United Nations Institute for Training and Research

Board of Trustees
Fifty-fourth session

UNITAR/BT/54/FC/1
25 November 2013

Finance Committee
Sixth session

For official use only

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

1. The Finance Committee convened by audio conference on 17 November 2013.

2. The following members of the Committee and observers were present at the session:

Committee members:

Ms. Geraldine Fraser-Moleketi

Mr. Nicolas Michel

Mr. Alfonso Quiñonez (Chairman)

Ex Officio:

Ms. Sally Fegan-Wyles, Executive Director, UNITAR

Secretary:

Mr. Brook Boyer, UNITAR

Observers:

Mr. Pierre Hagmann
Mr. Armands Cakss, Finance and Budget Officer, UNITAR

3. The Chairman called the session to order and introduced the provisional agenda as circulated by the secretariat. One member proposed that the Committee also discuss item 5a of the Board's provisional agenda, "Consolidation of the United Nations research and training institutes", as concerns the item's financial implications, either separately or in connection with item 4 of the Committee's agenda. The Committee adopted the provisional agenda as proposed with financial aspects related to consolidation to be discussed in relation to the proposed Programme Budget for the Biennium 2014-2015 under item 4d.

4. Under item 3a, "Fundraising communication strategy" (item 5c of the Board's provisional agenda), the Chairman recalled the Board's recommendation to Management at its Fifty-third session to prepare a fundraising strategy in light of the challenges to mobilize non-earmarked funding and taking into consideration the realities of the financial and economic climate.

5. In introducing the fundraising strategy concept note in the Board's documentation, the Executive Director highlighted the changing landscape in development funding over the past ten years and referred to the decrease in the number of least developed countries and the emergence of a growing number of middle income countries, many of which are providing support for development, including Afghanistan, Algeria and Nigeria, which are important donors to UNITAR. To demonstrate this importance, the Executive Director made reference to an anticipated non-earmarked contribution of 1 million Euros over three years from the Algerian government, which would include $100,000 annually to support the training of G77 delegates. In reviewing the elements of the strategy, the Executive Director emphasized the importance of securing non-earmarked funding in order to build up a non-earmarked reserve. She also underscored the importance of the revised cost recovery policy which would provide 16 per cent of expected total income to cover the Institute's running costs and 2 per cent of expected income which would be placed aside to gradually build up a reserve. Moreover, Management would pursue the development of donor-tailored strategies and pursue more novel approaches to fundraising, such as establishing a 'Friends of UNITAR' group whereby the Board (or a separate group) would be invited to play role in supporting the Institute's fundraising efforts.

6. One member supported the views of the Executive Director on the Board playing a more active role in fundraising, found the concept note to be useful and remarked that the ongoing consolidation should soon be clarified so as to avoid possible negative influences on fundraising efforts. The Chairman underscored the importance of emerging donors, expressed satisfaction on Management's approach to developing donor-tailored strategies, and welcomed the suggestion that the Board assume an increased advocacy role in terms of fundraising and also broader partnership building opportunities beyond just governments to include the private sector and civil society. The Executive Director announced that the Institute has been asked to prepare and fundraise for a $2 million programme to support the negotiations to formulate the post 2015 development agenda, given the Institute's niche role on the training of delegates. Thus far the Institute has obtained pledges for some $1 million from Denmark and Sweden, with several other governments expressing interest to provide support including Finland, Norway and Switzerland. A second, much larger phase of the project would be developed to support implementation of the agreed post 2015 goals at the country level.

7. **The Committee praised management on the efforts taken, took note of the concept note and the observations and comments made under this item, and recommended that the Board takes note of the fundraising communication strategy.**

8. Under sub-item 4a, "Interim financial statements for the twelve-month period ending 31 December 2012" (item 7a of the Board's provisional agenda), the Executive Director made reference to Statement I and indicated $21.3 million for 2012, which is slightly higher from 2010 income at $20.9 million. The Executive Director reported $21.0 million in expenditures, which is reflective of the Institute's challenges in not having non-earmarked reserves. The Executive Director referred to the negative net as a result of making after service payments for staff members who had left and the reserves and fund balances at $7.46 million and the negative balance of $364,000 returned to Brazil following the closure of the Brasilia Office. The Executive Director also made reference to the changes in calculation in the end of service and post retirement liabilities for 2012 compared to 2010 has increased. One member requested Management to indicate if there were any specific concerns that the Committee should address and convey to the Board. Another member observed the significant increase in contractual expenditures from 2010 and asked for clarification. The Executive Director indicated that Management would report on the reasons for this increase at the Board session. In terms of any specific concerns, the Executive Director underscored the concern with a lack of a reserve, noting that the carry-forward reserves and fund balances are virtually all project fund balances. Looking forward, the Executive Director indicated that Management

was intending to put aside 2 per cent yearly to build a reserve, noting that of the 18 per cent recovery, planned costs only amounted to 16 per cent. In recalling that the lack of non-earmarked reserves has been addressed in the past, **the Committee agreed that the Board should continue to discuss this important issue, requested the Executive Director to report to the Board on the causes for the significant increase in contractual expenditures, and took note of the interim financial statements of the twelve-month period ending 31 December 2012.**

9. Under sub-item 4b, "Report on the implementation of the new cost recovery formula" (item 7b of the Board's provisional agenda), the Chairman recalled the Board's decision at its fifty-third session to approve a new cost recovery approach which distinguishes between programme support costs at 7 per cent and direct service costs which would vary between 6 per cent for pass through funds and 11 per cent for projects managed entirely by UNITAR. The Executive Director reported that the application of the new formula is going well and is in transition since there are projects under implementation that were agreed with donors under the previous approach. She confirmed that all new project agreements include a provision for the recovery of costs related to direct service functions, and that Management is monitoring the direct service costs closely. In response to a question on the ratio between projects charged at 11 per cent and 6 per cent, the Executive Director indicated that Management would be reviewing figures. The Executive Director also confirmed that a planned 2 per cent of the recovered costs which would be put into a non-earmarked reserve would come from the 7 per cent indirect support costs and not from the direct service costs amounts. **The Committee took note of the report on the implementation of the new cost recovery approach and recommended that the Board takes note.**

10. Prior to discussing items item 4c, "Report of the Advisory Committee on Administrative and Budgetary Questions" and item 4d, "Proposed Programme Budget for the Biennium 2014-2015" (items 7c and 7d of the Board's provisional agenda), the Executive Director updated the Committee on the status of the consolidation and summarized the major elements of the Report of the Secretary-General on the research, training and library services. The Executive Director informed the Committee that the final report was somewhat different from the draft version circulated to the Board in July. Among some of the changes introduced in the final version, the Executive Director indicated that the Director of Training of a new, consolidated entity would be based in Turin. She indicated that the proposal to establish an integrated training/learning services as contained in the Secretary-General's report was to be considered this December, although the report is only likely to be discussed at the resumed session in 2014 (e.g. March). The Executive Director said that between now and March of next year, the Assistant Secretary-General for Change Implementation planned to work closely with both UNITAR and the United Nations System Staff College (UNSSC) in order to better understand their respective business models and staff structures and costs. In making reference to the report, one member indicated that the Turin-based location of the Director of Training appeared to be a real contradiction with the Assistant Secretary-General (of the consolidated entity) to be based in Geneva where the majority of the training would be administered. The member underscored the statutory role of the Board regarding the structure, budget and posts of the Institute, and voiced concern on the financial impact of the decisions, noting that a comprehensive cost analysis of the whole exercise has yet to be provided. In observing the cost-effective composition of the Institute's staffing and noting that a high number of personnel, including non-remunerated personnel, which contribute to UNITAR's programming, the member asked for information on the ratio of support and professional staff for UNITAR and UNSSC, and indicated that such information should figure in any comprehensive cost analysis. The member also asked if it would be realistic to expect, as the report indicates, that administrative costs would be saved through the proposed consolidation. Finally, the member stressed that it would be important to have clear answers to these questions before making important decisions. **The Chairman agreed that it would be important to have information on these matters and suggested that given the Committee's time constraints the Executive Director should take these observations and questions into consideration when briefing the Board at the forthcoming session.**

11. On items 4c and 4d, which were discussed in tandem, the Executive Director updated the Committee on the Advisory Committee's hearing of 30 October 2013 and indicated that the proposed Programme Budget for the Biennium 2014-2015 was presented on the basis of "no

change" and that Management would have to submit a revision if there would be a decision on some form of consolidation. The Executive Director indicated that the proposed budget was prepared on approximately the same levels of funding with an optimistic end of year performance, and noted that the financial environment appeared to be somewhat better now than in the previous three years. The Executive Director stated that actual income for 2012-2013 is expected to be $43 million by the end of 2013, and planned expenditures of the 2012-2013 budget cycle to be some $41 million, slightly increased end of year fund balances. The Executive Director also confirmed that the costs of programme oversight have been reduced during 2013 by keeping two D1 Associate Director posts vacant and reducing operational costs by approximately 10 per cent, although UNOG service charges would cost the Institute some $300,000 yearly to pay off the balance due (and on the assumption that Management can further reduce the services performed by UNOG by assuming functions, in addition to allotments, such as payments and obligations). The Executive Director informed the Committee that the proposed budget is aligned with the programmatic and functional objectives of the new Strategic Framework and is based on a 21 per cent increase in income as reported to the Advisory Committee (now 15 per cent increase with the expected contributions from Sweden and other donors to support Phase I of the Post 2015 Development Agenda initiative) and a 13 per cent increase in expenditure, which would provide some Management with $3 million to build up reserves. The Executive Director stressed, however, that actual expenditure would depend on a monthly review of income.

12. With regard to the staffing table, the Executive Director observed that Management has not been able to fill many of the director-level supervisory posts under the existing organizational structure given financial constraints, and proposed to abolish three D1 vacant posts (Director of Support Services; Associate Director of Peace, Security and Diplomacy; and Associate Director of Governance), and to change the remaining D1 supervisory post, Associate Director, Environment, to a Senior Programme Manager post. The Executive Director indicated that the proposal would depend on operationalizing a vacant D2 Director of Training/Deputy Director post in order to ensure some level of hierarchy and supervision. The Executive Director also mentioned that Management proposed to abolish a number of other posts, particularly general service posts, which the Institute has not managed to fill due to funding challenges.

13. The Executive Director reported that the Advisory Committee was supportive and asked for some clarifications on Management's reporting of beneficiaries, income and expenditure trends over the past biennia, and the difference between operations (e.g. administrative and financial support) and activities (e.g. programme activities) in the budget presentation. She also indicated that the Advisory Committee requested clarification in table 3 of the proposed Programme Budget on the reasons for the increase in expenditures in the Office of the Executive Director (OED) and in support services, and confirmed that the Institute's OED costs increased as a result of budgeting for a senior resource mobilization advisor and the sessions of the Board of Trustees, and that operations increased as a result of planned IT upgrades, staff training and internal audit. The Executive Director also reported that the Advisory Committee requested clarification on post vacancies, partners and indicators and targets.

14. The Chairman requested that the document be shared with trustees. In making reference to the Report of the Secretary-General and the once-off investment of some $600,000 in voluntary contributions to support the consolidation exercise, one member asked for clarification on the source from such funding. The member also asked for clarification in the proposed budget on the actual savings from the D1 Associate Director posts, why the Environmental Governance Programme and Chemicals and Waste Management Programmes were separated, and if the consolidation would result in shared costs for an eventual new structure. Another member, in reference to the organizational chart, supported the establishment of a D2 post in the context of a possible consolidation and under the condition that the post would be based in Geneva. In relation to the abolishment of posts, the member did not feel that it was necessary to take a decision at this time to abolish them given the ongoing consolidation process and suggested leaving the posts vacant. The member also proposed that the Committee should request the Executive Director to report to the Board on the financial aspects of the consolidation that were raised, either under item 5a or item 7 of the Board's provisional agenda. Finally, the member supported the comments made by

another member on funding, indicated that some donors may not remain indifferent and expressed concern on the possible negative impacts that could result from the process. The Chairman supported the proposal to ask the Executive Director to include the financial aspects of the proposed consolidation that were raised during the Committee session in her report to the Board of Trustees.

15. The Executive Director confirmed that the once-off investment was for change management. She indicated that there are two ways to understand the Report of the Secretary-General: one way would be to understand the report as both institutes having a common executive director with the senior management based in Geneva and a leader based in Turin who could be a deputy, with another deputy to be based in Geneva. As such this would represent almost no change. If, on the other hand, the report is understood as including a significant shifting of functions, posts, to Turin, then there would be cost implications and the Board would need to be fully involved in the decision-making process. On the cost implications of the two D1 posts, the Executive Director confirmed that by abolishing the posts there would be no implications for the proposed budget as the cost savings appeared in the revised 2012-2013 Programme Budget. On the proposal to keep the posts vacant rather than abolishing them, the Executive Director indicated that this could be a good recommendation should the Committee so decide. The Executive Director also confirmed that the Environmental Governance and Chemicals and Waste Management programmes were separate but that the management of the two programmes would be combined.

16. **On item 4c, the Committee:**
    a. **took note of the Executive Director's report on the Advisory Committee hearing,**
    b. **requested to receive Management's answers to the Advisory Committee's questions and the Letter from the Chairman, and**
    c. **recommended that the Board takes note.**

17. **On item 4d, the Committee:**
    a. **took note of Management's presentation of the proposed Programme Budget for the Biennium 2014-2015,**
    b. **recommended that the Board adopts the proposed Programme Budget with the caveat to continue considering the impact of the consolidation on the budget and to suspend the proposed abolishment of the posts until further clarity is known on the proposed consolidation, and**
    c. **requested the Executive Director to report to the Board on the financial aspects of the consolidation as concerns the observations and questions raised by the Committee.**

18. Under item 4e, "Update on the 2012 external audit" (item 7e of the Board's provisional agenda), the Executive Director updated the Committee on the audit exercise which included a review of the implementation of the previous recommendations which were viewed by the auditors as satisfactory, and recommended that Management undertake efforts to control or reduce the risks of providing unverifiable financial reports to donors and refund the balances of completed projects (which is expected to be completed by the next audit exercise), and to make adequate and appropriate disclosure of property (related to inventory). The Executive Director also reported that Management is now part of the International Public Sector Accounting Standards (IPSAS) team at UNOG and confirmed that Management can comply with all of the recommendations. In response to a query from one member related to small amounts of outstanding project balances with UNDP, the Executive Director confirmed that Management was following up. **The Committee took note and recommended that the Board takes note of the update of the 2012 external audit.**

19. Under item 5, "Any other business", the Chairman announced that he would unfortunately not be present for the Board's fifty-fourth session. The Committee agreed that Mr. Nicolas Michel presents the report to at the session.

20. The committee adjourned.