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**UNOPS: Financial, budgetary and administrative matters**

## **Note of the Management Coordination Committee of UNOPS \***

### **Comments on information provided to the ACABQ by the UNOPS Executive Director on the revised 2002-2003 budget estimates**

1. The Management Coordination Committee (MCC) of UNOPS has reviewed the statement on the 2002-2003 revised budget estimates (DP/2002/33) made by the Executive Director of UNOPS to the ACABQ on 6 September 2002, as well as the subsequent report of the ACABQ on UNOPS financial, budgetary and administrative matters (DP/2002/34). The report of the ACABQ relies largely on the information placed before it by the Executive Director of UNOPS. This note seeks to provide corrections to that information.

#### *Financial situation of UNOPS*

2. The operational reserve of UNOPS stood at \$10.6 million at the end of 2000, down from \$29.5 million at the end of 1998. It may be recalled that in its budget estimates for the biennium 2002-2003, presented to the Executive Board at its second regular session in September 2001 (also presented earlier to the ACABQ), UNOPS projected a replenishment of the operational reserve to the extent of \$1.5 million in each of the years 2001 and 2002 in order to build the reserve back to the levels required by the Executive Board. Shortly thereafter, however, the Executive Director informed the MCC in January 2002 that such replenishment of the operational reserve would not occur and that it had been further reduced to \$5 million by the end of 2001. Table 1 below shows UNOPS financial results for the period 1995-2001.

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\* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

3. The current financial predicament of UNOPS and the reasons leading to it have been the subject of discussions at the Executive Board both at its annual and informal sessions. As discussed at the Executive Board, the erosion of the operational reserve of UNOPS was largely a result of two factors: a series of one-time, non-recurrent charges (including costs of relocation of headquarters facilities) to the extent of \$21.2 million, which substantially depleted the reserve, and operational deficits owing to an excess of administrative expenditure over income in both 2000 and 2001. While total income went down slightly from \$50.1 million in 1998 to \$47.2 million in 2001, during the same period administrative expenditure increased significantly from \$42 million to \$52.8 million. This increase in administrative expenditure was also mainly in areas that did not directly contribute to generation of income.

4. During this period, the composition of the UNOPS portfolio underwent changes reflecting a widening of its client base as the result of a conscious policy of diversifying its sources of business and expanding the provision of its services to a wider range of United Nations organizations. Contrary to the claim of the Executive Director's statement, however, UNDP continues, as the ACABQ recognizes, to be by far the largest UNOPS client, still accounting for 81 per cent of its project income.

5. The Executive Director, in his presentation to the ACABQ, attributes nearly all of the financial difficulties of UNOPS to the uncertainty over its future and other business uncertainties. It should be emphasized, however, that the shortfall in income in both 2000 and 2001 was a result of a fall in delivery of approved budgets and not a dearth of business volume. This was made worse by the fact that financial planning scenarios were based on grossly unrealistic assumptions of implementation rates added in 2001.

#### *The Role of the MCC and the setting of UNOPS budget ceiling for 2002*

6. The Executive Director contends that the UNOPS budgetary exercise has become "largely driven by committees" and that the MCC has become "an additional layer of management". He further asserts that the MCC, in November 2001, did not approve his proposal to reduce the 2002 administrative budget by reducing staff.

7. The key role of the MCC in providing the appropriate level of oversight and monitoring of the operations of UNOPS was in full adherence with the set of roles and functions delegated to it by the Secretary-General and in line with the mandate provided to it by the Executive Board in its various decisions. In January 2002, in his report to the Executive Board on the UNDP-UNOPS relationship, the Secretary-General specifically proposed, and the Board approved, an expansion of the membership of the MCC and the establishment of a Working Group under the MCC to assist it in its functions. The erosion of the operational reserve to seriously low levels (also highlighted by the United Nations Board of Auditors in their report on the operations of UNOPS) has placed UNOPS in a precarious financial position and has required the MCC to increase its oversight efforts. In fact, the Executive Board, in its decision 2002/13 (paragraph 9), has welcomed and encouraged these efforts of the MCC and its Working Group.

8. Given the low level of the operational reserve, the necessity of balancing income and expenditure every year in order to build back the reserve is key to restoring UNOPS back to financial solvency. It is for this reason that it has become necessary for the MCC to establish annual budgetary ceilings. In this context, the MCC strongly rejects the statement of the Executive Director that the budget ceiling of \$44 million for 2002 was set “unilaterally” by the MCC. The ceiling was set based on a detailed review of the budgetary and staffing situation and a division -by-division and line-by-line analysis of income and costs. The review was conducted by the Working Group of the MCC, of which UNOPS is a co -chair, and was discussed at length by the MCC. The results and recommendations emerging from the review were provided to the Executive Board at its annual session in June 2002 (see document DP/2002/CRP.12).

9. Finally, the allegation that the Executive Director proposed making staff cuts in November 2001, which was denied by the MCC, is not borne out by the record at all. Existing records do not show any attempt by the Executive Director to present budget proposals to the MCC in November 2001, which reflect reduced administrative expenditure. In fact, the UNOPS budget proposals for 2002 (set at \$47.1 million) presented to the MCC in April 2002 did not reflect reductions necessary to bring administrative expenditure in line with income (projected at \$44.2 million). It was, therefore, left to the MCC to require a ceiling of \$44 million for the 2002 budget to bring it in line with projected income and avoid further depleting of the operational reserve to perilously low levels. Unfortunately, a view totally contrary to the actual situation has been presented to the ACABQ, which, not surprisingly, has concluded that actions taken by the MCC have resulted in a lengthier and more painful process than was necessary. It is therefore hard to escape the conclusion that the ACABQ has been misled on this point.

*Reimbursement for cancellation or delay of UNDP funded projects*

10. In its report, ACABQ indicates that it had been informed by UNOPS that during 2001 UNDP-funded projects in the amount of \$42 million were cancelled or delayed and that UNOPS had not secured reimbursement from UNDP of the costs of activities already carried out by UNOPS in relation to these projects. When requested to do so, however, UNOPS was unable to substantiate this claim by providing details of such projects cancelled or delayed and for which UNOPS has incurred reimbursable costs.

11. The MCC wishes that the information provided above be taken into account in any deliberations on this subject in the ACABQ and/or the Executive Board.

**Annex 1: UNOPS financial results 1995-2001**  
(millions of United States dollars)

UNOPS financial parameters									Status of operational reserve			
Year	Delivery	Avg. income rate (Project portfolio)	Portfolio income	Services income	Other income	Total income	Admin exp. (1)	Surplus/ deficit	Non-recurrent exp.	1 Jan. opening balance	31 Dec. closing balance	Required (2)
1995	382.9	6.9%	26.6	3.1	0.7	30.4	27.7	2.7		10.3	13.0	6.8
1996	430.8	7.3%	31.6	3.2	3.4	38.2	33.6	4.6		13.0	17.6	6.8
1997	463.1	7.6%	35.0	3.7	1.8	40.5	36.7	3.8		17.6	21.4	18.6
1998	537.8	8.1%	43.5	4.1	2.5	50.1	42.0	8.1	1.5	21.4	29.5	20.0
1999	559.9	7.7%	43.0	5.8	3.1	51.9	47.4	4.5	16.7	29.5	17.4	23.2
2000	471.1	7.8%	36.8	6.5	5.2	48.5	52.3	-3.8	3.0	17.4	10.6	25.0
2001	504.7	7.5%	37.9	7.0	2.3	47.2	52.8	-5.6		10.6	5.0	23.1

1995-1998: Services income prior to changing fees and travel income  
1995: UNOPS payments to UNDP country offices were treated as a reduction of portfolio income not as an admin expenditure  
(1) Recurrent administrative expenditures only  
(2) Calculated in line with relevant Executive Board decisions