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UNAIDS/PCB(6)/98.9
7 May 1998

Joint United Nations Programme on HIV/AIDS

PROGRAMME COORDINATING BOARD

Sixth meeting

Geneva, 25-27 May 1998

Provisional agenda item 7.2

Financial and budgetary matters

UNAIDS Operating Reserve Fund

EXECUTIVE SUMMARY

The PCB recommended in June 1996 that UNAIDS establish an Operating Reserve Fund, based on carry-over funds available to the Programme (principally funds inherited by UNAIDS from the WHO Global Programme on AIDS (WHO/GPA)), in order to mitigate the impact of receiving payment of voluntary contributions late in a given year. As the PCB was informed at its April 1997 meeting, an interim Fund was established at the end of 1996 with an initial provisional amount of US\$20 million. Draft interim rules and procedures guiding the use of the Fund were circulated through the PCB Working Group on Resource Mobilization in June 1997. UNAIDS has been operating with these interim procedures on the understanding that these, together with a recommendation on the optimal size of the Fund, would be reviewed in the light of experience.

This document, which contains a recommendation on the optimal size of the Fund for US\$ 33 million from the potential carry-over of funds available, has been reviewed by the above mentioned PCB Working Group, at its meetings on 31 March 1998 and 28 April 1998, and is submitted for endorsement to the PCB through the Chairperson of the PCB Working Group (see also document UNAIDS/PCB(6)/98.10).

ACTION REQUIRED AT THIS MEETING

The PCB is required to endorse the proposed rules and procedures guiding the use of the Fund by the Executive Director (para. 11), including a recommendation of the optimal size of the Fund (US\$ 33 million) from the potential carry-over of funds available.



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**Meeting of the PCB Working Group on
Resource Mobilization
(to be held on 27 April 1998)**

Financial and budgetary matters

UNAIDS Operating Reserve Fund

EXECUTIVE SUMMARY

The PCB recommended in June 1996 that UNAIDS establish an Operating Reserve Fund, based on carry-over funds available to the Programme, in order to mitigate the impact of the late receipt of payment of voluntary contributions which tends to recur on a yearly basis. As the PCB was informed at its April 1997 meeting, such a Reserve Fund was established at the end of 1996 with an initial provisional amount of US\$20 million.

Draft interim rules and procedures guiding the use of the Fund were circulated through the PCB Working Group on Resource Mobilization in June 1997. UNAIDS has been operating with these interim procedures on the understanding that these, together with recommendations on the optimal size of the Fund, would be reviewed in the light of experience.

This document contains a recommendation from the Secretariat that an optimal size for such a Fund is US\$33 million from the potential carry-over of funds available (currently estimated at US\$38 million). It was reviewed by the above-mentioned PCB Working Group at its meeting in Geneva on 31 March 1998. The document and the recommendations of the Working Group will be submitted to the PCB for endorsement, at its meeting from 25 to 27 May 1998, following a second meeting of the Working Group scheduled for 27 April 1998.



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UNAIDS OPERATING RESERVE FUND

Background

1. The Programme Coordinating Board (PCB), at its June 1996 meeting, noted the precarious cash-flow situation that faced UNAIDS at the start of each year, due to the fact that voluntary contributions tend to be received later in the year (see chart attached as Annexes I for 1996-1997 and Annex III for a projection for any given year), often in the third or fourth quarter of the calendar year. This is caused, on the one hand, by the different funding cycles of governments and, on the other, because payment schedules for voluntary funds cannot be enforced. In order to ensure that the necessary funds would be available to the Programme at the start of each year pending the receipt of contributions, the PCB recommended (UNAIDS/PCB(3)96.11 Recom.19; June 1996) that UNAIDS establish as soon as possible, an **Operating Reserve Fund** which should be constituted in the first instance by drawing upon:

(a) unearmarked funds against UNAIDS 1995 contributions (approx. US\$5.9 million), and (b) the carry-over funds which UNAIDS would receive progressively from the close-down of the WHO Global Programme on AIDS (WHO/GPA), of which US\$32.7 million had thus far been received¹. These funds, combined, gave UNAIDS a potential reserve of **US\$38.6 million**.

2. The main purpose of a UNAIDS Operating Reserve Fund would be to provide, under certain terms and conditions, cash against which UNAIDS could be allowed to continue to make financial commitments to its core budget activities, while waiting to receive the funds pledged to implement its approved biennial budget. Funds, which should normally be used before making advances from an Operating Reserve Fund, consist of:

- balance forward, or available carry-over funds from previous periods² (previous cash income, minus commitments incurred)
- cash contributions received for the current period
- miscellaneous income for the current period (e.g. interest).

3. In the early months of a calendar year, it is possible that the balance forward (i.e., cash available from contributions received in the previous year) could still be sufficient to enable the Programme to continue to operate, and make initial commitments. However, as noted by the PCB, and as shown in Annex I, delays can occur in receiving contributions from donors for funding the year in question, for reasons mentioned above. In addition, as explained in more detail below, UNAIDS has certain substantial requirements at the beginning of each year due to the rules under which it is administered. This in turn impacts on the recommendation for an **optimal size of such a Fund**, and the **rules** that should be adopted by the PCB, to enable UNAIDS to have flexibility to make use of such a Fund when the need arises, while ensuring that it remains a permanent resource or buffer for the future.

¹ Estimates of the final WHO/GPA carry-over amount to around US\$45 million (including interest). However, the amount that will be finally transferred to UNAIDS will only be clarified at the end of the 1998-1999 biennium, when payment of all outstanding obligations, including those arising from the legal appeals by former WHO/GPA staff, will have been fully calculated.

² In keeping with the UN system organizations, the UNAIDS financial period is two consecutive calendar years, beginning with an even-numbered year. However, as UNAIDS raises funds on an annual basis, when reference is made to a current or previous period, this would normally be one "calendar year" (i.e., starting from 1 January and ending on 31 December in the same year).

Factors to be taken into account in establishing the level and rules for a UNAIDS Operating Reserve Fund

4. In deciding on the level and rules guiding a UNAIDS Operating Reserve Fund, certain requirements and constraints under which UNAIDS has to operate should be kept in mind, as some of these may be specific to UNAIDS. These are the following:

- Under the WHO financial rules and practices by which UNAIDS operates, outstanding extrabudgetary contributions, even if confirmed as written pledges, may not be used by UNAIDS to commit funds. WHO itself cannot advance funds to the Programme under its financial rules, since UNAIDS is a separate Programme. However, a UNAIDS Operating Reserve Fund with rules approved by the PCB would enable the Programme to make advances against such confirmed pledges.
- Voluntary pledges are generally made on an annual basis, sometimes only after the second quarter of the calendar year of operation. Efforts have been made by some donors to ensure that their pledges and contributions reach UNAIDS as early as possible in the year, which the Programme gratefully acknowledges. However, for a variety of reasons, the majority of contributions arrive only in the third or fourth quarter of the calendar year for which they are intended to fund (see charts in Annexes I and III). If the Programme did not have a facility whereby funds could be advanced from a Reserve Fund, it would have to operate on a “stop/go” basis, especially in the first six months of the year, depending on its cash flow situation³. This clearly has implications on an optimal size of a UNAIDS Operating Reserve Fund from which the Programme could obtain advanced funding.
- Under the WHO financial rules and practices by which UNAIDS operates, the Programme is required to obligate salaries and related costs for the full calendar year, on 1 January. (The WHO Manual IV.4.100 (Finance and Accounts) stipulates that: “For funds other than regular budget --- salaries and allowances obligations are established on an annual basis to 31 December of the current calendar year, or to the end of the contract or expiry of the authorized position, as applicable, whichever is the earlier”). WHO enforces this provision on the basis of best financial management practices, and also because this provides such extrabudgetary Programmes with a measure of staff security, which could otherwise lead to a higher turnover in staffing and loss of institutional expertise. UNAIDS thus has a significant financial constraint (around US\$20 million, representing the annual cost of approved posts in the 1998-1999 budget, see para. 8(a)) to obligate each January, and this therefore also has clear implications for an optimal size of a UNAIDS Operating Reserve Fund.

³ It should be noted that, given the time it takes to plan and prepare agreements, an activity scheduled to take place in a country, for example in May of a given year, will require funds to be obligated a good number of months prior to that date. Action can only be started if there is some reasonable assurance that resources will indeed be available when required.

- UNAIDS is a small Programme with a budget of US\$120 million in the biennium (or whatever the PCB approves at its biennial budget). Yet it has no “godparent”, Bank or any other internal reserves or accounts that can step in and act as a buffer in times of cash flow problems. Having its own Operating Reserve Fund would provide UNAIDS with such a safety net and with legal safeguards, to enable the Programme make financial commitments over a longer-term horizon.

Establishment of a UNAIDS Operating Reserve Fund, and current status

5. As the PCB was informed in document UNAIDS/PCB(4)/97.6 “Financial and Budgetary update” (paragraph 14), reviewed at its April 1997 meeting, an Operating Reserve Fund was formally established in December 1996 with an initial provisional amount of **US\$20 million**. Although the Fund could have been larger due to the level of the available carry-over of WHO/GPA funds (and the recommendation of the PCB, see para. 1 above), the remaining WHO/GPA carry-over of **US\$18.6 million** was retained to offset the Programme’s income deficit which occurs at the beginning of each year (see Annexes II and Annex III).

6. At its April 1997 meeting, the PCB took note of the steps that had been taken to establish an interim Operating Reserve Fund, and that further recommendations on procedures guiding its operations would be presented to the Board at the next regular annual session. (Draft interim rules and procedures to govern the use of this Fund by the Executive Director, under which UNAIDS has been operating, were presented to the PCB Working Group on Resource Mobilization at its meeting in Geneva on 11 June 1997). The PCB also noted the potential size of the Operating Reserve Fund (up to US\$38.6 million based on available income, as mentioned in para.1), and requested the Secretariat, with the PCB Working Group on Resource Mobilization, to establish a basis for determining the appropriate level of the Operating Reserve Fund for the future.

7. The facility of being able to receive advanced funds against anticipated contributions provided by the interim rules of the Fund proved to be necessary, and in January 1998, the Executive Director was obliged to draw upon the Reserve Fund up to a level of US\$15 million, to meet its obligations as described above (see also Annex III). This amount of US\$15 million advanced from the Reserve Fund has to be seen in the context that US\$18.6 million of WHO/GPA carry-over funds were still maintained in the Trust Fund (see para. 5 above), pending a decision by the PCB on the optimal level of the Operating Reserve Fund. In this way, UNAIDS started January 1998 with an amount of US\$33 million as cash advanced from the available “carry-over” funds, with US\$5 million as the balance in the Reserve Fund. Repayment to the Reserve Fund started as soon as outstanding contributions were received, according to the proposed rules set out in paragraph 11.

Proposed level of the Operating Reserve Fund

8. As mentioned above, UNAIDS exists entirely on voluntary-funded contributions, and under the rules by which it operates, it cannot legally commit funds on the basis of written pledges. Experience has also shown that most anticipated income for the current year tends to arrive the third or fourth quarter of the calendar year (see Annexes I and III). It is thus important to recommend an optimal level from the potential “carry-over” funds available for an Operating Reserve Fund. The factors for deciding on an optimal level to recommend for the Reserve Fund should take into account the following:

- (a) In a situation of full staffing, and in order to comply with the WHO financial requirements (see para. 4, third bullet), UNAIDS requires around **US\$20 million** in January of each year to obligate the cost of all Geneva-based and field-based posts (the cost of posts in the 1998-1999 approved budget has been calculated to amount US\$22 million each year).
- (b) In addition, activity implementation, budgeted at around US\$40 million annually, (i.e. US\$60 million less the US\$20 million for the cost of posts referred to above), would also require advance funding especially in the first part of the year. Using as a basis for calculation an average monthly obligation of US\$3.3 million (US\$40 million divided by 12 months), having funds available for the first **four months** of operations would provide UNAIDS with a minimum security level of funding (US\$3.3 million x 4 months = US\$13.2 million), pending the receipt of contributions. Thus, **US\$13 million** for activity obligations is also recommended in addition to the above legal requirement.

9. Taking into account the availability of funds, and the above factors, it is recommended that an Operating Reserve Fund be established at a level of **US\$33 million** (i.e. US\$20 million for staff commitments, and US\$13 million for activity implementation for the first four months of the year). This would provide UNAIDS with a minimum security level of operations, pending the receipt of contributions later in the year.

Proposed rules and procedures guiding the Operating Reserve Fund

10. Rules and procedures should be established that will provide UNAIDS with flexibility for cash to be advanced from the Operating Reserve Fund, to carry on implementing in the short-term, especially at the beginning of each calendar year. At the same time, these rules should also set provisions for repayment to safeguard the integrity of the Fund, so that such a Fund can serve as a permanent resource for the following year. The intention would be to start the beginning of each year – 1 January – with a balance in the Operating Reserve Fund showing that advances made to the Programme earlier in the year had either been re-paid by cash received, or were underwritten by confirmed but still outstanding pledges.

11. Taking the above principles into account, the proposed rules and procedures guiding the Operating Reserve are the following:

“An Operating Reserve Fund, in an amount of US\$33 million (see recommendation under para.9), shall be established for UNAIDS. Its primary purpose shall be to ensure that cash will be available for the financing of the UNAIDS approved biennial budget, pending the receipt of contributions. If, in the current financial period, the sum of available carry-over balances (other than those in the Operating Reserve Fund), contributions from donors and miscellaneous income (including interest earned on income), are not sufficient to enable UNAIDS to commit funds within its approved budget, advances may be made from the Operating Reserve Fund, provided that:

- (a) any advances made are covered by written pledges from donors, the funds for which are expected to be received for the current calendar year; or

- (b) any advances not covered by such written pledges will be made only during the first six months of the year, and will be repaid to the Operating Reserve Fund prior to the end of the calendar year.

Advances made under sub-paragraph (a) above shall be repaid when payment against written pledges has been received, or as a first charge on any available income.

Advances made under sub-paragraph (b) above shall be repaid as soon as contributions are received, but in any event prior to the end of the calendar year in which they were made. Any shortfall shall be recovered through reprogramming of the approved biennial programme budget, if necessary, unless otherwise decided by the PCB.

Advances from the Operating Reserve Fund for other purposes may be proposed by the Executive Director to the PCB, to be approved under such terms and conditions, and with such repayment provisions, as the PCB may determine.”

12. It should be noted that the PCB, at its formal annual sessions, will be presented with a status of the Operating Reserve Fund, during the standard item dealing with financial matters. The PCB may, at any point, request to review and revise the level of the Operating Reserve Fund. Interest earned on all UNAIDS funds administered by WHO are made available to the Programme.

Concluding note

13. Once the PCB, at its forthcoming formal annual meeting, has agreed on the optimal size of the Operating Reserve Fund, it will be possible to confirm the size of the surplus of funds that will remain from the carry-over of funds available. In the light of events, the Secretariat will develop proposals for the use of this surplus, taking into account also the trends in income in the 1998-1999 biennium, for subsequent consideration by the PCB at its next formal meeting.
