

Technical workshop

On the margins of the forty-seventh session of the Subsidiary Body for Implementation
7 November 2017



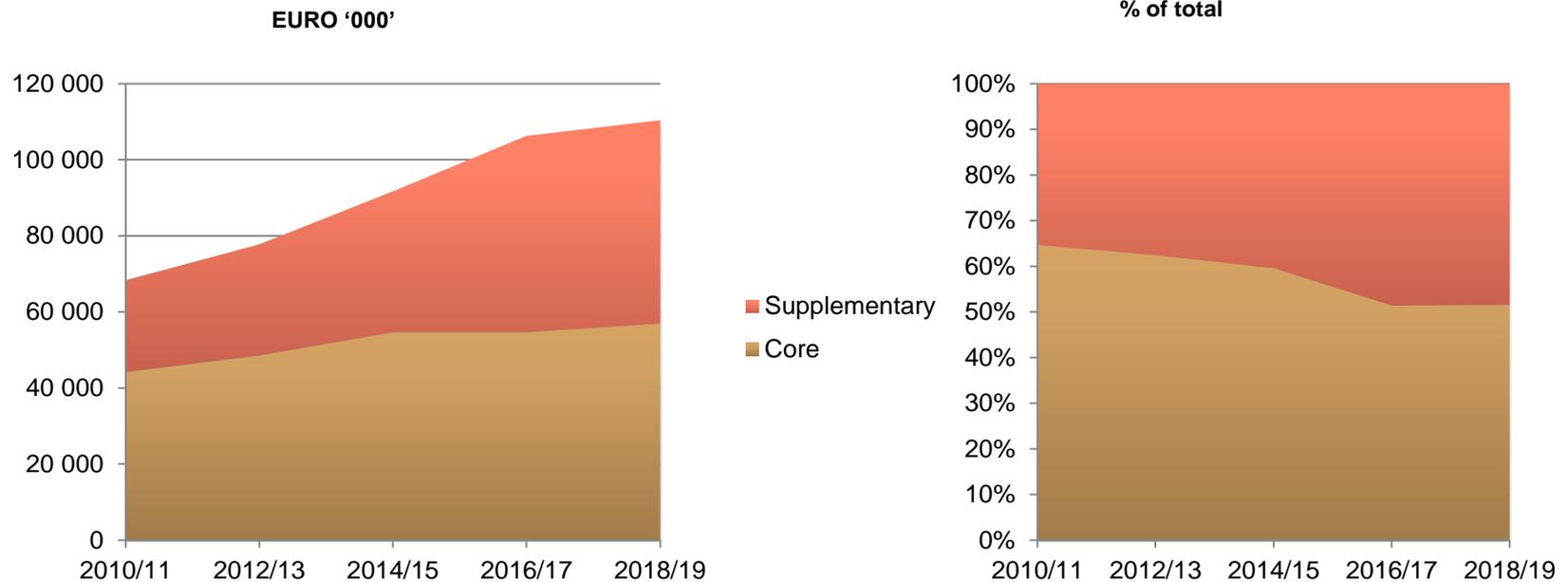
Joan Sawe, Frank Rauch, Juleka Rajah, Daniele Violetti, Laura Lopez
UNFCCC secretariat

Increasing flexibility of the funds in the Trust Fund for Supplementary Activities



Overview of the Trust Fund for Supplementary Activities

- The Trust Fund for Supplementary Activities (TFSA) is financed from voluntary contributions
- The TSFA is becoming a larger proportion of the total funding in relation to core: from 35% in 2010-11 to 48% in 2018-19



Growth of TFSA in relation to core budget funds 2010 to 2018/19 (projected)



- Many UN entities receive supplementary funding
- Core funding has been largely static across the UN; supplementary funding has often been increasing
- Government austerity measures, financial crises limit core funding and lead to unfunded mandated activities
- Whatever the name, some supplementary funding is flexible while most is earmarked to some degree

Earmarked contributions

Directed multi-lateral contributions

Non-core

Special Purpose funds

Extra-budgetary resources

Other resources

Project and emergency appeals

Voluntary Contributions - specified

Technical Cooperation funds



Advantages

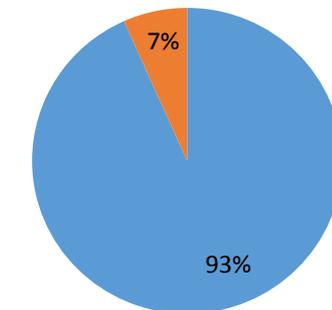
- Can allow **expansion of activities** when core funding is static
- Can provide **increased accountability**, transparency and visibility
- Can improve **ability of donors to account** to citizens and stakeholders

Disadvantages

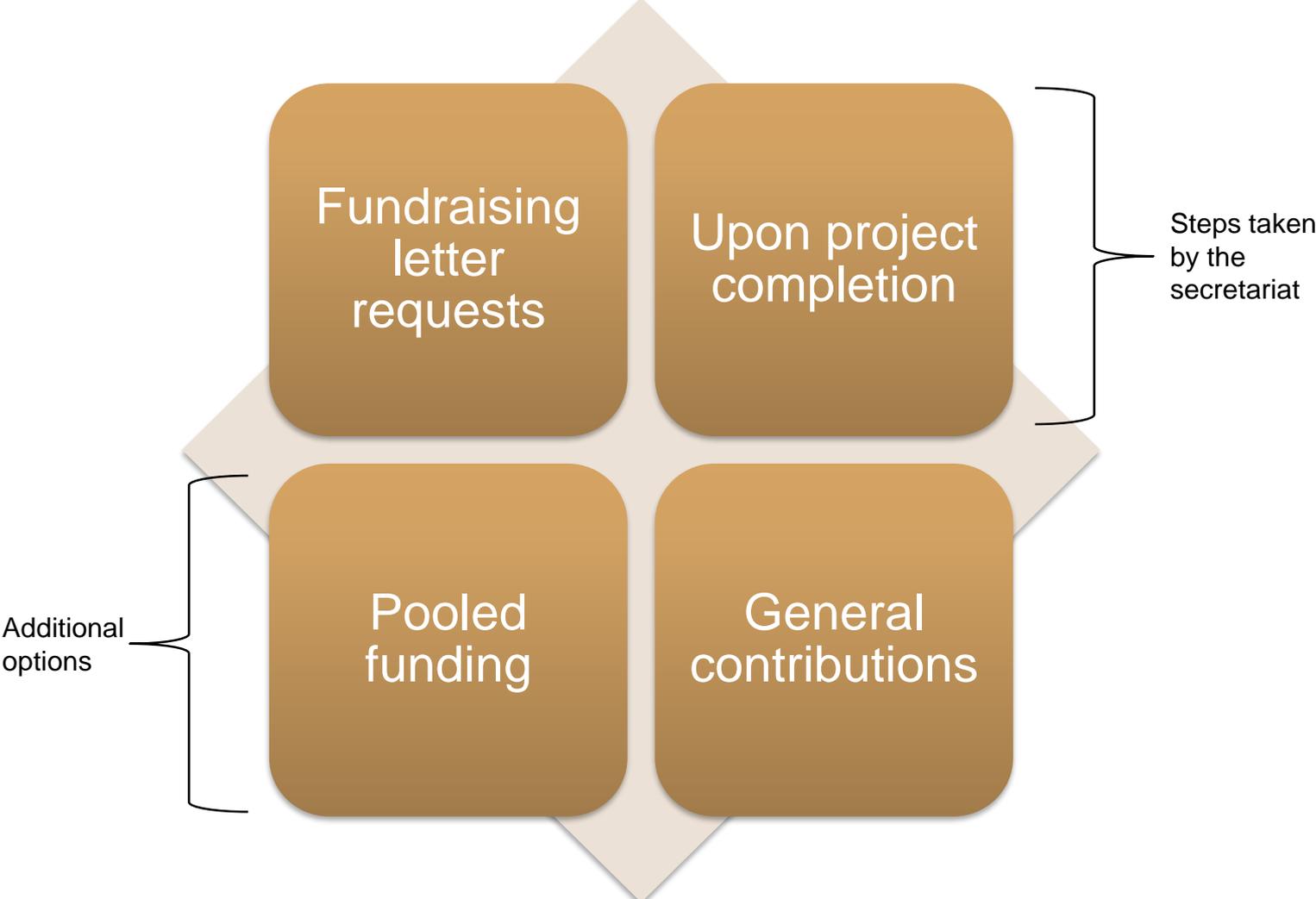
- **Limits flexibility** to distribute resources
- **Increases transaction costs** due to negotiating additional agreements, producing separate reports
- **Reduces ability to plan** due to inherent unpredictability
- **Leads to a short-term planning** focus, start-stop operations, suboptimal execution, especially in absence of multi-year funding

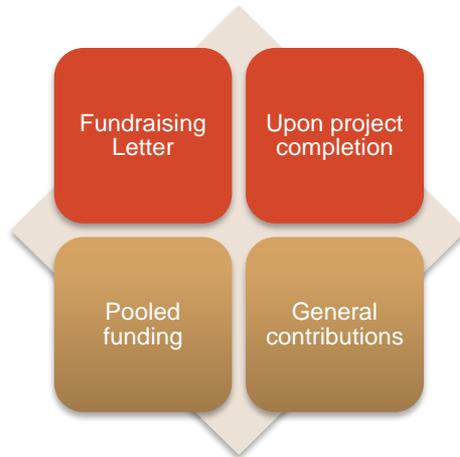
- Resource requirements and mandated activities presented in the Programme Budget documents are the basis for fundraising
- Executive Secretary sends annual fundraising letters to Parties
 - Requests are based on total supplementary requirements less any available funding carried forward.
 - Parties liaise with secretariat to determine amounts and allocations of contributions
- Additional resource mobilization efforts are directed to various stakeholders including foundations, private companies and other UN agencies and non-state actors

Contributions for 2016-17 to TFSA by type of contributor
as at 5 sept 2017



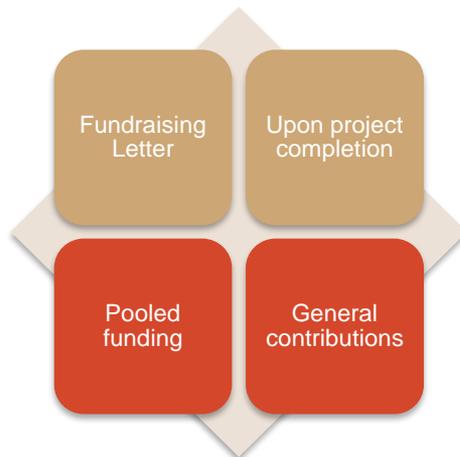
■ Parties ■ Non-Party contributors





Secretariat steps

- The Executive Secretary's annual **fundraising letter** encourages Parties to provide funding in line with their funding channels, either to specific projects, or as a general contribution to the TFSA
- Upon **project completion**, if use of unspent balances has not been specified, the secretariat requests approval to apply the balance to existing programme priorities



Additional options

- Parties could identify broad cross-cutting thematic areas of work, e.g. the transparency regime
 - Would allow thematic work to be viewed holistically across programme structure, enhancing internal coherence
 - Allows strategic prioritization by the COP and efficient management of resources by the secretariat
 - Does not eliminate earmarking but does increase flexibility within a defined pool
- Increase the share of general contributions: give the secretariat flexibility to assign resources to mandated activities

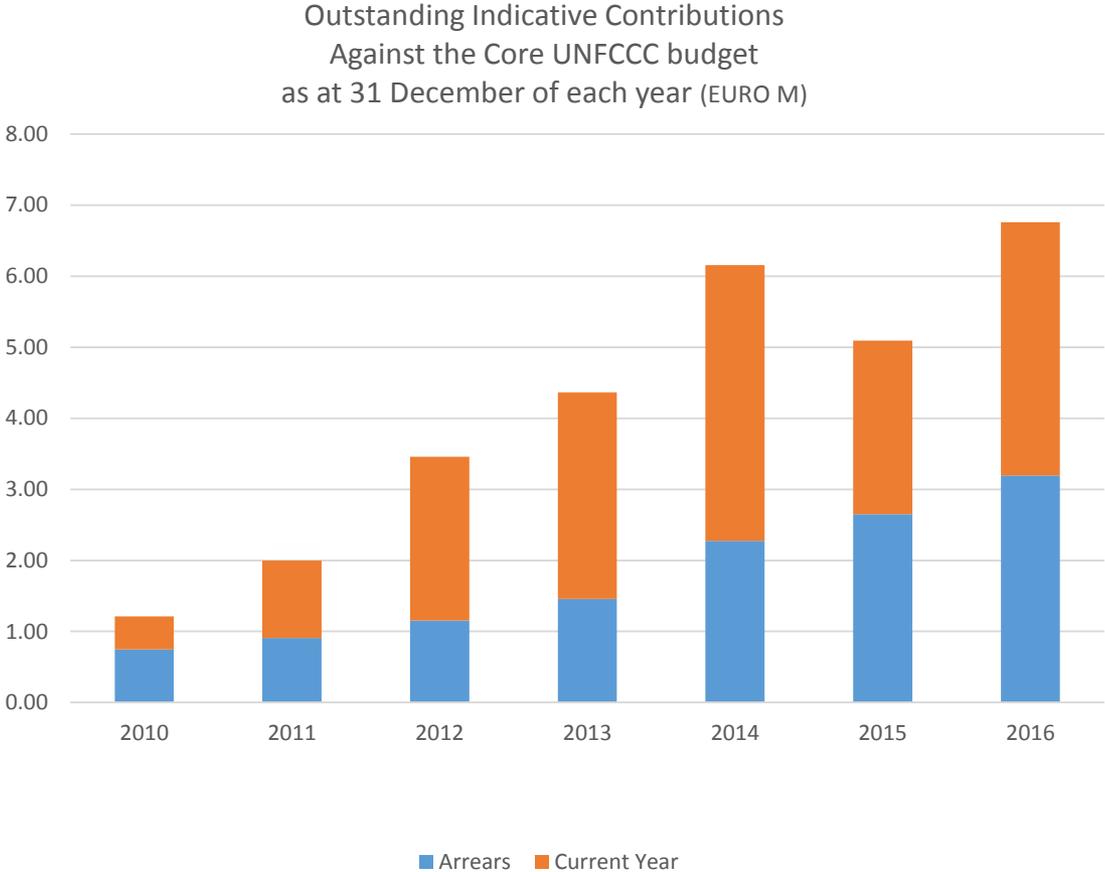
Conclusion

- Like other United Nations entities, the UNFCCC requires funding that is predictable, sustainable and flexible in order to effectively deliver mandated work.
- The secretariat welcomes the discussion by Parties on exploring ways and means to ensure that mandated activities are appropriately funded and mandated outputs effectively delivered.



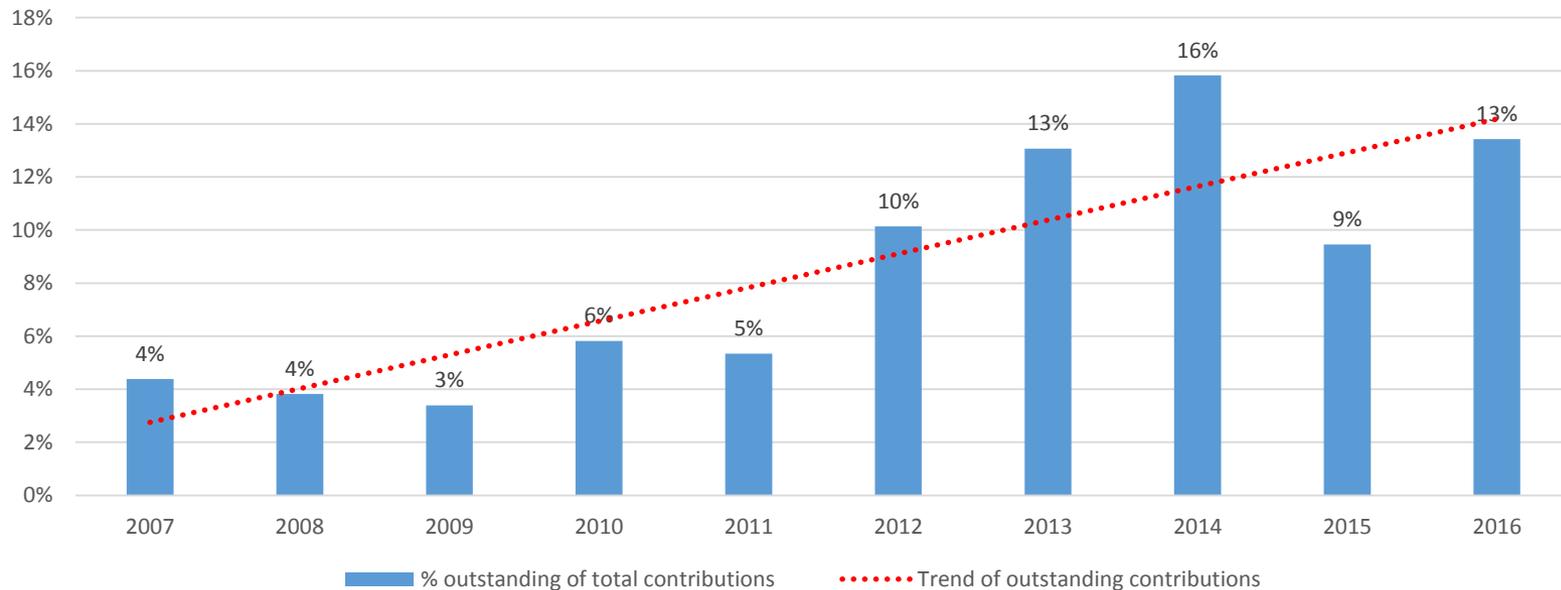
Ways to address
outstanding contributions to the core budget



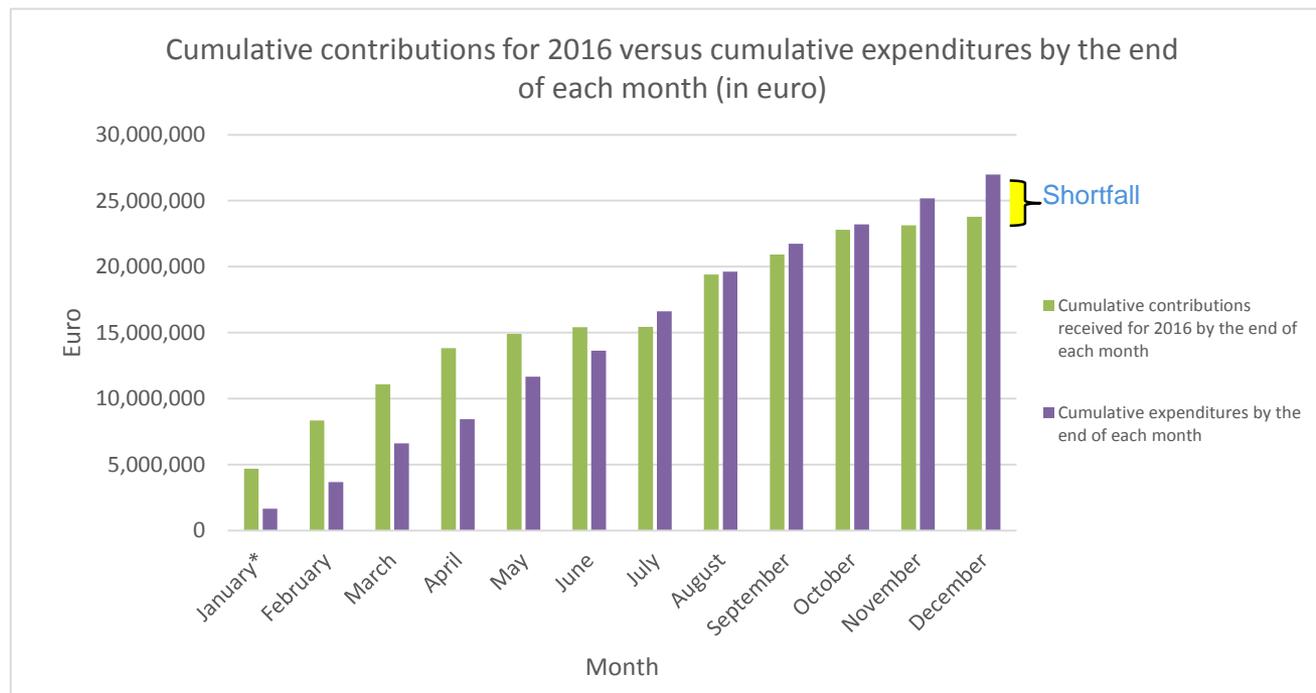


- The proportion of outstanding contributions by the end of each budget year has more than tripled from 4 per cent in 2007 to 13 per cent in 2016.

Outstanding indicative core budget contributions for the current year
(Convention, KP) in percent of total
as at 31 December of each year (2007-2016)

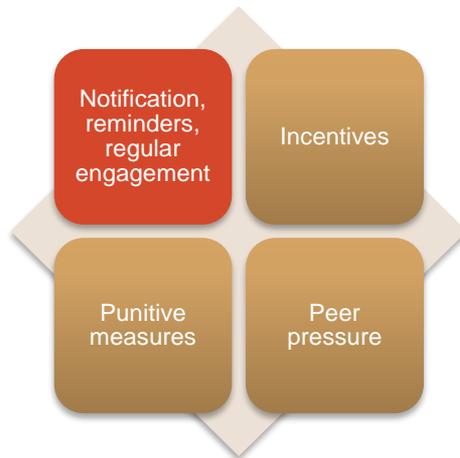


- 133 Parties have outstanding contributions for 2017 and prior years as at 31 August
- Total outstanding contributions amounted to:
 - close to **10 million** in mid-2017

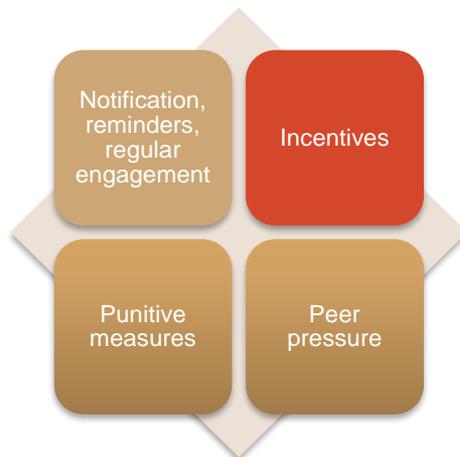


* Includes contributions received in 2015 for 2016

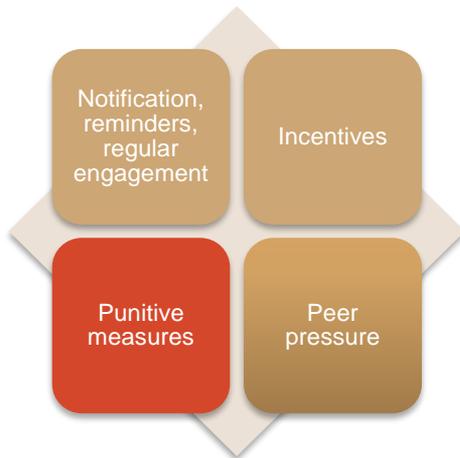




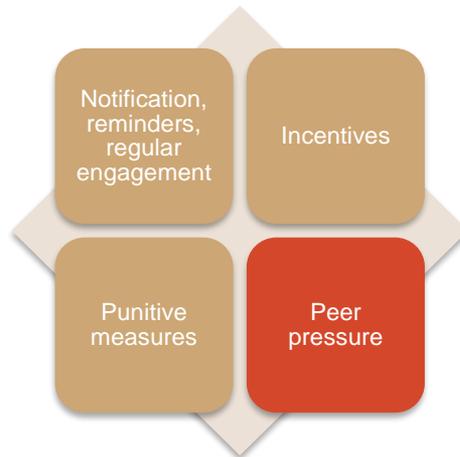
- The secretariat notifies Parties at least 90 days before payment is due on January 1 of each year
- Since January 2017, the secretariat also sends quarterly reminders
- In 2017 the number of Parties that had paid in full by 1 January increased from 15 to 18



- Payment plans: devised jointly to support gradual payment within a Party's ability
- Support programmes: a Party able to do so could support one or more others directly to reduce their arrears
- Provisions would need to be developed and adopted to guide such incentives



- UN General Assembly applies article 19: if arrears equal or exceed the amount of the contributions due for the preceding two full years, the Member has no vote
- However, the General Assembly may permit a Member to vote if failure to pay is beyond its control
- Such action may be seen as running counter to the principle of inclusiveness of UNFCCC?



- In some UN entities, parties encourage each other to settle outstanding contributions
- Some governing body Presidents actively engage with Parties in writing
 - Sending notification letters to encourage them to make good their contributions.
 - And to offer an opportunity to enter arrangements to retain voting rights despite punitive measures; this allows them to be included in processes whilst clearing outstanding contributions

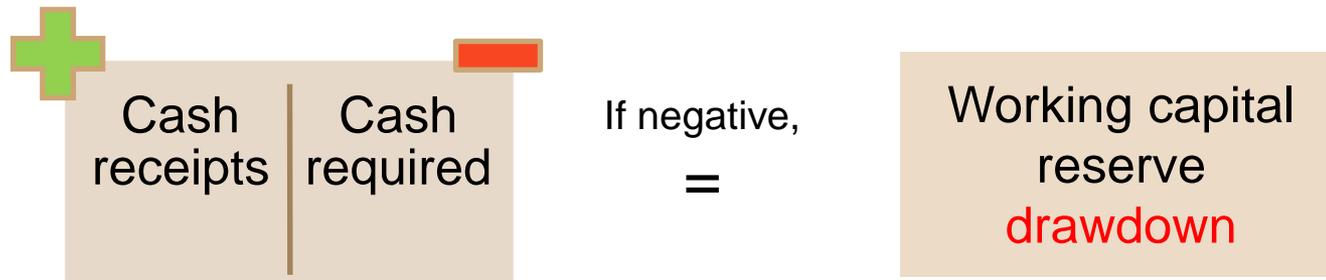
The level of the working capital reserve



- Purpose of a working capital reserve:
 - To guarantee **financial liquidity** and ensure continuity of operations in the event of a temporary shortfall of cash
 - To compensate for uneven cash flows of income and expenditure: **timing issues.**
- The working capital reserve under the Trust Fund for the Core Budget of the UNFCCC:
 - Is designed to **cover a cash shortfall** that may arise if contributions to the **core budget are outstanding**
 - Was established per the financial procedures contained in the annex to **decision 15/CP.1**, through contributions from the Parties
 - Was maintained at **the level of 8.3 percent of annual total expenditure** (equivalent to one month of operating requirements) by the budget decisions taken by the COP
 - Should **be restored as soon as possible after drawdowns**
 - **Is replenished when arrears are paid.** No new funds are needed for replenishment if arrears are paid.

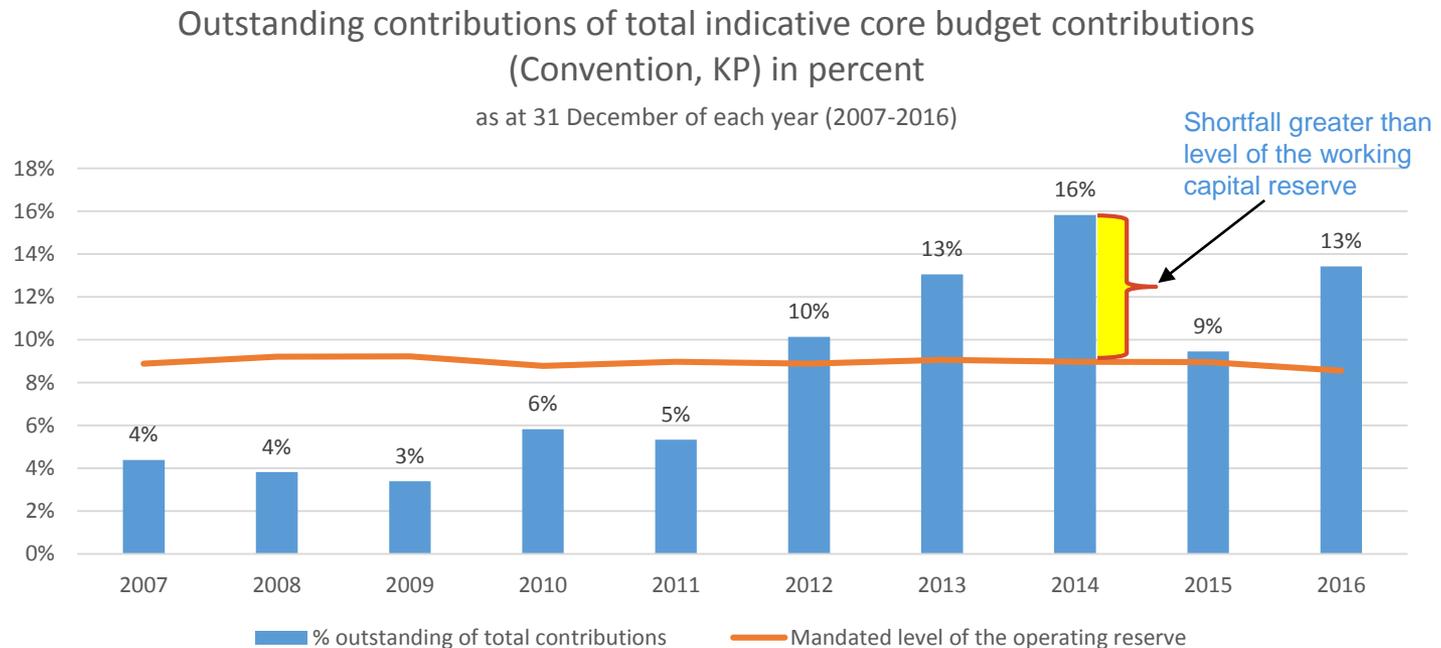


- To project the appropriate level of the working capital reserve, two factors are needed:
 1. Cash **receipts** from income for the time period
 2. Cash **requirements** to cover projected expenditure for the time period.
- If cash required is greater than available, a reserve is needed to cover the gap.



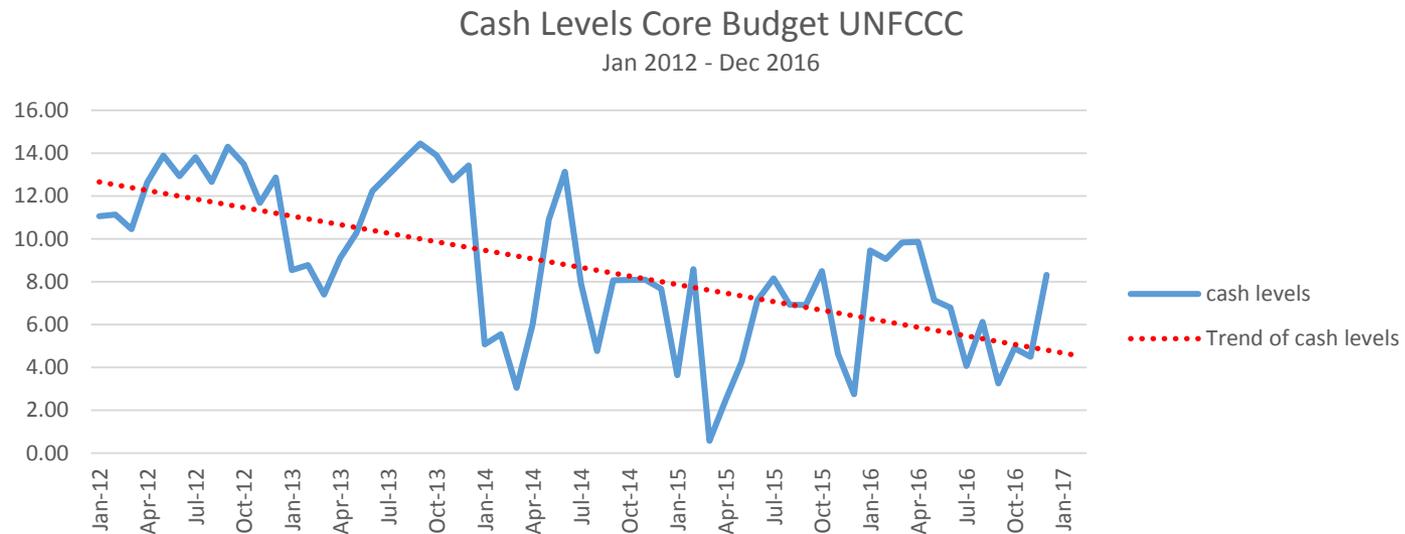
- The secretariat estimates cash **requirements** based on the UNFCCC core budget:
 - About 70% relates to salaries and is relatively steady each month
 - Activity costs vary more, based on the timing of relevant activities
 - By the end of the year, implementation rate of the core budget is close to 100, whilst the cash received for the year in 2016 was only 87%

- The proportion of outstanding contributions by the end of each budget year has more than tripled from 4 per cent in 2007 to 13 per cent in 2016.
- As the level of outstanding indicative contributions increases the secretariat needs to draw more frequently on the working capital reserve.
- The cash received to replenish the WCR from payment of arrears is not sufficient to fully cover the WCR used



Declining and erratic cash levels: A long term trend and its impact on the current budget implementation

- Cash levels vary significantly in the course of the year as a result of late contributions and arrears on the one hand and a certain expenditure fluctuation. The long term trend in cash levels is downward.
- Risk that programmes will have to delay activities until cash flow permits expenditure.
- In the last quarter of the year, the cash insufficiency is more pronounced and as a result a complete budget implementation might not be possible



A working capital reserve of only one month's equivalent expenditure does not provide a sufficient buffer for the current situation.

2016 overview	€	% of budget
Implementation as at end of 2016	€27m	99%
Share of budget received by end of December	€23.8	87%
Deficit = required drawdown of working capital	- €3.2m	-11.6%
Working capital reserve level	€2.3m	8.3%
Excess of requirements over reserve	- €0.9m	- 3.3%





Possible actions to ensure that the secretariat can deliver in accordance with the approved budget are:

- a) **Increase the level** of the working capital reserve from 8.3% of the approved annual budget to 12% per cent, with a view to increasing it to 15% in line with most other UN entities.
- b) Continue to work towards **more timely payment** of indicative contributions to reduce the need to use the reserve
- c) Parties to **indicate the timing** of the payment of their contributions to allow more effective projections of cash flow and better management of issues





Trust Fund for Supplementary Activities

- Consider pooled funding by theme; general contributions to the TFSA.

Outstanding indicative contributions

- Parties may wish to draw from their experiences with other entities, as this is a prevalent issue in many UN entities. Consideration may be given to increased reminders, incentives, punitive measures, peer pressure
- The secretariat counts on the support of the Parties to address this important issue

Working capital reserve

- Consider an increase in the level of the reserve to 12%, then 15%. Improve timely payment of indicative contributions, and parties' notification of timing to the secretariat.



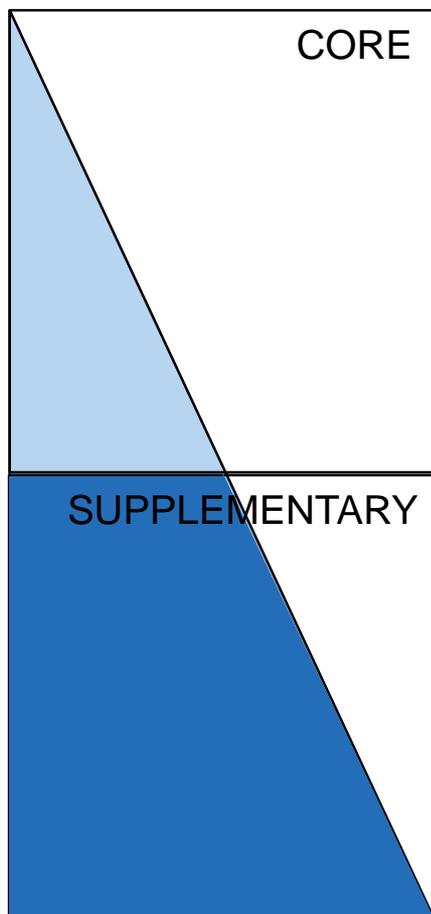
Discussion, Questions and Answers



The allocation of resources
in the Trust Fund for the Core Budget of the UNFCCC
and the Trust Fund for Supplementary Activities



- Resources under the core budget and supplementary resources represent major streams of income for work mandated by Parties
- Core budget funded from indicative contributions; supplementary resources funded from voluntary contributions
- Proportion of supplementary resources increased significantly; estimated resource requirements for supplementary funding at level similar to core budget
- A growing body of important work mandated by Parties covered increasingly by supplementary resources due to limitations on core budget resources.

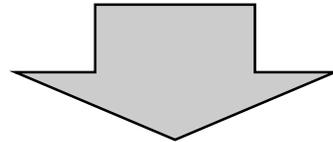


Core secretariat structure: e.g. executive and senior management positions, core legal services, administration, core information and communications technology infrastructure and services, basic external communications infrastructure and services.

Critical functions of continuing nature: e.g. support to intergovernmental process; activities mandated by governing bodies to facilitate implementation of the Convention, KP and PA, e.g. conduct of reviews and technical analyses, compilation and management of greenhouse gas and country data; key support functions re finance, technology, capacity-building and adaptation, support to some meetings of constituted bodies

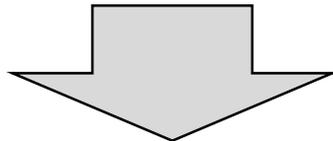
Scalable work elements and those responding to specific, time-bound mandates: e.g. secretariat support to the work of ad hoc working groups and sessions held outside the regular calendar of meetings; meetings of constituted bodies in addition to a baseline number agreed to by Parties for funding through the core; support to technical examination process, etc.

Pressure on core budget
+
Supplementary funding increasingly earmarked for specific activities



Some continuous mandated activities depend over-proportionally on supplementary resources, incl. technical support to adaptation, finance, technology, capacity-building and mitigation

Core resources insufficient to cover basic services infrastructure



Risk: critical activities in support of mandates from Parties do not have dependable, long-term funding

- Comprehensive review in 2018 of principles and practice of allocation of core and supplementary resources. Objectives:
 - a) Achieve more sustainable allocation of resources between activities funded from core and from supplementary resources
 - b) Improve balance of core-funded activities across major work streams
 - c) Provide a clearer definition of the minimum structure and functions to be funded from core
 - d) Review mandated activities, streamline where possible, and determine appropriate and sustainable mode of funding
 - e) Enhance cost-effectiveness of secretariat operations; maximize use of core budget.
- Pro-active, open and transparent consultations with Parties on outcomes of the review and implications for the allocation of resources in future
- Results of review to flow into preparation of programme budget 2020–2021.

Trust Fund for Participation in the UNFCCC Process



- The Trust Fund supports the participation of representatives:
 - of developing country Parties, in particular the LDCs and SIDs and other economies in transition, in the sessions of the Conference of the Parties (COP) and its subsidiary bodies
- The Trust Fund is also used to finance the participation of:
 - representatives of eligible Parties in intersessional meetings of the Bureau of the Convention bodies;
 - Bureau members in consultations or official meetings relating to the UNFCCC process;
 - Chairs of the negotiating groups of the Group of 77 and China, the LDCs and SIDs and the African Group to attend the sessions under the Convention; and
 - All eligible Parties in the preparatory meetings of the negotiating groups

Eligibility Criteria

- The eligibility criterion to gain access to the resources of the Trust Fund is based on a measure of Parties' Gross Domestic Product (GDP) per head as an indicator of their need of support
- The criterion used to determine eligibility over the last 20 years is based on the GDP per capita of each Party
- Currently, the Trust Fund provides financial support to Parties with a GDP per capita income of less than USD 14,000
- For SIDs, the threshold is higher - USD 18,000
- GDP statistics are provided by the United Nations Conference on Trade and Development (UNCTAD)



Advantages of Using GDP Per Capita Income of Parties

- Enables the administration of funds applicability to be clear and consistent
- Provides objectivity to the selection process, in particular when statistics come from recognized global institution
- GDP indicator provides a clear distinction between contributors to the Trust Fund and funded Parties



- The Trust Fund is under the administration of the UNFCCC Executive Secretary
- Subject to availability of financial resources:
 - The secretariat provides financial support to one delegate from each Party eligible for funding, plus an additional delegate for SIDs and LDCs to attend the sessions of the subsidiary bodies
 - The secretariat provides financial support to two delegates from each Party eligible for funding, plus an additional delegate for SIDs and LDCs to attend the sessions of the Conference of the Parties



Discussion, Questions and Answers

