



**Executive Board of the
United Nations Development
Programme and of the
United Nations Population Fund**

Distr.: General
22 November 2004

Original: English

First regular session 2005

20–28 January 2005, New York
Item 12 of the provisional agenda
Resource allocation system

UNITED NATIONS POPULATION FUND

REVIEW OF THE SYSTEM FOR THE ALLOCATION OF UNFPA RESOURCES TO COUNTRY PROGRAMMES

Report of the Executive Director

Summary

This report has been prepared in response to Executive Board decision 2000/19. As requested by the Board, UNFPA undertook a quinquennial review of the system for resource allocation in consultation with members of the Board. The guidance provided was utilized to update the system and is reflected in the present report.

Section I of the report provides an overview of the Fund's resource allocation system. Section II reviews the experience with the current system, including trends in expenditures by country categories during 1996–2003. Section III focuses on the elements for updating the current system, including basic principles; mainstreaming of countries with economies in transition; synchronization of the resource allocation system cycle with the multi-year funding framework (MYFF) cycle; harmonization of the system's indicators with the Millennium Development Goals (MDGs) and MYFF indicators; and a revision of the threshold levels of the resource allocation system indicators.

Section IV of the report presents the proposals for updating the resource allocation system, including simplified definitions and a revised classification of the categories of countries. Also presented in section IV are the relative shares of country programme resources by country categories. Elements for a possible decision by the Executive Board are included in the final section of the report.

The annexes list the indicators used in the resource allocation system; the sources of data for the indicators; and the classification of countries resulting from the 2005 review of the resource allocation system.

CONTENTS

| | <u>Page</u> |
|---|-------------|
| Introduction..... | 3 |
| I. OVERVIEW OF THE RESOURCE ALLOCATION SYSTEM..... | 3 |
| II. REVIEW OF EXPERIENCE WITH THE CURRENT SYSTEM..... | 4 |
| III. ELEMENTS FOR UPDATING THE CURRENT SYSTEM..... | 6 |
| IV. UPDATED RESOURCE ALLOCATION SYSTEM | 11 |
| V. ELEMENTS FOR A DECISION | 13 |
| ANNEXES..... | 15 |

Introduction

1. The present report has been prepared in response to Executive Board decision 2000/19, paragraph 11, in which the Board requested the Executive Director to undertake a further quinquennial review of the system for resource allocation and to report to the Board in 2005. As requested by the Board, the present review includes an assessment of the indicators and their threshold levels, as well as of definitions of categories of countries and relative shares of UNFPA resources to be provided to programme countries. As part of the review process, three informal consultations were held with members of the Executive Board. Guidance provided by the Board members was utilized to update the resource allocation system and is reflected in this report.

2. The current UNFPA resource allocation system, approved by the Executive Board in 1996 (see decision 96/15), was reviewed and updated in 2000 (see decision 2000/19). The Fund's resource allocation system basically allocates shares of country programme resources to groups of countries based on how far they are from reaching the goals of the International Conference on Population and Development (ICPD) and ICPD+5 targets. The resource allocation system has enabled the Fund to focus its limited resources in countries that have the greatest need to address priority issues in the areas of population, reproductive health and gender.

3. Section I of the present report provides an overview of the evolution of the resource allocation system. Section II presents a review of the experience with the current system. It assesses the system in the contexts of the millennium development goals (MDGs), ICPD+5 targets, and ICPD goals and outlines the 2004–2007 multi-year funding framework (MYFF) as an overarching framework for UNFPA programmes and resource allocation. Also highlighted in section II is the performance of countries in achieving ICPD goals and targets, as well as the findings of the UNFPA review of the implementation of the ICPD Programme of Action during 1994–2004. In addition, section II examines the progress made in implementing the current resource allocation system in terms of expenditures by country group during the period 2001–2003, and based on that identifies the elements of the system that require updating.

4. In section III of the report, proposals for updating the current system are outlined, including a presentation of the basic principles of resource allocation; simplification of the system by mainstreaming the countries with economies in transition into the country categories; harmonization of indicators in the current resource allocation system with the MDG and the 2004–2007 MYFF indicators, as well as a revision of the threshold levels of indicators; and a simplification of the definitions of country categories.

5. Section IV recapitulates the policy proposals underpinning the updating of the resource allocation system and presents the outcomes of the proposed revisions in terms of a revised distribution of countries by categories, as well as the proposed shares of resources to different categories. This section also provides an overview of the factors that will be taken into account in distributing resources to individual countries within specific categories.

6. Finally, elements for a possible decision by the Executive Board are presented in section V of the present report.

I. OVERVIEW OF THE RESOURCE ALLOCATION SYSTEM

7. A dynamic system for resource allocation should remain relevant to the substantive priorities and policy perspectives of its time. The Fund has always respected this principle in its resource allocation

systems since 1977 and has, with the approval of its governing bodies, periodically reviewed and revised those systems. UNFPA provides assistance to all developing countries that request it. While maintaining this principle of universality, the Fund has been providing assistance to countries based on its system for resource allocation. The pre-ICPD system identified UNFPA priority countries for population assistance on the basis of a number of demographic indicators and the level of per capita income. The system was regularly reviewed and periodically revised and/or updated by the Executive Board (or by the Governing Council prior to 1994). After the ICPD, a new system, based on the analytical principle that countries that are the farthest away from achieving ICPD goals in the areas of reproductive health, mortality reduction and gender equality in education should receive priority assistance from UNFPA, was approved by the Executive Board in 1996 (see DP/FPA/1996/15, for further details). The current system, which is an update of the 1996 system, was approved in 2000 (see DP/FPA/2000/14 and decision 2000/19).

8. The current system, which is based on a set of eight indicators and their thresholds – births with skilled health attendants; contraceptive prevalence rate for all methods; proportion of population aged 15–24 living with HIV/AIDS; adolescent fertility rate; infant mortality rate; maternal mortality ratio; adult female literacy rate; and secondary net enrolment ratio – is consistent with the indicators that were selected in the context of the 2000-2003 MYFF (see DP/FPA/2000/6) and reflects the Fund's organizational goals as well as ICPD+5 targets. Countries are classified into A, B, and C categories or groups based on their attained threshold levels for the eight indicators.

9. The categories of countries are defined as follows: (a) any developing country that meets the threshold levels of 0-4 indicators and has an annual per capita gross national product (GNP) of less than \$900 is included in Group A. All least developed countries (LDCs) are automatically included in Group A; (b) developing countries that meet the threshold levels for 5-6 indicators or those that meet only 0-4 indicators but have a GNP per capita of greater than or equal to \$900, are categorized as Group B countries; and (c) developing countries that have met threshold levels for 7-8 indicators are categorized as Group C countries. Additionally, Group T, comprising countries with economies in transition, and Group O (other countries) are also included in the resource allocation system. Approximately 67-69 per cent of UNFPA country programme resources are approved for Group A countries; 19-21 per cent for Group B countries; 7-9 per cent for Group C countries; 3-4 per cent for countries with economies in transition (Group T); and 1.5 per cent for other countries (Group O).

II. REVIEW OF EXPERIENCE WITH THE CURRENT SYSTEM

A. Resource allocation system and ICPD, ICPD+5 and MDGs

10. The ICPD Programme of Action adopted in 1994 was a watershed in both the rationale for and substance of the UNFPA resource allocation system. In line with the ICPD Programme of Action, the new system of resource allocation devised in 1996 was a major departure from the past systems in that it linked up the indicators used in the categorization of priority status of countries with the Executive Board-approved programme priorities of the Fund, emanating from the ICPD agenda. Similarly, the ICPD+5 review of the Programme of Action was decisive in setting time-bound targets to be achieved with respect to the goals of ICPD, as well as in recognizing the serious nature and consequence of the growing HIV/AIDS epidemic. As a result, the 2000 revision of the 1996 resource allocation system incorporated new indicators to reflect these developments.

11. The MDGs have given new meaning to international development cooperation, with a central focus on eradication of extreme poverty and hunger. The eight interdependent MDGs are closely related to and in

some cases parallel the ICPD goals and ICPD+5 targets. It is important to point out that attainment of the ICPD goals and ICPD+5 targets is crucial for achieving the MDGs. As delineated in a later section of the present report, a conscious effort has been made in the proposed revision of the resource allocation system to include many of the MDG indicators, as well as other indicators that are closely related to the MDGs. By so doing, the Fund's resource allocation system has been more directly aligned with the MDGs.

12. According to the Secretary-General's report (E/CN.9/2004/3) on the review and appraisal of the progress made during 1994–2004 in achieving the goals and objectives of the ICPD Programme of Action, there has been varying progress both among countries and among population groups within countries. The report, inter alia, notes that the world population reached 6.4 billion in 2004 and is growing more slowly than before. The decline in the population growth rate has been the result of a near universal reduction of fertility in the 1990s, particularly in developing countries; a decrease in the number of countries with high fertility (over 5 children per woman); and an increase in the number of countries with below-replacement fertility. While global life expectancy has increased, progress is not uniform and many countries have witnessed stagnation in life expectancy gains, if not an actual decline, mainly due to the re-emergence of certain diseases and the growing HIV/AIDS epidemic. Most sub-Saharan African countries, for example, are lagging behind in achieving the ICPD goal of reducing infant, child and maternal mortality.

13. Many countries have established reproductive health programmes, enabling a rise in modern contraceptive use among couples, indicating greater access to family planning. While use of modern methods is around 54 per cent in developing countries, many births in those countries are still unwanted or mistimed, and modern family planning methods remain unavailable to large numbers of couples. Unmet needs for family planning remain a major concern in many countries. Adolescent reproductive health behaviour is becoming an emerging global concern. The HIV/AIDS crisis threatens development and the social and economic progress made in the previous decades, and has worsened the mortality and morbidity situation in at least 53 of the most affected countries.

14. A review of countries' progress and constraints in implementing the ICPD Programme of Action, undertaken by UNFPA through a global survey and reported in the publication entitled *Investing in People: National Progress in Implementing the ICPD Programme of Action, 1994–2004*, shows similar findings. The review also indicates that countries are increasingly recognizing that the attainment of ICPD goals is critical to achieving the MDGs, and that much benefit can be realized by coordinating efforts to achieve the two sets of goals.

B. MYFF as an overarching framework for UNFPA operations

15. Increasingly, UNFPA performance is measured against the Fund's overall contribution to the achievement of development goals, notably those set out in the ICPD Programme of Action, the ICPD+5 key actions, and more recently, the MDGs. The MYFF is the UNFPA medium-term strategic plan and aims to strengthen the Fund's contribution to the implementation of the ICPD Programme of Action in the context of poverty reduction. The MYFF seeks to enhance organizational effectiveness in achieving development results. The 2004–2007 MYFF (DP/FPA/2004/4) is based on the strategic direction that came out of the Fund's transition process.

16. The strategic results framework of the 2004–2007 MYFF clearly demonstrates the organic interrelationships of the Fund's programme focus with ICPD goals, ICPD+5 targets and the MDGs. Given the significance of the strategic results framework for the Fund's resource allocation system, many

of the MYFF indicators have been proposed for the classification of priority status of countries, as delineated in section III.

C. Trends in expenditures by country categories, 1996-2003

17. The current UNFPA resource allocation system has enabled the Fund to gradually shift its country programme resources in line with decisions 1996/15 and 2000/19, thereby increasing the share of resources to countries with the highest priority in terms of need. To help assess the implementation of the system, data have been presented in table 1 for two time periods 1996–2000 (the period covered by the original approval) and 2001–2003 (the period subsequent to the first revision of the system). It is clear from the table that Group A countries have received an increasing share of resources, as mandated by the Executive Board, rising from 62 per cent during 1996–2000 to 67 per cent during 2001–2003, as compared to 56 per cent in 1995. The shares of resources currently provided to Group A, Group B and Group C countries are within the target ranges approved by the Board in decision 2000/19.

Table 1: Trend in share of country programme annual expenditure by priority group, 1996-2000 and 2001-2003

| Group (as of 2000) | Average annual expenditures, 1996–2000 | | Average annual expenditures, 2001–2003 | | Targets |
|-----------------------|---|-----|---|-----|---------|
| | \$ millions | % | \$ millions | % | % |
| A | 97 | 62 | 102 | 67 | 67–69 |
| B | 37 | 24 | 29 | 19 | 19–21 |
| C | 13 | 8 | 13 | 9 | 7–9 |
| Total* | 158 | 100 | 153 | 100 | 100 |

* Includes amounts for Groups “T” and “O” not reflected in this table.

18. The performance of the system would have been even more pronounced had it not been for the fact that during the last decade UNFPA resources have not kept pace with either the growing needs of developing countries or with the projected levels in required resources for the Fund. On account of the resource shortfalls, especially during 1998–2002, the average annual expenditures for country programmes have successively declined from around \$184 million in 1995 to \$158 million during 1996–2000, and finally to \$153 million during 2001–2003. The Fund's recent trends in core resources are encouraging. Increased core resources are necessary to address the growing needs of and build capacities in Group A countries and, at the same time, to address the priority needs of other countries. The increase in resources for Group A countries, in spite of a general decline in resources, is a clear manifestation of the Fund's commitment to focus its limited resources in high priority countries. The Fund has taken a number of steps to ensure that all new country programmes designed during the past four years have paid special attention to absorptive capacity issues. However, further efforts to help build absorptive capacities in the poorest countries were constrained by resource shortfalls.

III. ELEMENTS FOR UPDATING THE CURRENT SYSTEM

A. Basic principles of the resource allocation system

19. The implementation of the resource allocation system has largely been made possible by certain basic principles governing the system. Those principles remain valid and are recapitulated below:

-
- (a) Adherence to the basic principles of the ICPD Programme of Action;
 - (b) Technical assistance provided by the Fund to all developing countries requesting it (universality);
 - (c) Financial assistance focused on countries with the lowest level of achievement with regard to the ICPD goals related to access to reproductive health and family planning services; levels of infant and maternal mortality; and access to education by girls and women;
 - (d) Financial assistance phased out or limited in scope and amount to countries that are close to or have already surpassed the ICPD goals;
 - (e) Special attention paid to low-income countries, the least developed countries and sub-Saharan Africa;
 - (f) Temporary assistance provided to countries with economies in transition, particularly for family planning and reproductive health;
 - (g) South-South cooperation promoted.

20. The review of experience with the system during the last four years and of other major developments occurring during the same period, indicates that the following elements would require further refining: mainstreaming of countries with economies in transition into the A, B, C and O groups; synchronization of the resource allocation system cycle with the MYFF cycle; harmonization of resource allocation system indicators with MDG and 2004–2007 MYFF indicators; and further simplification of the definitions of categories of countries. These key issues are discussed below.

B. Mainstreaming of T countries

21. In both the original resource allocation system of 1996 and in the 2000 updated system, countries with economies in transition (T) were classified into a distinct group and, with the approval of the Executive Board, resource shares for them were included in the resource allocation system. The availability of population and reproductive health data, as well as per capita income data for these countries has improved over the past several years, permitting the possibility of classifying those countries into the different priority groups. More importantly, most of the T countries continue to face serious issues related to operationalization of a rights-based approach to reproductive health care; high prevalence of HIV/AIDS; inadequate family planning services and limited availability of modern contraceptives; incidence of teenage pregnancies and human trafficking, and low quality access to reproductive health services, especially for women. The need for the Fund's continued technical assistance and, to a limited extent, financial assistance is evident. It should be noted that, other United Nations funds and programmes do not treat these countries as a separate group in their resource allocation systems. The concept of temporary assistance to these countries does not seem relevant any longer. Accordingly, UNFPA recommends that the transition countries be mainstreamed into A, B, C and O groups of countries, based on their individual levels of achievement with respect to the resource allocation system indicators.

C. Synchronization of the resource allocation system cycle with the MYFF cycle

22. The significance of the MYFF for resource allocation was underscored in the previous section. Synchronizing the cycles of the MYFF and the resource allocation system is envisaged to enhance the complementarities between these two key strategic tools -- one focusing on results to be achieved and resources required, and the other on a system for resource allocation. UNFPA also plans to harmonize the biennial support budget with the next MYFF through a stronger focus on results to reflect the recommendations of the Executive Board, the Advisory Committee on Administrative and Budgetary Questions and the auditors.

The Fund's 2004–2007 MYFF is on a four-year cycle, while the current resource allocation system covering 2001–2005 is on a five-year cycle. Since UNFPA intends to integrate its planning, funding and budget tools during a future cycle, it is recommended that the proposed system for resource allocation be approved, effective January 2005, with the proviso that UNFPA will review the resource allocation system in late 2007, and suggest amendments as required to help move towards any forthcoming integration of the above-mentioned tools.

D. Harmonization of the resource allocation system indicators with MDG and MYFF indicators

23. As pointed out earlier, the resource allocation system in 1996 was influenced by the ICPD goals and related indicators, while the targets and benchmarks adopted by the international community at the United Nations General Assembly special session on ICPD+5 shaped the resource allocation system revision in 2000. For the present review, the resource allocation system indicators were carefully examined with the intention of harmonizing them, to the extent possible, with the MDG targets and indicators. Since the adoption of the Millennium Declaration in 2000, the MDGs have become the central pillar of development cooperation itself and a common framework for United Nations system activities, especially at the country level.

24. The essence of the eight MDGs is the focus on poverty. In combination with the first goal pertaining to income poverty, the next five MDGs dealing with primary education, gender equality and women's empowerment, child mortality, maternal health and HIV/AIDS reflect collectively the multi-dimensional nature of poverty. Thus, they should form the main basis for any targeted action to reduce poverty. It should be noted that, despite the criticality of income poverty for targeted action, the absence of a time-bound, robust, internationally comparable indicator of income poverty for all the developing countries is a major handicap. For this reason, the inclusion of an explicit income poverty indicator in the resource allocation system has not been recommended at this stage. With the collective efforts being undertaken by the international community to collect data on the MDG poverty indicator, its inclusion in the resource allocation system at a later stage might be feasible. However, as will be seen in later sections below, the current update has explicitly included indicators that are directly related to all the substantive MDGs.

25. As stated in the introduction, a set of indicators related to access to reproductive health, to mortality reduction and to female education and gender disparity has always been used, along with per capita income, to define the A, B, and C categories of countries. The current review of indicators has been undertaken with two basic considerations in mind. First, to continue focusing on the ICPD goal areas of reproductive health, mortality reduction and gender equality in education; and second, to harmonize the indicators with respect to these three goal areas with the corresponding MYFF and MDG indicators. Using the indicators of the 2000 update as a reference, the following seven indicators are proposed:

- (a) Births with skilled health personnel attendance to be maintained, no change;
- (b) Contraceptive prevalence (only modern methods) to replace the current indicator of contraceptive prevalence rate for all methods;
- (c) HIV prevalence rate among 15–24 year olds to be maintained, no change;
- (d) Adolescent fertility rate to be maintained, as a proxy for teenage pregnancy, no change;
- (e) Under-five mortality rate to replace the infant mortality rate;
- (f) Maternal mortality ratio to be maintained, no change;
- (g) Literacy rate among 15–24 year old females to replace adult female literacy rate.

26. In sum, it is recommended that no changes be made with respect to four indicators in the current system, and that amendments be made to the other three indicators. The amendments are as follows:

(a) The contraceptive prevalence rate for all methods will be replaced by contraceptive prevalence for modern methods only. Given the growing availability of modern methods in many countries and the focus in UNFPA-supported programmes on reproductive health, the rate of modern contraceptive use will be more appropriate to statistically differentiate countries with regard to potential access to reproductive health services;

(b) The use of child mortality rate (under-five mortality rate) in place of infant mortality rate is recommended since the former not only includes the latter, but also reflects the mortality situation in ages 1–4. By using the under-five mortality rate, it will be possible to indirectly take into account discriminatory practices that adversely affect the girl child between the ages of 1–4, in a number of countries. Furthermore, the indicator is also a sensitive measure of socio-economic conditions.

(c) The adult female literacy rate is being replaced by literacy rate among females aged 15–24 for two reasons. First, in effectively addressing population, gender and reproductive health issues, a significant group that requires empowerment is adolescents, youth and young adults. The literacy rate of this group serves as a good indicator of their empowerment. Second, given the preponderance of older women's literacy levels in the overall adult female literacy rate, and recognizing that those levels do not generally change over time, the adult female literacy rate is not a sensitive indicator to detect cross-sectional changes in a society over shorter time periods. Thus, the female literacy rate among 15–24 year-olds is proposed as a more sensitive indicator.

27. It is recommended that the use of the indicator related to secondary net enrolment ratio be discontinued due to a lack of data availability, at regular time intervals, for all countries. In its place, UNFPA has explored the feasibility of including either an explicit income poverty indicator, or an indicator of income inequality or a proxy indicator of poverty. Despite serious exploring, it was not possible to find a reliable income poverty indicator for all developing countries, referring to a common time period and from a single international source. The situation is only marginally better in terms of the number of countries for which data on income inequality are available.

28. A statistical analysis by UNFPA indicates that the economic-demographic indicator of age dependency in a population (the number of young and old dependents per adult population in working age group) is a good predictor of income poverty. Recognizing the importance of including at least an indirect indicator related to poverty in the allocation system, and following the suggestion of the Executive Board members during recent informal consultations, UNFPA sought a gender-related indicator that could reflect both a gender dimension and poverty. It appears that a modified indicator of dependency ratio, defined as the number of young and old dependents per adult woman, would be a good choice. Given that in almost all societies the burden of caring and supporting both the young and the old falls mostly on adult women, this modified ratio is a good measure of the age dependency stress on women in a population. The measure is also reflective of the differential impact on women of HIV/AIDS, male-selective migration, and civil unrest and conflicts. Additionally, a correlation analysis shows that this measure is highly correlated with poverty in a population. It is therefore proposed that the eighth indicator in the updated resource allocation system, in addition to the seven listed in paragraph 25, could be this simple measure of gender burden.

29. The eight indicators to be used for the resource allocation system not only represent well the ICPD goals, ICPD+5 targets and the MDGs, but also collectively reflect the poverty situation in countries. The table included in annex I provides a comparative overview of the indicators used in the current system and the new ones for the 2005 update. The sources of data for the indicators are provided in annex II.

E. Revision of threshold levels of indicators

30. The analysis of progress made by countries in achieving the ICPD goals reported in an earlier section shows that progress has been uneven across countries and by programme areas. While there is some progress on access to reproductive health services, especially family planning and pregnancy care, the situation has not improved with regard to mortality and morbidity aspects for infants and mothers, as well as with respect to HIV/AIDS infection among young people.

31. Since 1996, some progress can be noted when examining the successive increases in the average percentage of thresholds met by countries in the resource allocation system: the average percentage increased from 43 per cent in 1996 to 49 per cent in 2000, and has remained around 50 per cent since then. This indicates that, overall, countries are clearly halfway towards achieving the ICPD and ICPD+5 targets. Given that consistent progress has not been achieved during the last several years in many countries, UNFPA proposes to keep the threshold levels at the same level as in 2000 for many of the indicators and for the rest has set levels based on ICPD+5 and MDG targets. The threshold levels for the eight indicators, which will be used in the future to define countries as meeting specific ICPD goals, are presented below in table 2.

Table 2: Proposed indicators and threshold levels, 2005 resource allocation system update

| Proposed indicator | Threshold level |
|---|----------------------------|
| 1. Proportion of births with skilled health personnel | 60 per cent or higher |
| 2. Contraceptive prevalence rate (modern methods only) | 25 per cent or higher |
| 3. Proportion of population aged 15–24 living with HIV/AIDS | 5 per cent or lower |
| 4. Adolescent fertility rate | 65 per thousand or lower |
| 5. Under-five mortality rate | 60 per thousand or lower |
| 6. Maternal mortality ratio | 100 per 100,000 or lower |
| 7. Literacy rate among 15–24 year old females | 80 per cent or higher |
| 8. Age dependency ratio of females | 1400 per thousand or lower |

32. The present review of indicators and their thresholds underscores, as did the earlier review, the importance of good quality, timely and comparable data on population, reproductive health and gender indicators. Without such data, it is extremely difficult to assess the progress made or to meaningfully adjust the threshold levels. The Fund emphasizes the need for the international community to pay urgent attention to improving the indicator situation, without which an evidence-based decision-making process cannot be fully implemented with respect to policy formulation, programme development and monitoring, as well as resource allocation.

33. The harmonization of the resource allocation system with the MDGs will strengthen the UNFPA contribution to poverty eradication and enhance the complementarities of efforts, national and international, in achieving both the ICPD goals and the MDGs. The level of development (gross national income, GNI, per capita) is critical for identifying the highest priority group (Group A) for UNFPA assistance, i.e., countries that are the farthest from achieving ICPD goals and the MDGs. However, there is a need to apply this income criterion with flexibility when identifying other groups of priority countries, i.e., those that have achieved considerable progress (Group B); and those that have achieved outstanding success in meeting the aforementioned goals (Group C). It should be noted that the B and C groups of countries, despite having relatively higher per capita income compared to the low-income countries, continue to face serious problems in addressing reproductive health issues, particularly with regard to women and adolescents, as well as gender concerns and HIV/AIDS. Given the focus on poverty in the UNFPA resource allocation system update through the use of the proposed indicators, it

would seem appropriate not to further distinguish countries by the level of GNI per capita in defining the B and C categories of countries. The level of achievement among them with respect to the ICPD goals and the MDG indicators would be sufficient. Accordingly, a simplification of the definitions of those categories is proposed.

IV. UPDATED RESOURCE ALLOCATION SYSTEM

34. The proposals for updating the resource allocation system are recapitulated below. Briefly stated, the updated system would:

- (a) Maintain the basic principles of the current resource allocation system, except with regard to the concept of temporary assistance to T countries;
- (b) Synchronize the MYFF cycle and the resource allocation system cycle;
- (c) Harmonize the resource allocation system indicators with the MDG and MYFF indicators;
- (d) Mainstream countries with economies in transition (T) into the A, B, C and O priority categories of countries;
- (e) Maintain certain indicators and their thresholds from the previous review and introduce a few new indicators and thresholds;
- (f) Simplify the definitions of priority categories of countries.

35. The proposed definitions of categories of countries are presented below.

A. Definitions of categories of countries

- **Group A.** Any country that meets the threshold levels of 0-4 indicators and has an annual per capita GNI of less than \$900 would be included in this category. All least developed countries would automatically be included in Group A. In other words, there is no change in the definition of this group.
- **Group B.** Countries that have met the threshold levels for 5-7 indicators, or countries that have met the thresholds for 0-4 indicators but whose per capita income is more than or equal to \$900 would be categorized as Group B countries.
- **Group C.** Countries that have met the threshold levels of all eight indicators would be categorized as Group C countries.

36. As in the past, a category for other countries (Group O) will be maintained. The group will include: (a) countries with a population totalling 150,000 or less for which no detailed data are available; (b) countries that have received very nominal assistance from UNFPA in the past; and (c) certain countries with economies in transition that would receive only transitional, limited and temporary assistance.

B. Revised distribution of categories of countries

37. The major outcome of the updated system is summarized in table 3 below. Of 164 countries included in the resource allocation system, changes in classification have resulted for 41 countries, with 21 countries of Group T moving to either Group B (10 countries), Group C (seven countries) or Group O (four countries); four countries progressing either from Group A to Group B (one country), or from Group B to Group C

(three countries); 16 countries moving either from Group B to Group A (two countries), from Group C to Group B (11 countries), from Group O to Group B (two countries) or from Group O to Group C (one country).

Table 3: 2005 Changes in Classification

| 2005 Classification | 2000 Classification | | | | | Total |
|---------------------|---------------------|----|----|----|----|-------|
| | A | B | C | O | T | |
| A | 61 | 2 | | | | 63 |
| B | 1 | 22 | 11 | 2 | 10 | 46 |
| C | | 3 | 9 | 1 | 7 | 20 |
| O | | | | 31 | 4 | 35 |
| Total | 62 | 27 | 20 | 34 | 21 | 164 |

38. A substantial increase in the number of B category countries has occurred (from 27 to 46). More than half of this change is attributable to mainstreaming 10 countries in T category and the balance is due to a combination of changing situations in countries with respect to ICPD and MDG indicators and to the proposed simplification of the definition of B and C categories. A wider range of countries are now represented in the B category, given that many middle-income countries need to address such serious issues as teenage pregnancy, the threat of HIV/AIDS, strengthening the rights-based approach to reproductive health, especially concerning women and adolescents, gender empowerment, and social and economic inequities. Furthermore, the definition of the C category is now more restrictive and includes only those countries that have met all the eight resource allocation system indicators, representing leaders in achieving the ICPD goals. While the number of countries in Group C has remained the same, the composition of the category has changed. The list of countries reflecting the different categories and geographic regions is provided in annex III.

39. By and large, the updated system achieves a good balance in incorporating the MDGs and ICPD goals in defining the priority groups and in differentially recognizing the needs of low-income and middle-income countries. The updated system represents a simplified and streamlined approach to resource allocation. Clearly, the central core of the system -- focusing the Fund's limited resources in the highest priority category A, recognizing the leader countries on ICPD goals (Group C) and addressing the highest-priority issues within the reproductive health and gender agenda of middle-income countries (Group B) -- will better enable UNFPA to assist countries in meeting the goals of ICPD, ICPD+5 and the MDGs.

C. Relative shares of country programme resources by categories

40. The vital part of the Fund's resource allocation system is its identification of country programme resource shares for the priority groups (A, B, C and O). From the beginning, the basic underpinning principle has been that the magnitude of the relative share for a given group should be directly proportional to the relative priority of that group. In other words, the largest share of resources would go to Group A, the smallest share to Group C and an intermediate share to Group B. It would also mean that the system provides the highest per capita assistance to Group A countries and the lowest per capita assistance to Group C countries. It is important to point out that the concept of mainstreaming T countries would mean that in the future those countries would be treated uniformly like all other countries in the system.

41. The current share of resources by group and the corresponding share in the proposed update are given below in table 4. In the last column of the table, a share of resources for Groups A, B, and C is proposed. These proposed shares are based on the distribution of countries by group, their population shares and past expenditure trends, as well as the principles enunciated in the above paragraph.

| | Current country classification ^{a/} | | | Updated country classification, 2005 | | |
|-------|--|-------------------------------------|--|--------------------------------------|-----------------------|----------------------------------|
| | Number of countries | Share of population ^{a/} % | Current resource share target (decision 2000/19) % | Number of countries | Share of population % | Proposed resource share target % |
| A | 62 | 46 | 67-69 | 63 | 42 | 69-71 |
| B | 27 | 19 | 19-21 | 46 | 21 | 21-24 |
| C | 20 | 35 | 7-9 | 20 | 37 | 6-8 |
| Total | 109 | 100 | 100 ^{b/} | 129 | 100 | 100 ^{c/} |

^{a/} As per table 5, document DP/FPA/2000/14.

^{b/} Current system includes 3-4% to countries with economies in transition ("T") and 1.5% to other countries ("O") not included in this table.

^{c/} Proposed system includes countries with economies in transition ("T") mainstreamed, with no specific resource target and less than 1 % to other countries ("O") not included in this table.

42. The Fund proposes that the resource share for Group A be increased slightly to address urgent needs and help support capacity-building, particularly in the least developed countries in Group A. Given the substantial increase in the number of countries in Group B, with a slight concomitant rise in the group's total population share, an increase in the resource share for group B has also been proposed. It should be mentioned that care has been taken to roughly maintain the per capita resource ratios for Group B and Group C countries at the same level as in the current system, to ensure a smooth transition in resource adjustments from the current to the updated system. Group O countries will collectively receive less than 1 per cent of the country programme resources. As was proposed and approved in 2000, it is once again proposed that countries in Group O be retained in the resource allocation system during the next cycle.

D. Criteria for distribution of resources to individual countries

43. As in the past, the actual needs and strategic priorities of individual countries will be paramount in defining individual country allocations. Among the other factors that would be taken into account will be measures related to population size of the country, the availability of external assistance from other donors, internal inequalities and disparities within countries, the level of life expectancy, the extent of achievement pertaining to ICPD goals and the MDGs, and other relevant qualitative aspects.

V. ELEMENTS FOR A DECISION

44. **The Executive Board may wish to:**

(a) Take note of the present report on the quinquennial review of the UNFPA system for the allocation of resources to country programmes (DP/FPA/2005/6);

(b) Approve the approach, effective January 2005, for resource allocation contained in the present report (DP/FPA/2005/6), including the mainstreaming of the countries with economies in transition, synchronizing the resource allocation system cycle with the MYFF cycle, and

amending the indicators and their threshold levels towards meeting the goals of the ICPD, ICPD+5 targets and the MDGs;

(c) Endorse the procedure for categorizing countries into Groups A, B and C as outlined in the present report;

(d) Approve the relative share of resources presented in table 4 of the present report (DP/FPA/2005/6);

(e) Request the Executive Director to undertake, as needed, a further review of the system for resource allocation in late 2007, in the context of any forthcoming integration of planning, funding and budget tools.

Annex I

Indicators used in the resource allocation system

| ICPD GOAL AREAS | INDICATORS | |
|--------------------------------|--|--|
| | Current system | 2005 Update (proposed)* |
| Access to reproductive health | <ul style="list-style-type: none"> • Births with skilled attendants • Contraceptive prevalence rate (all methods) • Proportion of population aged 15-24 living with HIV/AIDS • Adolescent fertility rate | <ul style="list-style-type: none"> • Births with skilled attendants (ICPD+5, MYFF, MDG) • Contraceptive prevalence rate (modern methods only) (ICPD, MDG) • Proportion of population aged 15-24 living with HIV/AIDS (ICPD+5) • Adolescent fertility rate (MYFF) |
| Mortality reduction | <ul style="list-style-type: none"> • Infant mortality rate • Maternal mortality ratio | <ul style="list-style-type: none"> • Under-five mortality rate (ICPD, MDG, MYFF) • Maternal mortality ratio (ICPD, MDG, MYFF) |
| Education and gender disparity | <ul style="list-style-type: none"> • Adult female literacy rate • Secondary net enrolment ratio | <ul style="list-style-type: none"> • Literacy rate among 15–24 year old females (ICPD+5, MYFF) • Age dependency ratio on females |

*Abbreviations in parentheses for 2005 indicate names of international and other instruments, endorsing the specific indicator.

Annex II
Indicators and sources for updated resource allocation system (2005)

| Indicator | Definition/Source |
|--|---|
| Births with skilled attendants | Proportion of births attended by skilled health personnel or skilled attendants: doctors (specialists or non-specialists) and/or persons with midwifery skills who can diagnose and manage obstetrical complications as well as normal deliveries. Source: MDG database based on data from UNICEF. Year: The latest available. |
| Contraceptive prevalence rate (modern methods) | Proportion of married women of reproductive age (aged 15-49) who are currently using a modern method of contraception. Modern methods include sterilisation, pills, injectables, IUDs, condoms, vaginal barriers methods and other modern methods. Source: United Nations Population Division. Year: The latest available. |
| Proportion of population aged 15-24 living with HIV/AIDS | Percentage of young people (aged 15-24) who test positive for HIV. Source: UNAIDS, Report on the Global HIV/AIDS Epidemic, 2002. Year: 2001. |
| Adolescent fertility rate | Annual number of births to women aged 15-19. Source: United Nations Population Division, World Population Prospect: The 2002 Revision, Medium variant. Year: 2000-2005. |
| Under-five mortality rate | Annual number of deaths to children under age five divided by the annual number of births, expressed per 1,000. Source: MDG database based on UNICEF data. Year: 2002. |
| Maternal mortality ratio | Annual number of maternal deaths divided by the annual number of live births, expressed per 100,000. Source: MDG database based on WHO/UNICEF/UNFPA data, 2003. Year: The latest available. |
| Literacy rate among 15-24 year old females | Percentage of females aged 15-24 who are literate. Source: MDG database based on data from UNESCO. Year: 2003. |
| Age dependency ratio on female adult population | Ratio of dependents to adult female population: the sum of total number of children under the age of fifteen and of total number of older persons aged 65 or more divided by the number of females in the age group 15-64, expressed per 1,000. The indicator has been computed using the distribution of population by age and sex. Source: United Nations Population Division, World Population Prospects: The 2002 Revision, Medium variant. Year: 2005. |
| GNI per capita | Gross national income (formerly Gross National Product) converted to U.S. dollars using the World Bank Atlas method, divided by the mid-year population. Source: World Development Indicators online from the World Bank. Year: 2003 or latest available. |

Annex III - Classification of countries: 2005 Review of the resource allocation system

| Group A: 0-4 criteria, GNI<\$900 (63 countries) | | Group B: 5-7 criteria or 0-4 criteria and GNI ≥\$900 (46 countries) | |
|--|---|--|--|
| <u><i>Africa</i></u> Angola Benin Burkina Faso Burundi Cameroon Cape Verde Central African Republic Chad Comoros Congo Congo, Democratic Republic Côte d'Ivoire Equatorial Guinea Eritrea Ethiopia Gambia Ghana Guinea Guinea-Bissau Kenya Lesotho Liberia Madagascar Malawi Mali Mauritania Mozambique Niger Nigeria Rwanda Sao Tome and Principe Senegal Sierra Leone | Tanzania, United Republic of Togo Uganda Zambia Zimbabwe <u><i>Arab States and Europe</i></u> Djibouti Occupied Palestinian Territory Somalia Sudan Yemen <u><i>Asia and the Pacific</i></u> Afghanistan Bangladesh Bhutan Cambodia India Kiribati Lao People's Democratic Republic Maldives Myanmar Nepal Pakistan Papua New Guinea Samoa Solomon Islands Timor-Leste Tuvalu Vanuatu <u><i>Latin America and the Caribbean</i></u> Bolivia Haiti Nicaragua | <u><i>Africa</i></u> Botswana Gabon Namibia South Africa Swaziland <u><i>Arab States and Europe</i></u> Albania (T) Algeria Armenia (T) Azerbaijan (T) Bosnia and Herzegovina (T) Egypt Georgia (T) Iraq Jordan Kazakhstan (T) Kyrgyz Republic (T) Lebanon Morocco Syrian Arab Republic Tajikistan (T) Tunisia Turkmenistan (T) Uzbekistan (T) <u><i>Asia and the Pacific</i></u> Indonesia Korea, Democratic Republic Mongolia Philippines Viet Nam | <u><i>Latin America and the Caribbean</i></u> Belize Brazil Colombia Costa Rica Dominican Republic Ecuador El Salvador Guatemala Guyana Honduras Jamaica Panama Paraguay Peru Suriname Trinidad and Tobago Uruguay Venezuela |
| Group C: 8 criteria (20 countries) | | Group O (35 countries) | |
| <u><i>Africa</i></u> Mauritius <u><i>Arab States and Europe</i></u> Belarus (T) Bulgaria (T) Moldova (T) Romania (T) Russian Federation (T) Serbia & Montenegro (T) Turkey Ukraine (T) <u><i>Asia and the Pacific</i></u> China Fiji Iran, Islamic Republic of Malaysia Sri Lanka Thailand | <u><i>Latin America and the Caribbean</i></u> Argentina Chile Cuba Mexico St. Lucia | <u><i>Africa</i></u> Seychelles <u><i>Arab States and Europe</i></u> Bahrain Estonia (T) Kuwait Latvia (T) Libyan Arab Jamahiriya Lithuania (T) Oman Poland (T) Qatar Saudi Arabia United Arab Emirates <u><i>Asia and the Pacific</i></u> Cook Islands Marshall Islands Micronesia, Federated States of Nauru | Niue Palau Tokelau Tonga <u><i>Latin America and the Caribbean</i></u> Anguilla Antigua & Barbuda Aruba Bahamas Barbados Bermuda British Virgin Islands Cayman Islands Dominica Grenada Montserrat Netherlands Antilles St. Kitts and Nevis St. Vincent and Grenadines Turks and Caicos |
