

Summary of the twenty-ninth meeting of the ad-hoc working group on programmatic, budgetary, and administrative matters of the Executive Board

Wednesday, 21 September 2022 – 14:30 – 16:30 East Africa Time

Chair: H.E. Ms. Saqlain Syedah

Permanent Representative of the Islamic Republic of Pakistan to UN-Habitat

Agenda item 1 - Adoption of the Agenda

The meeting of the ad hoc working group on programmatic, budgetary, and administrative matters of the Executive Board was called to order at 14:35 EAT. The working group adopted the provisional agenda for its twenty-ninth meeting without any change as follows:

1. Adoption of the provisional Agenda.
2. Financial status of UN-Habitat
3. Status of the draft work programme and draft budget for 2023, including scalability model for the Foundation non-earmarked budget
4. Any other matters.

After the adoption of the agenda, the meeting considered Agenda item 2, namely financial status of UN-Habitat.

Agenda item 2 - Financial status of UN-Habitat

Under this item, the Chair gave the following background:

- i. The Chair recalled that in paragraph 5 of its Decision 2019/4 adopted at the resumed first session of the Executive Board for the year 2019, the Board decided that the financial situation of UN-Habitat should be included on the provisional agenda of each Executive Board session for consideration.

Following the above background information, the Secretariat provided a briefing on the financial status of UN-Habitat with a focus on sustainability.

The full presentation can be accessed [here](#).

The briefing by the Secretariat highlighted the following:

- i. UN-Habitat remains a robust Programme of \$200 million across all of its funding sources including earmarked resources and continues to work within the agreed envelop of \$3 million for the Foundation non-earmarked as recommended by the Executive at its first session of the year 2022.

- ii. The Secretariat acknowledged the reset of the 2023 Foundation budget to a baseline of \$3 million has triggered an important change for UN-Habitat that would allow the Organization to control spending within that sustainable limit.
- iii. As at mid-year of 2022, financial statements reflected that UN-Habitat has spent approximately 50% of its allocated budget for the year 2022.
- iv. While UN-Habitat's core activities remain limited by the lack of core reserves, the Secretariat foresees UN-Habitat's sustainable growth once liabilities are covered.
- v. In an effort to move towards solvency, the Secretariat emphasized that UN-Habitat cannot run on deficit as the Organization no longer has any reserves. Taking into consideration that United Nations (UN) does not have a mechanism for debt, UN-Habitat must strive to ensure that its expenditure does not exceed its revenues.
- vi. As of 30 August 2022, the Foundation non-earmarked fund had received almost \$3 million in revenue keeping in mind that the organization is working with an agreed envelope of \$3 million.
- vii. As at mid-year of 2022, financial statements reflected that UN-Habitat has spent approximately 50% of its allocated budget for the year 2022.
- viii. UN-Habitat's expenditure of the Foundation fund stood at \$1.3 million and the Organization was projected to spend an additional \$1.7 million by end of 2022, within the fund's available revenues.
- ix. To minimize expenses, UN-Habitat had shifted expenses from the Foundation non-earmarked fund to the program support costs (PSC) fund as a temporary measure to avoid staff separation.
- x. The Foundation non-earmarked fund was in deficit with a total of \$4 million debt. This deficit was explained as comprising of a negative opening balance of \$1 million at the beginning of the year 2022 and a \$3 million loan from the program support cost fund to the Foundation non-earmarked fund which ultimately would need to be paid over a period.
- xi. The Secretariat noted that to achieve sustainable growth, UN-Habitat must address the \$4 million loan indicated above and establish a reasonable reserve of between \$1 million to \$10 million for the Foundation non-earmarked fund. The reserve would serve to ensure that the fund can sustain unplanned expenditures such as staff entitlements and after-service liabilities, and that the fund can sustain planned expenditures should revenue unexpectedly decrease or get disrupted.
- xii. It was stated that the program support cost fund had a reserve of \$10 million set aside for incidents related to that fund. It was also stated that auditors believe that given the volume of expenses that the fund incurs, it should have a reserve of a minimum of \$20 million. In this regard the key question for the Organisation remains when the appropriate time would be to start scaling up the reserve of the program support cost fund.

- xiii. To ensure that the Organization's expenditure remains lower than the revenue received, the Executive Director had activated three of four austerity measures namely: (a) the reassignment of staff to existing yet vacant regular budget posts, (b) the reassignment of staff to project funded contracts, (c) the suspension of recruitment through a hiring freeze. The fourth austerity measure that had not been activated is that of (d) early retirements and agreed terminations.
- xiv. The Secretariat noted that the austerity measures were felt globally in all geographical locations of UN-Habitat and in both its normative and operational work.
- xv. Member States were informed that the Board of Auditors had conducted the ratio analysis for the Foundation non earmarked resources and noticed that the solvency ratio and liquidity ratios declined from 2017 to 2021. In 2020 and 2021, the ratios were all below one, indicating an insolvency and liquidity risk faced by the Foundation non-earmarked funds.
- xvi. The attention of Member States was also drawn to the 2022 report of the UN Joint Inspection Unit (JIU) on the review of the management and administration of UN-Habitat ([JIU/REP/2022/1](#)) highlighting a few pertinent recommendations of the JIU. In its report JIU, among other recommendations, commended the efforts of the Secretariat to pursue its mandate "within the existing limited resources". The JIU however warned that "until the current funding situation improves, scaling down seems inevitable". The JIU further recommended that the Executive Director should implement activities supported by the Foundation non-earmarked fund within existing resources and "should not consider new activities until adequate contributions for that fund are received".
- xvii. As part of the roadmap for sustainable growth, the Secretariat highlighted the potential provision of additional regular budget posts would improve the financial situation of UN-Habitat based on the Secretary-General proposal to convert seven posts from the Foundation non earmarked fund to regular budget posts. The approximate annual value of said seven posts was stated as being \$1.2 million and that the approval was dependent on the discussions by the fifth committee and the final authority of the General Assembly. In this regard it was also emphasized that, the easing of UN-Habitat's financial situation related to the seven posts would not be immediate as recruitment processes are time intensive activities.
- xviii. The Secretariat informed Member States that UN-Habitat was waiting for the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) on the proposed regular budget for the year 2023. The ACABQ report was expected to provide an indication regarding the conversion of the seven posts to the regular budget and to inform deliberations by the fifth committee before a final decision is reached by the General Assembly at the end of December 2022.
- xix. The Secretariat stated that scaling up will be expedited through the potential regular budget posts in 2023, should the General Assembly approve the posts as outlined above.

xx. It was stated that the methodology for scalability would consider three factors as follows:

(a) prioritization based on strategic objective which encompass both expansive and functional dimension to build upon existing capacity and to create capacity for existing gaps by aligning function to funding. The expansive dimension of scaling up would include adding positions for existing functions, for example website management and legal affairs. Whereas, the functional dimension will explore new positions for new function not existing in the Organization such as business intelligence, big data analysis and aspects of communication that are not being performed;

(b) a budget process mechanism that will analyze the existing positions and dictate whether those positions require reclassification, reorganization, an upgrade or a downgrade based on the recommendations from the oversight bodies;

(c) a benchmarking review process with other UN organization to understand how they prioritize positions, and;

(d) completing a rationalization analysis of all positions across all sources of funding to ensure proper use of each source of funding with respect to the functions of each position.

Following the presentation by the Secretariat, the discussions highlighted the following:

- i. Several Member States welcomed the clarity of the presentation provided by the Secretariat in terms of clearly presenting the Organization's financial situation and providing the appropriate figures and measures on the situation. Similarly, the Member States also welcomed the reference to the JIU report and its recommendations, stating that they were looking forward to an in-depth discussion on the JIU report at the second session of the Executive Board for the year 2022 to be held in November 2022. The Member States further encouraged UN-Habitat to continue operating in a transparent manner as it helps to promote trust between Member States, donors and the Organization. Member States also noted that since nearly \$3 million has been received so far for the Foundation non-earmarked fund for 2022, there was room for additional pledges to materialize which could be converted to revenues received before the end of the year. As such, the position UN-Habitat's Foundation fund in could be slightly better.
- ii. One Member State inquired what would happen to the difference in the Foundation non-earmarked revenues if the year ended with a surplus. The Member State wished to know whether the remaining revenue would be allocated toward UN-Habitat solvency, towards repaying the program support cost loan or towards establishment

of a reserve. Additionally, the Member State also sought clarification of the \$5.7 million indicated in the Foundation non-earmark fund as at end of August 2022 which was higher than the figure indicated as at end of June 2022 based background information provided by the Secretariat.

- iii. Another Member State was in agreement with the Secretariat that the recommendation made by the Executive Board during its first session for the year 2022 on the Foundation non-earmarked budget was indeed a turning point for UN-Habitat. However, in recognizing the guiding principles of the scalability model, the Member State indicated the need to elaborate further the direction of the scaling up process. Specifically, how the lack of core resources had so far adversely impacted on UN-Habitat's operations varying from the level of engagement to the lack of key staff positions. The Member State suggested that the scalability model should indicate what UN-Habitat was not able to do at present and what more the Organization could achieve with the provision of more resources.
- iv. One Member State sought clarification on some of the benchmarks used by other UN Agencies and Organizations to scale up their work based on prioritization of resource allocation.
- v. Another Member State requested the Secretariat to expand on how UN-Habitat had 'reset' its mindset regarding the Foundation non-earmarked fund given that it had been significantly lowered to \$3 million. The Member State also requested elaboration on the hiring freeze as an austerity measure taken by the Organization. They further referred to the JIU report specifically where it indicated that "until the current funding situation improves, scaling down seems inevitable..." and inquired whether scaling down is limited to UN-Habitat's work program or whether it extends to human resources as well. The Member State further wished to know if any units within UN-Habitat had been affected by the scaling down. The Member State continued to inquire whether the specific JIU recommendation which states that "the Executive Director should implement activities supported by the Foundation non-earmarked fund within existing resources and should not consider new activities until adequate contributions for that fund are received" affects the implementation of activities in their entirety or whether the need to operate within existing resources would partially affect the implementation of activities.
- vi. One Member State requested to know who determines the division of any surpluses and where the priorities are with regard to the any surplus.
- vii. One Member State recalled that in the past, UN-Habitat had a healthy reserve for the Foundation non-earmarked contributions and that poor management had led to the depletion and deficit in said fund. The Member States wished to know how, therefore, UN-Habitat would ensure that the mistakes of the past are not repeated and if UN-

Habitat was capable of reconstituting the Foundation non earmarked reserve and maintain its sufficient levels in the long term.

- viii. One Member State inquired whether there was a decision that guides how the reserve for the Foundation non earmarked funds is supposed to be established in terms of percentage of the budget for the fund, and if so, what the prevailing percentage for reserve was. The Member State further wished to know if there was guidance is such a decision on when and how the Executive Director can choose to use the specific decision at UN-Habitat's discretion.
- ix. Several Member States indicated that by understanding how funds in the reserve can be utilised, it would further help to justify why funds in the reserve were employed to offset gaps left by the waning of resources. It was also clear that several Member states wished to understand which functions had been impacted by the dwindling resources.

In light of the views expressed by Member States, the Secretariat responded as follows:

- x. With regard to the prioritization of any surplus funds, the Secretariat informed that the disposition of any surplus would first be directed to bring back solvency in the Organization by prioritising (a)first reducing the \$1 million deficit in the non-earmarked foundation, (b)second, directing any surplus towards partial repayment of the program support cost loan of \$3 million, and (c)third, having the surplus contribute to the establishment of a reserve. It was further stated that it is also possible any surplus may prioritize all three areas at the same time and that this can be done incrementally.
- xi. On the clarification of the difference in the Foundation non-earmarked funds between the months of June and August 2022, the Secretariat informed Member States that there is a clear difference between revenues recognized and revenues received. Revenues recognized include all accounts of receivable funds that have a qualified pledge in a formal agreement. Revenues recognized are also reflected in the financial statements. However, revenues received is the actualization of pledges to UN-Habitat's bank accounts. Therefore, the UN-Habitat recognizes \$5.7 million in revenue within the Foundation fund but has only received approximately \$3 million. As a result, UN-Habitat constrains its expenditure on revenues received rather than revenues recognized.
- xii. With regard to the scalability model, the Secretariat indicated that UN-Habitat is yet to develop a blueprint for the scalability process and what currently stood was a basic methodology. The Secretariat stated that intends to develop the scalability blueprint through a deliberate consultative process with the Executive Board where key decisions on the priorities of UN-Habitat would be reflected. It was stated that such a consultative process would likely take place once the financial situation of the Foundation non-earmarked fund is stabilized as the process would need to take into consideration several variables, for example, whether UN-Habitat would achieve

solvency in 2022, the decision of the General Assembly to convert foundation posts to regular budget posts, and the need to rationalize funding with function across the organization

- xiii. In relation to benchmarks for prioritizing revenue allocation by other UN bodies, the Secretariat responded that other UN organizations mostly being operational organizations such as UNHCR have such benchmarks. The UNHCR's budgeting model, for instance, classifies posts that are funded from voluntary contributions in two categories namely A and B. Category A are all prioritized such that, no post in Category B may be funded prior to those in Category A. Such benchmarks and mechanism provide guidance on how to prioritize spending regardless of whether the benchmark is from a normative or operational organization. Similarly, the benchmarks provide for a coordinated approach in the prioritization vacant posts and the use of surpluses.
- xiv. With regard to the "reset" of mindset of the organisation when it comes to a lower non-earmarked foundation \$3 million, the Secretariat recalled that the recommendation of the Executive Board, for a \$3 million revised budget level for the Foundation non-earmarked budget for 2023 triggered the reset in the mindset of the Organisation to align the Foundation budget to realistic expenditures. In this regard and in order to maintain solvency, the Executive Director committed to moving forward with a \$3 million expenditure envelop that maintains the day to day operational activities of the organisation and that UN-Habitat was aligning its budget documents accordingly. It was further stated that UN-Habitat's management had made efforts to communicate the "reset" to its staff through multiple platforms such as townhalls and through the Staff Management Coordination Committee. It was also clarified that the hiring freeze as an austerity measure is specific to the regular budget, the program support cost and the Foundation non-earmarked funds without any effect to project implementation funds.
- xv. With regard to any existing decisions on utilising surplus funds, the Secretariat informed that UN-Habitat had governance policies that guide the Secretariat on how to utilize surplus funds and that absent of any decision, a surplus goes to the reserve. It was further stated that given the \$3 million loan in the program support cost, a decision could be made to restore some of that loan in good faith. Member States were informed that the UN Controller has the technical authority to transfer money between funds and that the Executive Director may make such a request to the Controller. In that regard, the Executive Board can decide whether the Executive Director should make such a request to the Controller. The Secretariat also outlined that the Executive Board had authority over the Foundation non-earmarked fund and the Board can take any decision with its regard including the reserve. It was also emphasised that UN-Habitat would avoid repeating past mistakes as recommend by the JIU and the Board of Auditors, by treating budgets as spending plans and not fundraising plans. Additionally, to maintain sustainable growth, the Secretariat stated that is was the

responsibility of both Member States and the Organisation to oversee how the organization is being led through transparency and accountability.

- xvi. The Secretariat further noted that reserve funds need to cover termination indemnities and salaries which stretch over 12 months. Thus, the reserve needs to match the annual expenses of the Foundation non earmarked fund. It was stated that Executive Board has authority to establish budget levels which act as spending limits and direct the Executive Director on how much they can spend. Additionally, once statutory reserves are covered, there would still need to be room for risk management and the absorption of any uncertainties.
- xvii. The Secretariat concluded its responses by emphasized that UN-Habitat was still operating in crisis mode and concurred that a blueprint needs to be established where the Secretariat shall propose areas of priority which the Executive Board may consider and make appropriate decisions on. The Secretariat recalled that in 2021 the Executive Board requested for priorities areas of work I light of dwindling resources which were then shared by the Secretariat and the result of which was a fruitful continued support by Member States through soft earmarked funding for UN-Habitat's normative work. This innovation allowed for the repurposing of soft earmarked funds to fill the gaps left behind due to budget constraints. The Secretariat reiterated that UN-Habitat is required to lead the intense global monitoring of the implementation of Sustainable Development Goal 11 as its custodian and this role requires adequate funding.

Follow-up action on Agenda item 2:

The Secretariat to share with Member States information indicating what UN-Habitat is not able to do at due to lack of resources and a prioritisation of what more the Organization could achieve with the provision of more resources.

Agenda item 3 - Status of the draft work programme and draft budget for 2023, including scalability model for the Foundation non-earmarked budget

Under this item, the Chair gave the following background:

- i. The Chair recalled that during the 2022 first session of the Executive Board, the Board in paragraphs 3 and 4 of its Decision 2022/1, recommended that the United Nations Habitat and Human Settlements Foundation non-earmarked budget for 2023 be at a baseline of \$3 million, which will be scaled up to a level of \$12 million should adequate funds be received. The Board further requested the Executive Director to finalize a draft annual work programme and budget for UN-Habitat for 2023, based on feedback from the Committee for Programme and Coordination and the ACABQ, and to present the documents for further consideration by the Executive Board at its second session of 2022, taking into account the need to ensure that UN-Habitat is fit for purpose and delivers on its normative mandate.

- ii. The Chair further noted that in paragraph 5 of its Decision 2022/1, the Board requested the Executive Director to report to the Executive Board at its second session of 2022 on the scalability model prepared by the Secretariat for the non-earmarked Foundation budget, subject to various funding levels up to \$12 million.

The briefing by the Secretariat highlighted the following:

- i. The Secretariat informed Member States that status of the draft work programme and draft budget for 2023 had not changed since its presentation to the Executive Board at the first session of the Executive Board for the year 2022. The Secretariat further informed Member States that it was waiting for the report of the ACABQ on the regular budget following which the draft work programme and draft budget would be deliberated upon by at the fifth committee and concluded by December 2022 by the General Assembly. Prior to that, the proposed work programme and budget for the year 2023 would be presented again to the Executive Board at its second session for the year 2022 for consideration and possible approval particularly as it relates to the foundation on earmarked funding.

Following the presentation by the Secretariat, the discussions highlighted the following:

One Member State requested the Secretariat remind Member States in Nairobi before the discussion of the fifth committee in New York would take place so as to ensure that the respective delegations in New York can engage informatively on the discussion that will unfold.

Agenda item 4 - Any other matters

The Chair recalled that the next meeting of the ad hoc working group is scheduled for Wednesday 5 October for discussions on the normative and operational activities of UN-Habitat and on UN-Habitat engagement in countries, territories and areas affected by conflict and disasters.

The Chair adjourned the meeting at 16:30 East Africa Time.