



UNAIDS/PCB(26)/10.6
15 April 2010

26th Meeting of the UNAIDS Programme Coordinating Board
Geneva, Switzerland
22-24 June 2010

Interim financial management update for the 2010–2011 biennium
for the period 1 January 2010 to 31 March 2010

Additional documents for this item: Financial report and audited financial statements for the financial period 1 January 2008 to 31 December 2009 and report of the external auditor (Document: UNAIDS/PCB(26)/10.4)

Action required at this meeting - the Programme Coordinating Board is invited to:

- i. Take note of the interim financial management update for the 2010-2011 biennium for the period 1 January 2010 to 31 March 2010;
- ii. Encourage donor governments and others to release their contributions towards the 2010-2011 Unified Budget and Workplan as soon as possible;
- iii. Take note of UNAIDS need for working capital to ensure the continuous and smooth operations and implementation of the Unified Budget and Workplan;
- iv. Acknowledge ongoing efforts to monitor the working capital to ensure it is maintained at an appropriate level, and;
- v. Approve a maximum level for UNAIDS working capital (equivalent to 35 – 37 per cent of UNAIDS biennial budget).

Cost implications for decisions: none

I. Introduction

1. The financial period of UNAIDS covers two consecutive calendar years, beginning with an even-numbered year. This document presents interim financial management information on the 2010–2011 biennium, for the period 1 January 2010 to 31 March 2010. A formal and certified financial report covering the full biennium will be prepared at the end of 2011, the second year of the financial period.
2. This interim financial management information is not accompanied by an audit opinion. However, the accounts and operations of UNAIDS are subject to continuous examination and review by both internal and external auditors of WHO, which provides administration in support of the Programme as per Economic and Social Council of the United Nations (ECOSOC) resolution 1994/24, and Article XI of the Memorandum of Understanding among Cosponsors establishing UNAIDS.

II. The Unified Budget and Workplan for the 2010–2011 biennium

Approved Budget and Workplan

3. The 2010-2011 Unified Budget and Workplan has been guided by the 2007-2011 Strategic Framework for UNAIDS support to countries' efforts to move towards Universal Access to HIV prevention, treatment, care and support (UNAIDS/PCB(23)08.27). This Framework outlines the following five strategic directions for the Joint Programme:
 - Guiding the global agenda, increasing involvement and monitoring global progress;
 - Technical support and capacity building to 'make the money work' for Universal Access;
 - Human rights, gender equality and reduced vulnerability of most-at-risk populations;
 - Re-emphasizing HIV prevention alongside treatment, care and support; and
 - Strengthening harmonization and alignment to national priorities.
4. In addition, the 2010-2011 Unified Budget and Workplan reflects a focus on the following ten priority areas which are linked to expected outcomes and outputs:
 - Reducing sexual transmission of HIV;
 - Preventing mothers from dying and babies from becoming infected with HIV;
 - Ensuring people living with HIV receive treatment;
 - Preventing people living with HIV from dying of tuberculosis;
 - Protecting drug users from becoming infected with HIV;
 - Removing punitive laws, policies and practices, stigma and discrimination that block effective responses to AIDS;
 - Stopping violence against women and girls;
 - Empowering young people to protect themselves from HIV;
 - Enhancing social protection for people affected by HIV; and
 - Protecting men who have sex with men, sex workers, and transgender people from becoming infected with HIV.
5. The 2010-2011 Unified Budget and Workplan continues to work across the breadth of the AIDS response, and also provides for intensified, focused action to accelerate progress in the ten priority areas. In addition, the six cross-cutting strategies and institutional delivery mechanisms are identified as a means of achieving effectiveness and efficiency in operations.

6. At its 24th meeting held in Geneva from 22-24 June 2009, the Programme Coordinating Board endorsed the action agenda and priority areas contained in the 2010-2011 Unified Budget and Workplan. It approved the total budget of US\$ 484.8 million (the same level as for the previous biennium) and the distribution of these resources as follows: US\$ 161.0 million to be shared among 10 Cosponsors; US\$ 182.4 million for the UNAIDS Secretariat; US\$ 136.4 million for interagency activities; and US\$ 5 million as a contingency fund.

Funds made available for the 2010–2011 biennium

7. During the period under review, operating revenue of US\$ 167.9 million was made available for the core resources of the 2010-2011 Unified Budget and Workplan. Sixteen governments contributed 97.6 per cent of this amount, and the World Bank contributed 2.4 per cent of this amount. Table 1 provides the details of revenue attributed towards the 2010-2011 Unified Budget and Workplan during the period 1 January 2010 to 31 March 2010.

Table 1: Unified Budget and Workplan details of revenue (in US dollars)

| Voluntary contributions | Funds made available towards 2010-2011 Unified Budget and Workplan |
|--|--|
| Governments | |
| Australia | 3 181 818 |
| Belgium | 6 004 535 |
| Finland | 12 145 749 |
| France | 944 669 |
| Germany | 3 633 721 |
| Ireland | 3 952 569 |
| Israel | 5 000 |
| Japan | 2 875 136 |
| Luxembourg | 3 576 248 |
| Netherlands | 42 510 121 |
| New Zealand | 2 583 000 |
| Norway | 26 823 135 |
| Russia | 500 000 |
| Sweden | 36 791 148 |
| Thailand | 99 973 |
| United Kingdom of Great Britain and Northern Ireland | 18 233 487 |
| | 163 860 309 |
| Cosponsoring organizations | |
| World Bank | 4 000 000 |
| TOTAL | 167 860 309 |

8. Table 2 compares the percentage of funds contributed towards the respective Unified Budget and Workplans for 2006–2007, 2008–2009 and 2010–2011 by 31 March of 2006, 2008 and 2010 for the relevant biennium. The percentage of funds attributed to the 2010–2011 Unified Budget and Workplan currently stands at 34.6 per cent (US\$ 167.9 million contributed against the Unified Budget and Workplan of US\$ 484.8 million), which compares favourably to the 16.6 per cent and 9.2 per cent received at the same time in 2006 and 2008.
9. The main factors that have contributed to this trend are the general increase in contributions from the donor community to UNAIDS and the change in accounting policy of recognizing revenue on accrual basis (i.e., revenue is recognized upon signature of a donor agreement and not when the cash is received). However, it is important to note that due to this change of policy, US\$ 167.8 million was recognized as revenue, but only US\$ 39.7 million of the total amount was received as at 31 March 2010. Under the revenue recognition policy of previous biennia, the percentage of revenue recognized against the 2010-2011 Unified Budget and Workplan would have been only 8.2 per cent. This highlights the need for donors who have already made commitments, to pay the outstanding amounts and for those donors who have not yet done so, to pledge and pay their contributions to UNAIDS for 2010 in full.

Table 2: Percentage of revenue recognized against the Unified Budget and Workplan funding requirements by 31 March in 2006, 2008 and 2010

| | 31 March 2006 | 31 March 2008 | 31 March 2010 | 31 March 2010 |
|--|------------------|------------------|-----------------------|----------------------|
| Approved level of the Unified Budget and Workplan in the concerned biennium (in thousands of US dollars) | 406 700 | 484 820 | 484 820 | 484 820 |
| Revenue recognized against the Unified Budget and Workplan (in thousand of US dollars) | 67 483 | 44 624 | 167 860 ^{a/} | 39 651 ^{b/} |
| Percentage of revenue recognized against the Unified Budget and Workplan funding requirement | 16.6% | 9.2% | 34.6% ^{a/} | 8.2% ^{b/} |

^{a/} Based on the revised accounting policy of recognizing revenue on accrual basis (i.e. upon signature of donor agreement)

^{b/} Based on the previous accounting policy of recognizing revenue on cash basis (i.e. when actual cash is received)

III. Extra-budgetary funds

10. During the period under review, extra-budgetary resources amounting to US\$ 17.3 million were made available to UNAIDS to provide support to a number of global, regional and country activities and a number of interagency-managed activities that are not included in the Unified Budget and Workplan and do not specifically fall under any Cosponsor's mandate. Details on the sources of these funds are provided in Table 3.

Table 3: Extra-budgetary details of revenue (in US dollars)

| Voluntary contributions | Funds made available towards Extra-budgetary funds 2010-2011 |
|--|---|
| Governments | |
| Australia | 4 400 281 |
| Denmark | 3 893 517 |
| Ireland | 194 301 |
| Japan | 350 000 |
| Luxembourg | 2 699 056 |
| Sweden | 2 474 880 |
| United Kingdom of Great Britain and Northern Ireland | 205 843 |
| United States of America (USAID) | 585 188 |
| | 14 803 066 |
| Cosponsoring organizations | |
| UNDP | 763 229 |
| | 763 229 |
| Other | |
| Asean Foundation | 126 087 |
| Commission of the European Communities | 820 497 |
| Germany, GTZ | 726 744 |
| UNCERF | 24 331 |
| | 1 697 659 |
| TOTAL | 17 263 954 |

IV. Funds expended and encumbered ¹ under the 2010-2011 Unified Budget and Workplan

11. During the period 1 January 2010 to 31 March 2010, expense and encumbrance (including transfers to Cosponsors) totaling US\$ 193.4 million were incurred against the budget of US\$ 484.8 million approved for the 2010–2011 Unified Budget and Workplan, which corresponds to a financial implementation rate of 39.9 per cent. The total expense and encumbrance for the implementation of the AIDS activities contained in the Unified Budget and Workplans were distributed as follows:

- US\$ 103.1 million was transferred to Cosponsors;
- US\$ 37.3 million was expended and encumbered for the Interagency activities; and
- US\$ 53.0 million was expended and encumbered for Secretariat activities and staff.

¹ Encumbrance equals a firm commitment for goods and/or services which have not yet been delivered.

12. Table 4 provides details on the 2010-2011 Unified Budget and Workplan approved allocations, expense and encumbrance broken down by Cosponsors, Interagency and Secretariat for the period 1 January 2010 to 31 March 2010.

13. **Table 4: 2010–2011 Unified Budget and Workplan approved allocations, expense and encumbrances for the period 1 January 2010 to 31 March 2010** (in thousands of US dollars)

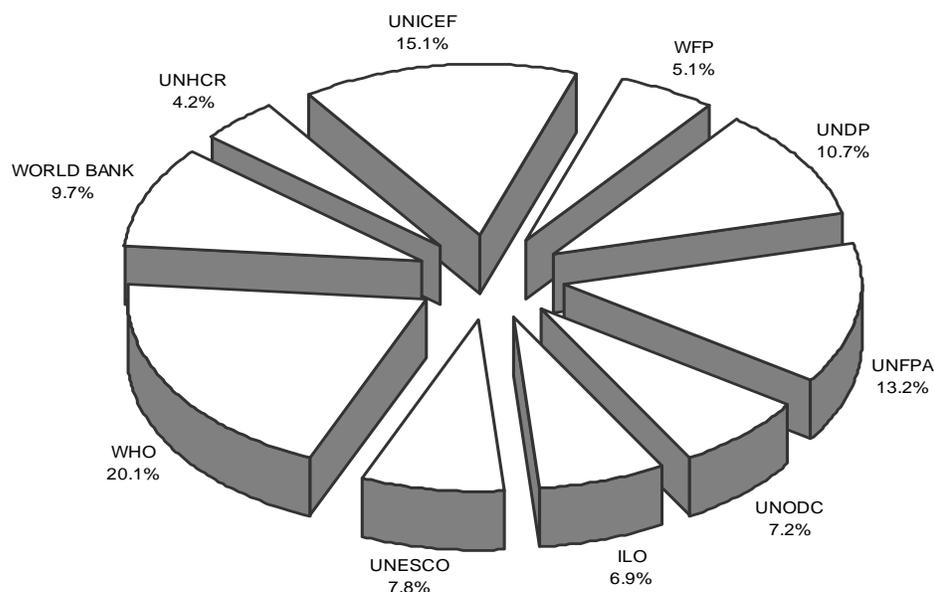
| | Approved allocations | Expense | Encumbrance ^{a/} | Total | Balance | Percentage implementation |
|--------------------|----------------------|----------------|---------------------------|----------------|----------------|---------------------------|
| | (a) | (b) | (c) | (d) = (b + c) | (e) = (a - d) | (f) = (d / a) |
| Cosponsors | 160 970 | 103 105 | - | 103 105 | 57 865 | 64.1% |
| Interagency | 136 450 | 8 842 | 28 416 | 37 258 | 99 192 | 27.3% |
| Secretariat | 182 400 | 16 900 | 36 127 | 53 027 | 129 373 | 29.1% |
| Contingency | 5 000 | - | - | - | 5 000 | - |
| Total | 484 820 | 128 847 | 64 543 | 193 390 | 291 430 | 39.9% |

^{a/} Encumbrance equals a firm commitment for goods and/or services which have not yet been delivered.

i) Funds transferred to Cosponsors

14. As of 31 March 2010, a total amount of US\$ 103.1 million has been transferred against the Cosponsors' budget, representing 64.1 per cent of the Cosponsors' share under the 2010-2011 Unified Budget and Workplan. Figure 1 provides information on the proportion of funds transferred against each individual Cosponsor versus total funds allocated.

Figure 1: Cosponsors' share of funds transferred as of 31 March 2010



ii) Funds expended and encumbered against Interagency resources

15. Interagency activities involve joint initiatives by more than one member of the UNAIDS Cosponsors and/or the Secretariat. These activities typically focus on cross-cutting activities that help strengthen the multisectoral AIDS response. During the period under review, a total amount of US\$ 8.8 million was expended and US\$ 28.4 million was encumbered for Interagency activities out of an approved biennium allocation of US\$ 136.4 million² which together represents a financial implementation rate of 27.3 per cent.

iii) Funds expended and encumbered against the Secretariat budget

16. During the period under review, a total amount of US\$ 16.9 million was expended and US\$ 36.1 million was encumbered against the Secretariat biennium budget of US\$ 182.4 million which together represent a financial implementation rate of 29.1 per cent. The total amount expended and encumbered includes US\$ 32.5 million for fixed term core staff costs and US\$ 20.5 million for activities.

V. Funds expended and encumbered against the extra-budgetary funds for 2010-2011

17. During the period under review, a total of US\$ 1.5 million was expended and US\$ 4.6 million was encumbered against the extra-budgetary resources as detailed in Table 5.
18. Table 5 also presents: (i) an overview of the total extra-budgetary resources (column c), including funds carried over from 2009 which have been made available to programme activities; and (ii) the amount of funds expended and encumbered from 1 January 2010 to 31 March 2010.

VI. Working Capital

19. Despite an overall financial implementation rate of over 95 per cent each biennium since its establishment, and a 99 per cent financial implementation last biennium against the Unified Budget and Workplan, the Programme has ended each financial period with a positive fund balance, commensurate with the increase in the budget of the Programme and mobilization of resources for the Unified Budget and Workplan. On 31 December 2009, this accumulated fund balance amounted to US\$ 218.3 million³.
20. At the 24th meeting of the Programme Coordinating Board in June 2009, the Executive Director committed to (i) monitor UNAIDS funding situation to ensure that the working capital of the Programme stays at an appropriate level, and (ii) look for ways for UNAIDS to operate in a manner that would require a smaller fund balance. This section outlines the need of UNAIDS, an entirely voluntary funded programme, to have sufficient working capital to achieve the results of the Unified Budget and Workplan and requests the Programme Coordinating Board to set a maximum level for the working capital, proposed to be equivalent to 35 -37 per cent of UNAIDS biennial budget.

(i) Rationale and justification for Working Capital

21. Three key factors determine the amount of funds required by UNAIDS to ensure operational viability:
- a) The nature and timing of donor contributions. As a Programme which is entirely voluntary funded, UNAIDS is dependent on donor contributions. UNAIDS has a few, but not many, multi-

² The Interagency budget includes a provision of US\$ 100 million for the salaries of the Interagency country staff (UNAIDS Country Coordinators and advisers on monitoring and evaluation, partnership development and social mobilization) and operational costs for 85 UNAIDS country offices and related investment in IT field connectivity.

³ Please refer to Programme Coordinating Board document (UNAIDS/PCB(26)/10.6, page 5, paragraph number 8.

year funding commitments and no assessed contributions from member states. As many donors pay their contributions in the third or fourth quarter of the year, UNAIDS needs working capital equivalent to at least six months of operations to ensure continuity in implementation of Unified Budget and Workplan activities.

- b) The role of UNAIDS Secretariat in funding Cosponsors' workplans. Funds to implement the core activities of the Cosponsors' share of the Unified Budget and Workplan, which are mobilized by UNAIDS Secretariat, have grown from US\$ 30 million in 2000-2001 to US\$ 161 million in 2010-2011. The financial rules of Cosponsors require that the costs of staff positions be obligated for six months or a full year at the beginning of each calendar year. Upfront payments from the UNAIDS working capital enable the Cosponsors to meet this requirement, thereby facilitating continuity in their programmes and operations.
- c) The payment of salaries and other costs of the Secretariat and Interagency activities in the Unified Budget and Workplan. Under the financial rules and practices of UNAIDS (which follow those of WHO), the Programme is required to obligate salaries for six months on a rolling basis at the beginning of each month. In addition, programme activities planned to commence at the beginning of a biennium require funding.

(ii) Working Capital requirements in 2010-2011 and beyond

- 22. A total of US\$ 230 million will be required by UNAIDS to fund operations in the first six months of the 2010- 2011 biennium. Of this amount, US\$ 103.1 million has already been transferred to the ten Cosponsors to enable the start-up of their activities; US\$ 85 million is required to fund UNAIDS Secretariat and Interagency staff salaries for six months on a rolling basis, and US\$ 42 million is needed for UNAIDS Secretariat and Interagency activities and running costs in the first six months of the year.
- 23. Based on pledges and firm indications from donors by the end of March 2010, the amount of funds mobilized in the first six months of 2010 is expected to be approximately \$180 million. However, of this amount only US\$ 39.7 million has been received by UNAIDS as at 31 March 2010.
- 24. Compared to previous biennia, it appears that the funding mobilized in 2010 exceeds what has been raised in the past in the first six months of the biennium. This is primarily due to the change in the accounting policy of recognizing revenue on accrual basis (i.e., revenue is recognized upon signature of a donor agreement and not when the cash is received)⁴. Under the revenue recognition policy of previous biennia, the percentage of revenue recognized against the 2010-2011 Unified Budget and Workplan would have been only 8.2 per cent.
- 25. A number of other factors also influence the funding available to UNAIDS, such as a general increase in contributions from the donor community to UNAIDS; currency fluctuations and uncertainties in the financial markets, which requires some provision to be built in over and above what current expenditures reflect.
- 26. The nature of UNAIDS as a voluntary funded programme requires working capital to implement activities pending receipt of cash relating to donor pledges. To ensure continuity in activities from one biennium to the next, sufficient working capital at the end of each biennium is necessary to ensure the smooth start up and implementation of the Unified Budget and Workplan in the following biennium⁵.

⁴ It should be noted that due to the change in accounting policy, US\$ 167.9 was recognized as revenue, but only US\$ 39.7 million of the total amount was received as at 31 March 2010. This implies that US\$ 128.2 million was still outstanding (i.e., not received) as of 31 March 2010.

⁵ Due to the nature of UNAIDS operations, it is difficult to make direct comparisons with other UN funds, programmes and agencies as a basis for setting the level of the working capital

27. It is recommended that the basis for setting the level of working capital for future biennia should take into account the need to (i) transfer twelve months of the Cosponsors share of their budget allocations; (ii) fund UNAIDS Secretariat and Interagency staff salaries for six months on a rolling basis and (iii) cover UNAIDS Secretariat and Interagency activities and running costs for the first six months of the year.
28. Based on the current 2010-2011 Unified Budget and Workplan this would correspond to US\$ 215 million. However, when taking into consideration the expected income to be received during the first six months (approximately US\$ 40 million), the net working capital required at the start of each biennium would be in the range of US\$ 175 to US\$ 180 million.
29. A prudent approach would be to maintain the working capital at a level which corresponds to 35 – 37 per cent of the UNAIDS biennial budget in order to ensure efficient operations and continuity of activities. Therefore, based on the current estimates, it should be possible to reduce UNAIDS fund balance by US\$ 30 - US\$ 35 million.
30. The Programme Coordinating Board is requested to take note of the information contained in the Interim Financial Management Update for the 2010-2011 biennium for the period 1 January 2010 to 31 March 2010; encourage donor governments and others to release their contributions towards the 2010-2011 Unified Budget and Workplan as soon as possible.
31. Furthermore, the Programme Coordinating Board is requested to take note of UNAIDS need for working capital to ensure the continuous and smooth operations and implementation of the Unified Budget and Workplan and to acknowledge ongoing efforts to monitor the working capital to make certain it stays at an appropriate level. The Programme Coordinating Board is also requested to approve a maximum level for the working capital (proposed to be equivalent to between 35 – 37 per cent of the UNAIDS biennial budget).

Table 5

Extra-budgetary funds
Funds available, expense and encumbrance summary by source of income
for the financial period 1 January 2010 to 31 March 2010
(in US dollars)

| Source of income | 2006-2007 Carry-over | Funds received in 2008-2009 | Total Funds | Expense | Encumbrance ^{a/} | Total | Percentage Implementation |
|--|-------------------------|-----------------------------------|-------------------|------------------|---------------------------|------------------|------------------------------|
| | (a) | (b) | (c) = (a+b) | (d) | (e) | (f) = (d + e) | (g) = (f / c) |
| Voluntary contributions and other income | | | | | | | |
| Australia | 3 640 683 | 4 400 281 | 8 040 964 | 48 690 | 322 056 | 370 746 | 5% |
| Austria | 457 561 | - | 457 561 | - | - | - | - |
| Belgium | 178 368 | - | 178 368 | - | - | - | - |
| Denmark | 0 | 3 893 517 | 3 893 517 | - | 33 315 | 33 315 | 1% |
| Finland | 1 342 232 | - | 1 342 232 | 120 001 | 135 899 | 255 900 | 19% |
| France | 1 669 252 | - | 1 669 252 | - | - | - | - |
| Germany including GTZ | 1 064 700 | 726 744 | 1 791 444 | 72 121 | 202 144 | 274 265 | 15% |
| Ireland | 2 705 696 | 194 301 | 2 899 997 | 81 650 | 291 192 | 372 842 | 13% |
| Italy | 29 973 | - | 29 973 | - | - | - | - |
| Japan | 499 104 | 350 000 | 849 104 | - | - | - | - |
| Luxembourg | 6 791 317 | 2 699 056 | 9 490 373 | - | 48 600 | 48,600 | 1% |
| Ministry of the Flemish Community, <i>Belgium</i> | 704 805 | - | 704 805 | - | 63 000 | 63 000 | 9% |
| Netherlands | 14 249 | - | 14 249 | - | - | - | - |
| New Zealand | 87 425 | - | 87 425 | - | - | - | - |
| Norway | 863 180 | - | 863 180 | 34 167 | 140 000 | 174 167 | 20% |
| Russian Federation | 7 907 | - | 7 907 | - | - | - | - |
| Spain | 1 021 426 | - | 1 021 426 | 86 998 | 174 005 | 261 003 | 26% |
| Sweden | 5 568 511 | 2 474 880 | 8 043 391 | 163 260 | 435 951 | 599 211 | 7% |
| United Kingdom of Great Britain & Northern Ireland | 1 207 833 | 205 843 | 1 413 676 | 14 503 | 206 468 | 220 971 | 16% |
| United States of America (CDC) | 2 226 839 | - | 2 226 839 | 149 500 | 298 998 | 448 498 | 20% |
| United States of America (NHI) | 16 807 | - | 16 807 | - | - | - | - |
| United States of America (USAID) | 4 567 168 | 585 188 | 5 152 356 | - | - | - | - |
| Asean Foundation | 0 | 126 087 | 126 087 | - | - | - | - |
| AWARE | 30 009 | - | 30 009 | - | - | - | - |
| Bill & Melinda Gates Foundation | 1 156 508 | - | 1 156 508 | 2 871 | 21 242 | 24 113 | 2% |
| CARICOM | 108 279 | - | 108 279 | 41 250 | 41 250 | 82 500 | 76% |
| Commission of the European Communities | 57 582 | 820,497 | 878 079 | 101 000 | 151,500 | 252 500 | 29% |
| Ford Foundation | 864 010 | - | 864 010 | - | - | - | 0% |
| Geneva Global Inc. | 26 549 | - | 26 549 | - | - | - | - |
| Global Fund | 148 799 | - | 148 799 | - | - | - | - |
| Imperial College London | 13 808 | - | 13 808 | - | - | - | - |
| John Hopkins Univeristy | 5 786 | - | 5 786 | - | - | - | - |
| Merck & Company Inc. | 189 120 | - | 189 120 | - | - | - | - |
| National Agency for AIDS Research | 13 122 | - | 13 122 | - | - | - | - |
| Organization of Petroleum Exporting Countries | 974 780 | - | 974 780 | - | - | - | - |
| Southern African Development Community | 43 555 | - | 43 555 | - | - | - | - |
| Stanford Univeristy | 10 000 | - | 10 000 | - | - | - | - |
| UNCERF | 0 | 24 331 | 24 331 | - | - | - | - |
| UNDP | 1 490 016 | 763 229 | 2 253 245 | 238 502 | 898 754 | 1 137 256 | 50% |
| UNESCO | 116 000 | - | 116 000 | - | - | - | - |
| UNFIP | 229 920 | - | 229 920 | - | - | - | - |
| UNHCR | 83 562 | - | 83 562 | - | - | - | - |
| UNICEF | 33 803 | - | 33 803 | - | - | - | - |
| UNIFEM | 22 145 | - | 22 145 | - | - | - | - |
| United Nations | 20 000 | - | 20 000 | - | - | - | - |
| UNODC | 13 825 | - | 13 825 | - | - | - | - |
| UNOPS | 26 529 | - | 26 529 | - | - | - | - |
| WHO | 6 393 | - | 6 393 | - | - | - | - |
| World Bank | 7 275 | - | 7 275 | - | - | - | - |
| Special PCB allocations | 17 587 372 | - | 17 587 372 | 279 000 | 558 000 | 837 000 | 5% |
| Miscellaneous | 32 638 | - | 32 638 | - | - | - | - |
| Interest and other | 8 125 154 | - | 8 125 154 | 101 631 | 529 490 | 631 121 | 8% |
| Total | 66 101 575 | 17 263 954 | 83 365 529 | 1 535 144 | 4 551 864 | 6 087 008 | 7% |

^{a/} Encumbrance equals a firm commitment for goods and/or services which have not yet been delivered.