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## **Subsidiary Body for Implementation**

**Fifty-second session\***

**Bonn**

Item 16(b) of the provisional agenda

**Administrative, financial and institutional matters**

**Other financial and budgetary matters**

## **Efforts to further improve the efficiency and transparency of the UNFCCC budget process**

### **Note by the secretariat**

#### *Summary*

This document provides an overview of measures taken to date by the secretariat to further improve the efficiency and transparency of the UNFCCC budget process and documentation, including in relation to the actions mandated in decisions 18/CP.24 and 18/CP.25 and the aspects that the Subsidiary Body for Implementation agreed to consider at its fifty-second session. It consolidates and updates the information contained in previous documents on this matter and provides information on how the secretariat intends to continue its efforts for future budget cycles.

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\* Dates of the session to be determined.

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## Abbreviations and acronyms

CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
CMP	Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol
COP	Conference of the Parties
KP**	Kyoto Protocol
m**	million
P	Professional level
SB	sessions of the subsidiary bodies
SBI	Subsidiary Body for Implementation
Suppl.**	supplementary

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\*\* Used exclusively in figure 2.

## I. Introduction

### A. Mandate

1. COP 25 requested the secretariat to report on its efforts to further improve the efficiency and transparency of the UNFCCC budget process and documentation for consideration at the first session of the SBI each year, including on its implementation of decision 18/CP.25, and on the provisions on other budgetary matters contained in decision 18/CP.24.<sup>1</sup>

### B. Background

2. SBI 44 requested the secretariat to prepare an information document to elaborate on options for improving the efficiency and transparency of the UNFCCC budget process.<sup>2</sup> The SBI has since regularly considered such options, including agreeing on additional standard documentation requirements; adopting the full United Nations regular budget process; establishing a budget review body; holding informal budget meetings; enhancing relevant use of the UNFCCC website; and producing an annual report.<sup>3</sup> Subsequently, COP 22 requested the Executive Secretary to gradually enhance the transparency of the budget process through the provision of additional documentation and to pursue other possible ways of increasing its efficiency and transparency.<sup>4</sup>

3. As requested at SBI 46,<sup>5</sup> the secretariat organized a technical workshop<sup>6</sup> on the margins of SBI 47 with the aim of discussing possible ways of increasing the efficiency and transparency of the budget process, covering options for increasing the flexibility of the Trust Fund for Supplementary Activities; approaches to addressing outstanding contributions to the core budget; the level of the working capital reserve; and the allocation of resources under the Trust Fund for the Core Budget of the UNFCCC and the Trust Fund for Supplementary Activities. The Trust Fund for Participation in the UNFCCC Process was also discussed at the workshop.

4. SBI 48.1 took note of the report on the workshop<sup>7</sup> and requested the secretariat to update the document taking into account comments made by Parties at that session for consideration at SBI 49.<sup>8</sup> Having considered the updated document,<sup>9</sup> the SBI agreed that it would continue to consider possible ways of increasing the efficiency and transparency of the budget process, and welcomed the approach taken by the secretariat to present information in a transparent, balanced and integrated manner for the 2020–2021 programme budget.<sup>10</sup> COP 24 requested the Executive Secretary to prepare, regularly update and publish before each session of the subsidiary bodies brief reports on standard costs and, if available, options for reducing the cost of activities where practicable; to provide budgetary cost implications in pre-session documents, as applicable; and to provide any other such information to Parties as may be required to ensure that the budgetary implications of decisions and conclusions, including those proposed in pre-session documents, can be taken into account in advance of decision-making.<sup>11</sup>

5. COP 25 encouraged the secretariat to enhance its implementation of decision 18/CP.24 in order to continue to improve the transparency and efficiency of the UNFCCC

<sup>1</sup> Decision 18/CP.25, para. 19.

<sup>2</sup> FCCC/SBI/2016/8, para. 175.

<sup>3</sup> See document FCCC/SBI/2016/INF.14.

<sup>4</sup> Decision 23/CP.22, paras. 18–19.

<sup>5</sup> FCCC/SBI/2017/7, para. 129.

<sup>6</sup> The workshop documentation is available at <https://unfccc.int/budget-technical-workshop>.

<sup>7</sup> FCCC/SBI/2018/2.

<sup>8</sup> FCCC/SBI/2018/9, paras. 152 and 155.

<sup>9</sup> FCCC/SBI/2018/INF.18.

<sup>10</sup> FCCC/SBI/2018/22, paras. 111 and 113.

<sup>11</sup> Decision 18/CP.24, paras. 15–17.

budget process with a view to reducing redundancies and increasing cost-efficiency, and requested the secretariat to report on its efforts to further improve the efficiency and transparency of the budget process and documentation for consideration at the first session of the SBI each year.<sup>12</sup> SBI 51 agreed that consideration of possible ways of increasing the efficiency and transparency of the budget process would continue at SBI 52, covering options for increasing the flexibility of the Trust Fund for Supplementary Activities, approaches to addressing outstanding contributions to the core budget, the level of the working capital reserve, and timely funding for the Trust Fund for Participation in the UNFCCC Process.<sup>13</sup>

### C. Possible action by the Subsidiary Body for Implementation

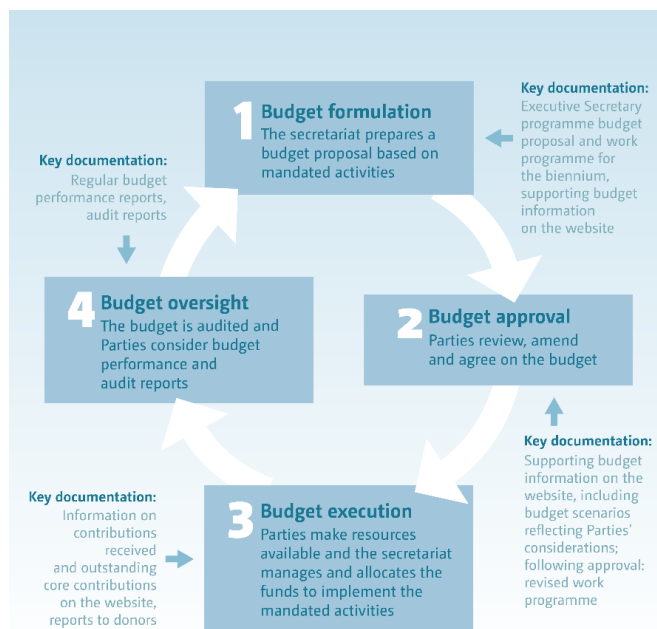
6. The SBI may wish to consider the information provided in this document as part of its consideration of this agenda sub-item and to provide guidance on possible next steps, as appropriate.

## II. Improving the efficiency and transparency of the UNFCCC budget process and documentation

### A. UNFCCC budget process

7. Activities agreed upon by Parties and constituted bodies are included in decisions, conclusions or workplans. The secretariat is mandated to support implementation of those activities, for which it undertakes collection of contributions to the core budget and fundraising for supplementary activities. The available funding is then allocated to implementing the activities in compliance with the financial procedures for the COP, its subsidiary bodies and its secretariat.<sup>14</sup> The UNFCCC budget process consists of budget formulation; budget approval; budget execution, including any revision; and budget oversight, including performance reporting (see figure 1).

Figure 1  
UNFCCC budget process



<sup>12</sup> Decision 18/CP.25, paras. 15 and 19.

<sup>13</sup> FCCC/SBI/2019/20, para. 83.

<sup>14</sup> Decision 15/CP.1, annex I.

8. As part of budget **formulation**, which commences in the first year of a biennium, the secretariat develops a two-year work programme, encompassing the mandated activities referred to in paragraph 7 above, and estimates the cost of those activities, for which financial resources need to be made available. Following initial informal discussion and further revision and refinement, the Executive Secretary publishes the final programme budget proposal for consideration by Parties.

9. **Approval** starts with Parties reviewing and discussing that proposal at the first SBI session of the second year of the biennium, when formal contact groups and informal consultations and discussions take place. During the budget negotiations, the secretariat usually addresses in excess of 100 questions, both in writing and orally, until Parties reach consensus on a budget. The COP then considers and approves the budget at its subsequent session on the basis of recommendations made by the SBI.

10. Once the budget for the next biennium has been adopted, its **execution** starts in the following January, when Parties make resources available and the funds are managed by the secretariat and allocated to support implementation of the mandated activities. Given that additional activities may be mandated during execution of the two-year budget, the secretariat revises its budget estimates and informs Parties accordingly.

11. During and after implementation of its two-year work programme, the secretariat reports on the use of resources in budget performance reports and the budget is audited as part of **oversight**.

12. In the context of this document, **efficiency** refers to the **efficiency of the budget** itself, in terms of maximizing use of financial resources for implementing mandated activities while minimizing unnecessary effort, duplication and redundancies. Such efficiency measures are carefully reviewed and incorporated into the planning during the budget formulation stage. It also refers to the **efficiency of the budget process** as a well-organized and streamlined process of approving, executing and overseeing budget utilization, including sourcing and managing financial resources. **Transparency** in terms of the UNFCCC budget process and documentation is understood to mean full disclosure of all relevant information related to the sourcing and allocation of financial resources in a timely and systematic manner with a particular focus on internal controls and financial integrity.

13. The table below provides an overview of the secretariat's efforts to date, including those mandated by Parties, and of possible additional measures to further enhance efficiency and transparency in relation to each element of the UNFCCC budget process.

#### Measures for improving the efficiency and transparency of the UNFCCC budget process

	<i>Improving efficiency</i>	<i>Improving transparency</i>
<b>Budget formulation</b>		
Measures undertaken	Identifying efficiency gains across activities and funding sources	Enhancing dialogue and early engagement with Parties  Revising the budget methodology and documentation  Providing information on standard costs and advance information on budgetary implications of UNFCCC mandates
Possible additional measure	Enhancing the internal budget process	
<b>Budget approval</b>		
Possible additional measures	Establishing a clear approach to considering and approving the budget	Recording the outcomes of budget considerations in a clear and transparent manner
<b>Budget execution</b>		
Measures undertaken		

Collection of contributions	Enhancing follow-up on outstanding contributions Reviewing the level of the working capital reserve Ensuring timely funding for the Trust Fund for Participation in the UNFCCC Process Enhancing mobilization of resources from non-Party stakeholders for supplementary activities	Enhancing reporting of contributions
Allocation, spending and reporting to donors	Increasing flexibility of the Trust Fund for Supplementary Activities Enhancing management of the core budget and voluntary contributions in the Umoja enterprise resource planning system	Prioritizing resources
<b>Budget oversight</b>		
Measures undertaken		Enhancing internal oversight Producing an annual report
Possible additional measure		Producing annual budget performance reports

## B. Budget formulation

### 1. Measures for improving efficiency

14. **Identifying efficiency gains.** In formulating the 2020–2021 programme budget proposal, the Executive Secretary sought maximum efficiency gains across activities and funding sources. The proposed budget was developed from the ground up through a comprehensive and participatory secretariat-wide effort that commenced in October 2018.<sup>15</sup> Each division took stock of its specific functions and activities and assessed opportunities for efficiency gains. The first proposal underwent a rigorous multistep peer review to avoid duplication of and redundancies in activities and thus minimize any inefficiency.

15. In the light of recommendations arising from the review of its operations, the secretariat has sought efficiency gains by:

- (a) Ensuring that essential tasks with a similar function are subject to management oversight to maximize synergies;
- (b) Ensuring that new tasks are not automatically considered incremental to existing work programmes;
- (c) Coordinating and consolidating delivery of cross-cutting functions;
- (d) Consolidating and synergizing administrative support;
- (e) Enhancing mechanisms for coordination across the secretariat to ensure that resources are managed on a cross-cutting basis and varying workloads are taken into account.

16. In addition, the secretariat undertook a thorough review of the activities intended to be funded from supplementary resources, which resulted in a smaller and more focused set of projects, enabling greater synergies and maximizing efficient use of resources.

17. **Enhancing the internal budget process.** In preparation for the 2022–2023 budget cycle, the secretariat is considering ways of increasing the efficiency of its internal budget formulation process, including making use of the enhanced capabilities of the Umoja enterprise resource planning system.

<sup>15</sup> See document FCCC/SBI/2019/4.

## 2. Measures for improving transparency

18. **Enhancing dialogue and early engagement with Parties.** Since the start of formulating the 2018–2019 programme budget, the secretariat has been instituting measures for proactively informing Parties on the development of the UNFCCC budget and providing more clarity on technical issues, including:

(a) Providing information to Parties at informal briefings and workshops (in 2017 and 2019) and seeking their feedback on the rationale behind and elements of the proposed UNFCCC budgets for the bienniums 2018–2019 and 2020–2021;<sup>16</sup>

(b) Enhancing provision of information on the UNFCCC website in the run-up to and during sessions to facilitate Parties' understanding of the development of the budget.

19. As requested at COP 25,<sup>17</sup> the secretariat will continue engaging Parties early in the budget preparation process.

20. **Revising the budget methodology and documentation.** In formulating the 2020–2021 programme budget, the secretariat applied a more transparent approach and methodology than previously. To enhance transparency on the allocation of resources for activities funded from the core budget and those funded from supplementary resources, activities were categorized according to the mandates they support as:

(a) Essential activities;

(b) Recurring or long-term activities;

(c) Temporary or short-term activities;

(d) Complementary activities beneficial to achieving the objectives and goals of the Convention, the Kyoto Protocol and the Paris Agreement.

21. Activities categorized as essential, or recurring or long term are considered core activities, for which sufficient, predictable and timely resources are of the utmost importance, and hence were included in the proposed core budget. Activities categorized as temporary, or short term or complementary are project-specific or time-bound activities that were proposed to be funded from the supplementary portion of the proposed budget.

22. To enhance transparency on the allocation of core resource for activities across workstreams and to correct previous misalignments, as part of the revised budget methodology a consistent approach was applied to allocating staff and non-staff resources across workstreams. For example, workstreams mandated by Parties were assigned a manager (P-5 staff) to support the intergovernmental process; constituted bodies were assigned a team lead (P-4 staff) to support implementation of the work programme and chair or co-chairs of each body; and established processes such as forums and work programmes were assigned programme officers (P-3 or P-2 staff).

23. Likewise, the development of the different budget scenarios was more transparent thanks to the revised budget methodology. In addition to the proposed budget, the secretariat produced a zero nominal growth scenario. As the resource implications of essential and recurring or long-term activities exceeded the previously agreed core resources, the following principles were applied in determining which activities were to be funded from the core budget:

(a) Ensuring balanced resource allocation across thematic areas (adaptation, mitigation, support, transparency, etc.);

(b) Keeping key staff assigned to critical workstreams;

(c) Maintaining the ratio between staff and non-staff costs, thereby ensuring that at least a minimum level of non-staff costs is maintained to ensure the provision of basic support for all workstreams;

<sup>16</sup> See <https://unfccc.int/about-us/budget/2020-2021-budget-preparation-process>.

<sup>17</sup> Decision 17/CP.25, para. 3.

(d) Giving due consideration to all mandated work regardless of the date of adoption of the respective mandate and the overarching instrument (the Convention, the Kyoto Protocol, the Paris Agreement or the Katowice climate package) so as to ensure consistency in budgeting for similar activities.

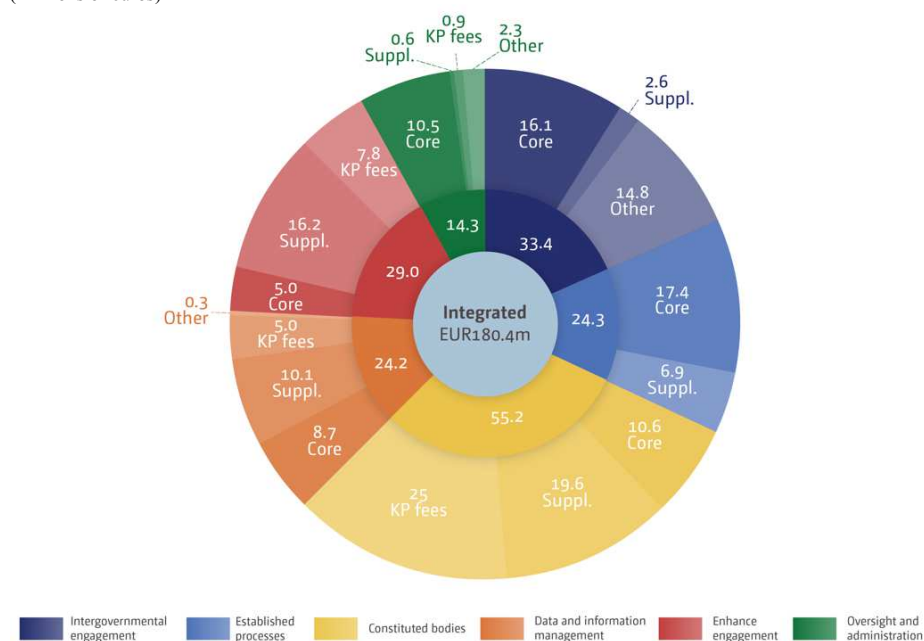
24. In addition, the secretariat increased the transparency of the budget documentation. For the proposed 2020–2021 programme budget, detailed justification and rationale for the proposal was provided, as well as further details on the work programme of the secretariat and corresponding resource requirements,<sup>18</sup> and on the budget of the international transaction log.<sup>19</sup> Additional supporting data and information, including a budget glossary and an overview of supplementary requirements, were made available on the UNFCCC website.<sup>20</sup>

25. The Executive Secretary presented a fully integrated budget outlining the core budget and supplementary and other resources required to deliver the results expected by Parties. In line with best practice in the United Nations system, a results-based approach was adopted in planning the work of the secretariat. Outputs and accomplishments expected for the biennium were presented in a transparent manner, articulating six secretariat-wide and aligned division objectives and corresponding expected results and performance indicators. An overview of the integrated budget by objective and source of funding is provided in figure 2.

Figure 2

**Integrated programme budget for 2020–2021 by objective and source of funding as presented in the budget proposal**

(Millions of euros)



26. COP 25 noted with appreciation the methodology applied by the secretariat in developing the budget for the biennium 2020–2021, including the early engagement with Parties, and requested the Executive Secretary to refine the budget methodology and its application for future bienniums with a view to enhancing the transparency of the proposed budget documentation and to continue engaging Parties early in the budget preparation process.<sup>21</sup> Refinements under consideration include the further delineation of the allocation of core and supplementary resources.

<sup>18</sup> FCCC/SBI/2019/4/Add.1.

<sup>19</sup> FCCC/SBI/2019/4/Add.2.

<sup>20</sup> <https://unfccc.int/about-us/budget/2020-2021-budget-preparation-process>.

<sup>21</sup> Decision 17/CP.25, preamble and para. 3.



27. **Providing information on standard costs and advance information on budgetary implications of UNFCCC mandates.** COP 24 requested the Executive Secretary to prepare, regularly update and publish before each session of the subsidiary bodies brief reports on standard costs and, if available, options for reducing the cost of activities where practicable.<sup>22</sup> To date, the secretariat has produced three such reports, with the first focusing on the costing practices of the secretariat and other United Nations entities and their advantages and disadvantages, in addition to the costing of workshops;<sup>23</sup> the second on the costing of UNFCCC documents;<sup>24</sup> and the third on the costing of business travel.<sup>25</sup>

28. In relation to the request from COP 24 referred to in paragraph 4 above and the request from COP 25 for the secretariat to implement the recommendations contained in document FCCC/SBI/2019/INF.4,<sup>26</sup> the secretariat is planning to publish the regularly updated standard costs used for planning purposes on the UNFCCC website. Publication on the website will replace the brief update reports on standard costs referred to in paragraph 27 above.

## C. Budget approval

### 1. Measures for improving efficiency

29. **Establishing a clear approach to considering and approving the budget.** In recent bienniums, Parties have expressed concern regarding the number of distinct issues that require attention during consideration of the proposed budget. Thus, such consideration is suggested to be organized in a clear and logical manner.

30. Before the session at which the proposed budget is to be considered, the secretariat, under the guidance of the SBI Chair, would engage with Parties to achieve three clear objectives:

(a) Ensuring that new Party representatives involved in the budget negotiations are provided with background information and details on how the budget will be considered at the session;

(b) Highlighting any improvements in the methodology applied so that Parties can critically review the budget documentation and ensure comparability with previous approaches;

(c) Presenting the proposed budget in an information session to ensure that Parties' consideration of it at the session commences on the basis of equal knowledge; ideally this would take place at a pre-session workshop.

31. Consideration of the proposed budget by the SBI could be organized, under the guidance of the SBI Chair, as follows:

(a) Parties first consider the draft work programme to confirm that the deliverables reflect the outcomes of applicable decisions of the COP, the CMP and the CMA, relevant conclusions of the subsidiary bodies, and the decisions and work programmes of constituted bodies with the aim of identifying any errors or omissions in the draft work programme to ensure that the proposed scope of the budgeted work reflects Parties' expectations;

(b) Parties then consider, particularly in the light of the reports on previous budget performance, the appropriateness of the resource estimates provided in the proposed budget;

(c) Finally, Parties determine the appropriate funding sources for the activities in the approved work programme so that the overall appropriations can be reflected in the subsequent relevant decisions of the governing bodies.

<sup>22</sup> Decision 18/CP.24, para. 15.

<sup>23</sup> FCCC/SBI/2019/INF.4.

<sup>24</sup> FCCC/SBI/2019/INF.12.

<sup>25</sup> FCCC/SBI/2020/INF.3.

<sup>26</sup> Decision 18/CP.25, para. 18.

## 2. Measures for improving transparency

32. **Recording the outcomes of budget considerations in a clear and transparent manner.** Parties have expressed concern that the outcomes of the SBI budget deliberations are not fully reflected in the subsequent relevant COP and CMP decisions and that this may affect the capacity of the SBI at future sessions to assess budget performance.

33. Therefore, the secretariat will update its work programme after relevant SBI sessions to serve as a transparent baseline against which to assess future budget performance. As decisions taken subsequently may also affect the work programme, it will also be updated after each session of the COP, the CMP and the CMA.

## D. Budget execution

### 1. Measures for improving efficiency

34. Parties have been considering several measures for enhancing the efficiency of collecting core and supplementary resources.

35. **Enhancing follow-up on outstanding contributions.** COP 24 expressed concern regarding the high level of outstanding contributions to the core budget, which has resulted in difficulties with cash flow and effective implementation of activities, and requested the Executive Secretary to take further measures to recover outstanding contributions.<sup>27</sup>

36. As at 31 May 2020, there were 132 Parties with outstanding contributions, of which 16 had outstanding contributions from 2010 and previous years. It is worth noting that the 50 Parties with the largest outstanding contributions account for the majority (over 95 per cent) of the total outstanding contributions. Despite an increase in the number of Parties that paid their contributions in full by 1 January in 2019, there is an increasing trend in the cumulative amounts of outstanding contributions as the arrears remain unpaid. The secretariat is making various efforts to ensure that it receives indicative contributions from Parties in a timely manner and to settle, wherever possible, outstanding ones.<sup>28</sup>

37. The secretariat sends a notification to each Party, at least 90 days before payment is due, informing it of its indicative contribution for the following year. Pursuant to the financial procedures referred to in paragraph 7 above, which state that each Party shall, prior to 1 January of each year, inform the secretariat of the contribution it intends to make that year and of the projected timing of that contribution, the notification also informs the Party of the need for the timely payment of the annual contribution. Any outstanding contributions payable by the Party are also indicated in the notification.

38. Since January 2017, additional quarterly reminder letters have been sent to Parties that have outstanding contributions. Since 2018, the secretariat has sought the assistance of the Bureau in requesting Parties to pay their outstanding contributions. In 2020, an enhanced campaign for the collection of outstanding contributions was initiated by the secretariat through follow-up and communication.

39. Following the United Nations Secretariat's and other United Nations entities' consideration of using multi-year payment plans to address arrears, implementing payment plan procedures at the secretariat could encourage Parties to demonstrate their commitment to meeting their financial obligations and to pay their outstanding contributions from prior years in accordance with a specified schedule. This would facilitate regular reporting and help to reduce the level of outstanding contributions to the core budget through a mutually approved and agreed process. An increase in the predictability of the receipt of funding would in turn reduce the need to increase the level of the working capital reserve.

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<sup>27</sup> Decision 18/CP.24, paras. 3 and 9.

<sup>28</sup> Further information is available at

[https://unfccc.int/files/secretariat/budget/funding\\_at\\_the\\_unfccc/application/pdf/outstanding\\_indicative\\_contributions.pdf](https://unfccc.int/files/secretariat/budget/funding_at_the_unfccc/application/pdf/outstanding_indicative_contributions.pdf).

40. Several issues would need to be addressed in establishing such procedures, including whether outstanding contributions should have an effect on the voting rights of the Party concerned; provisions for establishing payment plans and other options related to the timing of payment of contributions; whether authority should be delegated to the Executive Secretary to agree repayment plans with Parties; and the reporting and monitoring of the implementation of repayment plans.<sup>29</sup>

41. **Reviewing the level of the working capital reserve.** Given the high level of outstanding contributions to the core budget for previous years and delays in payment receipts for the current year's contributions, which at times reach up to one year, there is a need to review the current level of the working capital reserve in order to manage cash flow liquidity. For 1996–2021, the secretariat has maintained a working capital reserve of 8.3 per cent of annual total expenditure, representing one month of operating requirements under the Trust Fund for the Core Budget of the UNFCCC, which is in line with the financial procedures referred to in paragraph 7 above. Given that the overall level of outstanding indicative contributions to the core budget is increasing, which necessitates drawing on the working capital reserve, the reserve is insufficient at the current level to provide the requisite cover for ensuring the sound and effective financial management of secretariat operations.<sup>30</sup>

42. To enhance the liquidity of the secretariat, the level of the working capital reserve could be increased to 12 per cent of the budget in the next cycle with a view to further increasing it to 15 per cent in line with that of most other United Nations organizations.

43. **Ensuring timely funding for the Trust Fund for Participation in the UNFCCC Process.** The Trust Fund is used to support the travel and subsistence costs of delegates from eligible Parties participating in UNFCCC sessions. It is funded from voluntary contributions. The overall level of resource requirements depends on the number, length and location of sessions and pre-sessional and preparatory meetings, as well as on the number of supported delegates from each eligible Party, who are supported to ensure as wide a representation as possible.<sup>31</sup>

44. The 2020–2021 programme budget includes an estimated cost of EUR 11.3 million to support one delegate from each eligible Party plus a second delegate from each least developed country and small island developing State to participate in the two-week sessions in Bonn, and to support two delegates from each eligible Party plus a third delegate from each least developed country and small island developing State to participate in the two-week sessions outside Bonn.<sup>32</sup> Owing to the circumstances related to the coronavirus disease 2019 and the postponement of SB 52 and COP 26 to 2021, the requirements for funding from the Trust Fund for Participation in the UNFCCC Process have been revised down to EUR 4.8 million.

45. **Enhancing mobilization of resources from non-Party stakeholders for non-core activities** is becoming increasingly relevant within the United Nations system in the context of declining resource flows and hence the increased need for voluntary contributions, the global momentum towards engaging in the climate change cause and donating money, and the circumstances related to the coronavirus disease 2019. The donor base can be broadened through partnerships with non-Party stakeholders, whose provision of in-kind or financial resources can significantly enhance the non-core work of the secretariat. Key resources such as knowledge, expertise, financing and outreach that are made available to the secretariat through these partnerships can accelerate progress in implementing the Convention, the Kyoto Protocol and the Paris Agreement. Over the years, the percentage of resource contributions from non-Party stakeholders has been increasing.<sup>33</sup>

<sup>29</sup> See document FCCC/SBI/2018/INF.18.

<sup>30</sup> Further information is available at [https://unfccc.int/files/secretariat/budget/funding\\_at\\_the\\_unfccc/application/pdf/working\\_capital\\_reserve.pdf](https://unfccc.int/files/secretariat/budget/funding_at_the_unfccc/application/pdf/working_capital_reserve.pdf).

<sup>31</sup> Further information is available at [https://unfccc.int/files/secretariat/budget/funding\\_at\\_the\\_unfccc/application/pdf/trust\\_fund\\_for\\_participation\\_in\\_the\\_unfccc\\_process.pdf](https://unfccc.int/files/secretariat/budget/funding_at_the_unfccc/application/pdf/trust_fund_for_participation_in_the_unfccc_process.pdf).

<sup>32</sup> FCCC/SBI/2019/4, paras. 65–66.

<sup>33</sup> Further information is available at <https://unfccc.int/about-us/un-climate-change-partnerships>.

46. Moreover, Parties have been discussing several measures for enhancing the efficiency of allocating and spending core and supplementary resources.

47. **Increasing flexibility of the Trust Fund for Supplementary Activities.** Over the years, the secretariat has witnessed an increase in the proportion of non-core resources to core resources within its programme budget. The increase in the requirement for supplementary funds is driven by the fact that increases in the core budget have not kept pace with the increase in mandated activities, thus necessitating other sources of funding for the full delivery of mandated activities; and, in most cases, multi-year contributions need to be mobilized to sustain these supplementary activities.

48. Voluntary contributions to the Trust Fund for Supplementary Activities are usually made for projects selected by the donors, but in some cases contributors give the Executive Secretary the flexibility to determine priority projects and to use the funds accordingly. While some Parties' regulations require their contributions to be earmarked for specific activities, such earmarking limits the flexibility of the secretariat in allocating funds, which can have negative impacts on the effective, efficient and balanced implementation of the secretariat's work programme. The combination of earmarking and shortfalls in total funding has resulted in some activities being overfunded, while others remain unfunded for long periods. However, the proportion of unearmarked contributions in relation to earmarked contributions has increased since the 2018–2019 biennium.

49. Increasing flexibility in using contributions to the Trust Fund for Supplementary Activities, including through reduced earmarking and longer and more flexible utilization periods, would enable the secretariat to allocate funding to the activities in most need of resources. The secretariat has been seeking such agreements to the extent possible during funding negotiations. This has helped in managing liquidity and ensuring better alignment of the period of contribution with the funding needs and execution of the project, contributing to more effective use of contributions. In the 2020–2021 programme budget, a smaller and more focused set of projects was presented, enabling greater synergies and maximizing efficient use of resources. In her fundraising letter of March 2020, the Executive Secretary presented the supplementary resource requirements by overall objective and thematic area,<sup>34</sup> and enclosed a list of projects for those Parties wishing to earmark financial contributions for specific activities.

50. **Enhancing management of the core budget and voluntary contributions in Umoja.** To realize efficiency gains in budget execution, the management of the core budget in Umoja was aligned with the practice at the United Nations Secretariat for its regular budget. This not only simplified the monitoring of the budget implementation rate and vacant posts, but also increased the efficiency of budget-related processes in Umoja.

51. With a view to enhancing and simplifying the management of voluntary contributions and to reduce administrative effort, the secretariat is seeking more unearmarked contributions and simplified reporting requirements. Small contributions in particular often require disproportionate administrative effort. With simplified reporting, instead of tracking the use of the contributions individually and providing an individual contribution report, the secretariat would provide the donor with project reports for all projects supported by it, with each project report showing the total allocated funding from all donors against the total expenditure per project. In addition, a general report showing results delivered for all projects would be produced and shared with all donors. Specific reports could still be developed if requested.<sup>35</sup>

## 2. Measures for improving transparency

52. **Enhancing reporting on contributions.** The secretariat has enhanced its reporting on the collection of resources, making use of the enhanced capabilities of Umoja. It has

<sup>34</sup> Adaptation, mitigation, means of implementation, transparency, intergovernmental support and collective progress, communication and engagement, legal affairs, conference affairs, and oversight and administration.

<sup>35</sup> The secretariat is seeking additional efficiencies and streamlining administrative services in order to save costs in the biennium 2020–2021 and will be reporting thereon at SBI 54, as requested in decision 17/CP.25, para. 21.

created dedicated web pages on the status of contributions for each year starting from 2018. The pages present up-to-date information on the overall financial contributions to the Trust Fund for the Core Budget of the UNFCCC, the Trust Fund for Supplementary Activities and the Trust Fund for Participation in the UNFCCC Process in 2020, as well as detailed information by Party, including amounts of indicative contributions, contributions made and outstanding contributions to the core budget.<sup>36</sup>

53. **Prioritizing resources.** In response to a request from COP 25,<sup>37</sup> the secretariat has allocated core resources to supporting constituted bodies in responding to their mandates and for mandated activities under the current transparency arrangements in line with the approved appropriations and, insofar as incoming core contributions allow, without jeopardizing essential activities. In terms of (unearmarked) supplementary funds, those two areas take priority so as to ensure that the workplans of the constituted bodies are implemented in full and the agreed transparency activities are being undertaken. The secretariat will subsequently report on this matter in its budget performance reports.

54. Moreover, the secretariat has established review and prioritization criteria for unearmarked contributions to ensure that they are allocated to activities in line with the secretariat's work programme and the priorities set by Parties.

## E. Budget oversight

### Measures for improving transparency

55. **Enhancing internal oversight.** The basis for internal budget oversight is transparency of budget status. To provide this transparency, the secretariat has harnessed the capabilities of Umoja and developed automatic periodic budget overview reports for its divisions, which provide an overview of budgetary status and the information required for detailed expenditure analysis. In addition, the secretariat constantly monitors and follows up in a timely manner on any external audit recommendations related to the UNFCCC budget process.

56. **Producing an annual report.** COP 23 requested the secretariat to prepare and make available an annual report to be considered at each session of the SBI following the closure of the preceding financial year, providing information on the secretariat's activities in the preceding year, programme delivery highlights and financial performance.<sup>38</sup> The aim of the annual reports for 2017, 2018 and 2019 has been to facilitate the understanding of a broad range of stakeholders and interested observers of what the secretariat is delivering and the challenges it is facing, thus contributing to improved outreach and providing the public, media and non-governmental organizations with information on the UNFCCC process.<sup>39</sup>

57. **Producing annual budget performance reports.** COP 25 requested the Executive Secretary to prepare a biennial final report on the implementation of the core budget and the supplementary budget, covering the period from January of the first year to December of the second year of the budget period and providing information on expenditure by division and stream of activities and on overall execution against specific objectives and items of expenditure, for consideration by the SBI at its first session held after the end of the reporting period and for input into the preparation of the budget for the following budget period.<sup>40</sup>

58. The biennial final report will include transparent information on the level and source of funds received by the secretariat, use of funds across the secretariat's divisions and work programme, and status of delivery of work programme activities.

59. The secretariat currently produces 6- and 18-month budget performance reports; thus, adding a final 24-month report would mean producing three budget performance reports per

<sup>36</sup> Information on the status of contributions for 2020 is available at <https://unfccc.int/about-us/budget/2020-2021/status-of-contributions-2020>.

<sup>37</sup> Decision 17/CP.25, para. 2.

<sup>38</sup> Decision 21/CP.23, para. 18.

<sup>39</sup> Further information is available at <https://unfccc.int/annualreport>.

<sup>40</sup> Decision 17/CP.25, para. 23.

biennium. To enhance efficiency while also maintaining transparency, it is suggested to produce two budget performance reports only per biennium: one after 12 months and the other after 24 months per the request referred to in paragraph 57 above. This would ensure parallel timing of the budget performance reports with the audited financial statements and enable the SBI to consider the most up-to-date budget performance information at its first session of each year.

### **III. Next steps**

60. The secretariat is committed to further improving the efficiency and transparency of the UNFCCC budget process, including by:

- (a) As part of budget formulation:
  - (i) Identifying efficiency gains and enhancing the internal budget process;
  - (ii) Enhancing dialogue and early engagement with Parties;
  - (iii) Revising the budget methodology and documentation, including further delineating the allocation of core and supplementary resources;
  - (iv) Providing information on standard costs, including publishing regularly updated standard costs on the UNFCCC website;
- (b) As part of budget approval, updating its work programme to serve as a transparent baseline against which to assess future budget performance;
- (c) As part of budget oversight, enhancing internal oversight and timely follow-up on audit recommendations.

61. Taking into consideration the information provided in this document, the SBI may wish to agree on additional measures for further improving the efficiency and transparency of the UNFCCC budget process and documentation, including:

- (a) As part of budget approval, establishing a clear approach to considering and approving the budget;
  - (b) As part of budget execution:
    - (i) Enhancing follow-up on outstanding core contributions, including through payment plans;
    - (ii) Increasing the level of the working capital reserve;
    - (iii) Simplifying reporting requirements for voluntary contributions;
  - (c) As part of budget oversight, producing annual budget performance reports.
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