents an increase of \$9.4 million, or 4 per cent, over the previous year's total of \$245.1 million. As shown in table 3, increases in contributions in local currencies in 2000 would have totalled \$32.6 million had it not been for negative variances in foreign exchange rates of \$23.2 million, due to the strengthening of the United States dollar between 1999 and the end of 2000.
5. Of the 15 government donors giving \$1 million or more in 2000, 9 increased their contributions in terms of local currency, 5 maintained their 1999 level and only 1 reduced its contribution. The one reduction was equivalent to \$12.3 million, reflecting a similar cut in percentage terms in that donor's total overseas development assistance budget. The Netherlands, Sweden and Belgium made substantial increases in their contributions, with the largest increase coming from the Netherlands, of NLG 35.5 million, or \$7.8 million. The United States of America returned as a donor in 2000 after a one-year hiatus.
6. As figure 1 shows, the increase in donor contributions in 2000 reversed the downward trend that had begun in 1996 and continued through 1999. However, the Regular Fund income

(including interest and other income) of \$260.7 million for 2000 is still well below the level of \$312.6 million received in 1995, the highest level ever reached by UNFPA.

7. The number of Governments contributing \$1 million or more to Regular Funds rose from 14 in 1999 to 15 during 2000. A new donor to Regular Funds in 2000 was the Mars Trust, which contributed \$2 million¹. This is a welcome broadening of UNFPA's donor base and brings to 16 the total number of contributors of \$1 million or more.

8. The target for pledges for the year of 100 donors was met in 2000. As shown in table 4, this included a number of Governments that pledged for more than one year, in line with the aims of the multi-year funding framework (MYFF): the Netherlands, \$99.4 million for 2001 and 2002; the United Kingdom, \$48.5 million for 2001 and 2002; Sweden, \$30.4 million for 2001 and 2002; and Switzerland, \$7.0 million, and the United States of America, \$25 million, both for 2001. These pledges were made before the year-end. Multi-year pledges give UNFPA a greater degree of financial security for the medium term, which is essential for effective and reliable programme planning.

D. Status of reserves and unspent Regular Funds

9. Table 7 shows the status of the operational reserve, the Reserve for Field Accommodation, and unspent funds for the period 1991 to 2000. The operational reserve, as mandated by the Governing Council in decision 91/36, is set at 20 per cent of Regular Fund income shown in the budget for that year. The operational reserve is considered necessary to provide a sufficient level of working capital.

10. The Reserve for Field Accommodation was created by the Governing Council in decision 91/36 for financing the Fund's share of construction costs of common field office premises with other United Nations organizations. As outlined in paragraphs 35 and 36 of document DP/FPA/1999/11 and as noted in Executive Board decision 99/21, this reserve is being used in the current biennium to cover the Fund's share of costs associated with the United Nations House programme.

11. Unspent funds are the balance of Regular Funds in excess of the operational reserve and Reserve for Field Accommodation. When such funds exist, they are fully utilized for programme expenditure in the following year.

12. As shown in table 7, in the years 1997, 1998 and 1999, UNFPA had deficits for the year of \$14.3 million, \$24.2 million, and \$26.7 million, respectively. As a result, by the end of 1999, the operational reserve was less than half of the required level and thus had to be replenished in

¹ The Mars Trust contribution is contained within \$2.6 million of "Other income" to Regular Funds, in keeping with the UNFPA Financial Statements. See table 1, "Income and expenditure for the year ended 31 December 2000".

2000. This meant that UNFPA had to reduce expenditure levels even though income had increased in 2000.

E. Expenditure from Regular Funds

13. As a result of deficits in previous years, UNFPA revised its country ceilings (or budgets) downwards in the middle of 2000 and took other steps to reduce expenditure, including temporarily freezing recruitment to new and vacant posts. As table 1 shows, while income rose by 4 per cent from 1999 to 2000, total expenditure fell by 24 per cent during the same period, from \$276.1 million to \$211.0 million, as a result of the cost-reduction exercise.

14. The net effect was to produce a surplus of income over expenditure for 2000 of \$53.2 million (see table 7). Of this surplus, \$28.0 million was transferred to the operational reserve, which had been set at \$52.0 million as at 31 December 2000 (being 20 per cent of that year's income). The transfer of \$28.0 million restored the reserve to a fully funded position for the first time since 1997. The remaining unspent funds of \$25.2 million will be fully expended in 2001.

15. Funds available for Programme Expenditure are considerably higher in 2001. This is due firstly to these unspent funds of \$25.2 million carried forward from 2000, and secondly to an income estimate for 2001 that is \$10 million higher than that received in 2000. Total funds available for programmes in 2001 are \$211.0 million, as compared to \$149.8 million spent in 2000.

16. Figure 4 shows project expenditure of Regular Funds by executing agency. While the total level of expenditure has fallen since 1999, the distribution of resources among executing agencies is broadly similar to that of past years. In line with UNFPA's strategy for national capacity building, the amount spent on government-executed projects exceeded that spent on UNFPA execution, being \$49.0 million in 2000 compared to \$46.3 million in 1999 (see figure 3).

17. Expenditure by region was in line with the previous year, as shown in figure 6. Expenditure by country category, as set forth in decision 2000/19, is provided at the end of table 5. Figure 7 shows the proportion of project expenditure by country category for 1997-2000. The proportion spent on category A countries moved steadily closer to the lower end of the target share endorsed in decision 2000/19 (67-69 per cent), rising from 60.5 per cent in 1997 to 64.5 per cent in 1999 to 65.7 per cent in 2000. The proportion spent on category B countries also continued to move closer to the target share of 19 to 21 per cent, falling from 28.1 per cent in 1997 to 24.1 per cent in 1999 to 23.3 per cent in 2000. (The endorsed target share for category B countries in the resource allocation system approved in 1996 had been 22-24 per cent.) The proportion spent on category C, T and O countries also moved closer to the target shares endorsed in decision 2000/19 (7 to 9 per cent, 3 to 4 per cent, and 1.5 per cent, respectively).

F. Biennial support budget

18. The largest reductions in expenditure were in Regular Fund project expenditure. As shown in table 1, project expenditure fell \$56.5 million, or 30.7 per cent, from \$184.0 million in 1999 to \$127.5 million in 2000. This compares with far smaller reductions of \$2.5 million, or 12.5 per cent, in the Technical Advisory Programme (TAP); \$0.5 million, or 9.4 per cent, in administrative and operational support; and \$8.5 million, or 13.1 per cent, in the net biennial support budget. Consequently, the net biennial support budget as a percentage of total expenditure rose from 23.5 per cent in 1999 to 26.7 per cent in 2000 (see table 9, "Net biennial support budget as a percentage of Regular Fund income and expenditure, 1991 to 2000"). The biennial support budget as a percentage of Regular Fund income declined, however, from 26.0 per cent in 1999 to 21.6 per cent in 2000 due to the fact that Regular Fund income rose by \$10.9 million and the biennial support budget was reduced by \$8.5 million in the same period (see table 1).

19. The biennial support budget contains a higher level of fixed costs, such as salaries and rent, than project expenditure. Such fixed costs cannot easily be reduced by a temporary freeze on new expenditure. Therefore, as described above, the cost-reduction exercise had a greater effect on project expenditure than it did on the biennial support budget. This is illustrated in figure 5, which shows that the largest reduction in project expenditure, in absolute as well as percentage terms, was in equipment, which fell by \$17.1 million or 42.8 per cent.

20. Income to the biennial support budget consists of overheads charged to Regular and Other Fund projects, and fees charged for commodity procurement services. The increase from \$5.9 million in 1999 to \$10.5 million in 2000 is mostly due to the large increases in trust-fund project activity, as discussed below.

21. Table 10 shows an analysis of the biennial support budget by type of cost for 1999 and 2000. The breakdown for 2000 is broadly in line with the previous year as would be expected.

G. Other Funds

22. The fastest growing source of donor income continues to be to Other Funds. These funds rose by \$70.9 million, or 98.2 per cent, from \$72.2 million in 1999 to \$143.1 million in 2000 (see table 1). Other Funds are made up of several separate funds or groups of funds. These are shown in table 8. The main categories of Other Funds are described below.

23. The largest such funds are multi-bilateral funds. Contributions to these funds rose by \$60.1 million, or 193.2 per cent, from \$31.1 million in 1999 to \$91.2 million in 2000. The main reason for the increase was the contribution of \$40.8 million from the Netherlands to help maintain contraceptive supply in response to world shortages highlighted by UNFPA. The contribution was received towards the end of the year and consequently the majority of the balance was unspent as at 31 December 2000. This is the main reason for the increase in total

multi-bilateral trust funds from \$40.4 million at the end of 1999 to \$96.0 million by 31 December 2000.

24. Other trust funds are another type of fund in this category (see table 8). These are funds put in trust by UNFPA for specific purposes such as the Rafael M. Salas Lecture series and the Global Contraceptive Commodity Programme (GCCP), a fund used to supply contraceptives and other goods at short notice in emergency situations. Other trust funds totalled \$8.6 million at the end of 2000.

25. A further group of funds within Other Funds are reimbursable procurement funds. These are amounts received from Governments or other third parties with which UNFPA buys contraceptives and other goods on their behalf. Such procurement is usually done in conjunction with UNFPA programmes executed within that country. This enables Governments to take advantage of the favourable price and supply conditions available exclusively to UNFPA. UNFPA charges an overhead fee to those Governments. These fees amounted to \$1.3 million in 2000, and were added to UNFPA's Regular Funds for use in programmes in 2001.

26. Cost-sharing funds are the final major category within Other Funds. These funds consist of contributions from Governments to individual Regular Fund projects rather than to UNFPA Regular Funds in general. Whereas trust funds are used to finance projects that are separate and distinct from Regular Fund projects, cost-sharing projects are an extension of existing Regular Fund projects using an alternative source of funding. This source of income continued to grow, increasing by \$7.5 million, or 174.4 per cent, from \$4.3 million in 1999 to \$11.8 million in 2000.

H. Assets and liabilities

27. Total net assets grew by \$128.5 million in the year due to the surplus of \$53.2 million of Regular Funds and that of \$75.3 million of Other Funds (see table 1). As table 2 shows, this is mostly reflected by an increase in cash and investments. Other assets and liabilities are little changed.

28. Cash balances are held by UNDP on behalf of UNFPA. These funds are invested in United States dollar, high-interest, bid deposit accounts. Interest is credited back to individual funds.

I. Conclusion

29. In 2000, UNFPA experienced increases to its Regular Fund income and larger increases to Other Funds. This enabled the Fund to make a major improvement to its liquidity position and to return the operational reserve back to a fully funded position for the first time in three years. UNFPA entered 2001 in a stronger financial position and better placed to further strengthen and extend its programme activities.

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