



**Executive Board of the  
United Nations Development  
Programme and of the  
United Nations Population Fund**

Distr.: General  
19 September 2002

Original: English

**Second regular session 2002**

23 to 27 September 2002, New York

Item 7 of the provisional agenda

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

## **Contingency plan with regard to the operational reserve**

### I. INTRODUCTION

1. The present report has been prepared as requested by the Executive Board in its decision 2002/13, and provides a contingency plan for the approval of the Executive Board in the event that the operational reserve is unable to absorb administrative expenditures incurred against the UNOPS account for the biennium 2002-2003 that are in excess of income that is generated.
2. The recommendation to develop a contingency plan was made by the Board of Auditors in its report for the biennium 2000-2001 (document DP/2002/CRP.13), arising out of its concerns that, as of June 2002, the proposed UNOPS budget for 2002 left little margin for income surplus by year-end, thereby creating an uncertainty as to the ability of the operational reserve, which is also at a very low level, to absorb a large deficit before the operational reserve could be restored to its prescribed level.
3. The plan takes into consideration the support of the Secretary-General in his note to the Executive Board in January 2002 (DP/2002/CRP.5) "for the continued work of UNOPS as a 'separate and identifiable entity' that is 'self-financing', as originally intended by Member States. It has proven its worth over the years as a provider of services to organizations of the United Nations system for the management and delivery of programmes and projects." The plan also takes into consideration the number and value of contractual commitments from clients in the form of signed projects in the UNOPS portfolio, and the difficulties that clients could face should the consequences of a depletion of the operational reserve call into issue the ability of UNOPS to meet its project service commitments.
4. The objective of the contingency plan, therefore, is to ensure a sufficient working environment for UNOPS, through receipt of income and/or reduction in expenditure, so that UNOPS may continue to deliver uninterrupted quality service to its existing clients while assessing steps to be taken to remain a going concern and rebuild for the future.
5. As has been documented elsewhere, including in the revised budget estimates for 2002-2003 (DP/2002/33) and in the report on the status of the implementation of the recommendations of the Board of Auditors (DP/2002/35), in 2002 UNOPS has instituted more rigorous and conservative mechanisms to establish business targets and to continuously measure performance. UNOPS reviews its acquisition, delivery and income reports bi-weekly, with a more thorough review undertaken at mid-year, and exercises tight controls on expenditure. The MCC and its working group have continued to meet in order to review the UNOPS position and the preparation of revised budget estimates. The Executive Director is confident that with such mechanisms in place, UNOPS will be able to



identify early warning signs of a possible deficit, take corrective action to avoid the depletion of the reserve and the need for implementation of the contingency plan, or, in the worst case scenario, call for the implementation of the plan at its earliest possible moment.

6. UNOPS has also implemented in 2002 a structural adjustment exercise in UNOPS, resulting in significant budget reduction to meet new targets while maintaining the necessary resources to ensure quality service delivery to meet those targets.

## II. CONTINGENCY PLAN

7. Whenever there is an identification by the Executive Director of UNOPS, either in his periodic reporting to the MCC or on an ad hoc basis, that the level of the operational reserve could go below US\$2 million by the year-end closure of accounts, he will inform the Management Coordination Committee (MCC), and through it, the Executive Board. As is indicated below, a number of preparatory steps are already being taken in order to ensure the rapid implementation of the plan, should the need to do so arise.

8. A determination would first be made as to the extent of the actual or expected deficit, the prospects and timing for recovery, and cash requirements during the relevant time period until the deficit would be eliminated. Of particular importance would be the determination as to whether the problem is one of cash flow or a more serious structural nature. Once the nature and extent of the situation is determined, steps would be taken with respect to increases of income or cash, and/or reduction in administrative expenditure, as appropriate.

### **Steps to increase income or cash**

9. UNOPS will first meet all its clients to determine with them how to best continue the delivery of UNOPS services. Primary focus would be to expedite delivery of projects that meet the clients' needs while enabling UNOPS to accelerate income. UNOPS would also seek to review with each client its fee arrangements with a view to determining whether an upward fee adjustment would be in order should the client, by doing so, realize a greater benefit in maintaining its portfolio with UNOPS rather than face a potential return of projects that UNOPS could not otherwise afford to continue to manage. If the problem is one of cash flow, UNOPS and the client may simply agree on payment in advance to UNOPS of its expected fee. UNOPS has indeed already begun preparations for such discussions with certain key clients. The Management Coordination Committee (MCC) has also recognized the importance of the fee issue.

### **Steps to reduce administrative expenditure**

10. Should a determination be made that the problem is one of cash flow, UNOPS would seek deferral of payments to internal creditors who provide support services to UNOPS: UNDP and/or the United Nations Secretariat. UNOPS would attempt to cover any shortfalls with UN internal creditors in order to avoid negatively affecting its external creditors. Any payment plan offered by commercial private sector creditors likely would include a significant financing charge. This form of financing is not contemplated by the Financial Regulations and Rules applicable to UNOPS, which would require an amendment approved by the Executive Board.

11. By way of preparation, this matter has been broached with the MCC, who would need to act in this regard should such financing be required. In the past, when UNIFEM faced a significant contingency for its over-programming of expected resources, the Executive Board permitted UNDP to make cash resources available on a "no cost, no gain" basis, whereby UNDP would receive an amount in addition to its reimbursement to cover its lost opportunity to earn interest on the cash made available to UNIFEM. Similar arrangements could be made for UNOPS, subject to authorization of the Executive Board.

12. UNOPS may also consider requesting other UN organizations to “loan” UNOPS cash on a similar reimbursement of opportunity cost basis. Alternatively, an appeal for voluntary contributions could be made to alleviate the difficulties. These latter options, to be effected, would first have to be approved by the Executive Board as part of a recovery plan.

13. As indicated in paragraph 6 above, UNOPS has been carrying out a structural adjustment in 2002. In implementing the relevant recommendations of the Board of Auditors, as well as drawing upon lessons that can be learned should the planned independent review of the UNOPS business model materialize, UNOPS expects to undertake a thorough portfolio analysis to ensure that its portfolios are cost effective. Should there be a depletion of the operational reserve and its cause remains one of structure, more immediate and serious steps would be taken to control costs in order to align resources with income. In addition, an urgent cost-benefit analysis would be undertaken on key portfolios in order to determine those business lines or activities that would need to be curtailed so that UNOPS operations return to a self-financing level.

14. Staff costs represent the greatest single expenditure for UNOPS. Therefore, any material reduction in administrative budget expenditures would require a further reduction in staff. Unfortunately, the system of staff entitlements makes difficult any short-term benefit from such reductions. At the same time, concerns also arise over the impact further reductions would have on UNOPS’ ability to deliver and generate income. Therefore, given the current personnel regime, options for reducing such administrative expenditures are reserved for the gravest contingency of a substantial failure to meet income targets that can only be addressed through structural adjustment. Even then, UNOPS would need to reduce staff resources in a manner that results in least net cost to UNOPS, by balancing cost of staff reduction against loss of income associated with such staff.

### III. LESSONS LEARNED

15. As a result of the preparation of the present contingency plan, a number of lessons have been learned. UNOPS will explore these matters over the course of 2002-2003 and obtain advice and guidance of the MCC, the Board of Auditors and others, as appropriate, in order to determine whether any proposals to the Executive Board should be made.

16. While the manner of setting fees for UNOPS services has been highlighted as an area for immediate attention, including most recently by the Board of Auditors, UNOPS also recognises that there is a need to also address the basis for earning and collecting its fees. For virtually all projects, UNOPS earns and collects its fees only upon entering into contractual obligations with providers of goods or services. Should a project be delayed or otherwise suspended through no fault of UNOPS, UNOPS does not collect any fee, often notwithstanding having incurred considerable cost in mobilizing its resources and undertaking a significant amount of work. UNOPS has experienced an increase in such situations as it works more and more in countries in special situations.

17. The situation is worse when a client decides for its convenience (that is, there is no identifiable performance problem on the part of UNOPS) to take back or curtail implementation of a project that had been given to UNOPS. The present system of earning fees is also successful only where there is a steady and predictable amount of business from a client. Recent trend analysis shows that UNOPS no longer benefits from any predictable business stream. The alternative to such a change in determining the moment fees are earned would be for UNOPS to increase fees across the board to cover risks as indicated above – but such an approach would not be in the best interest of all concerned – clients, stakeholders, or UNOPS itself.

18. Another major outcome of the present situation is the identified limitation for UNOPS, though entirely self-financing, to have at its disposal those financial mechanisms necessary for a private-sector-like approach to operate effectively. The Financial Regulations do not permit borrowing nor working capital. UNOPS is therefore severely restricted in its ability to invest in its future. This can be seen, for example, when UNOPS was forced to move to new premises. The operational reserve was required to be used to cover such extraordinary costs, even though it was never meant to be used for such purposes, and the current financial difficulties facing UNOPS at present are largely due to the critically low level of the operational reserve resulting from the financial impact of the relocation.

19. A third important lesson concerns priority implementation of those recommendations of the Board of Auditors that will enable UNOPS to ensure full cost-recovery of its services and consequently maximising those opportunities that are most cost effective while minimizing services that do not stand up to the self-financing principle. However, until such time as UNOPS is in a better position to make such profitability determinations, it is extremely hesitant to take steps especially to stop or otherwise limit its services to present clients, including through the discontinuation of any business line or activity, or by closing offices.

20. UNOPS expects that the planned independent review of UNOPS, the terms of reference for which are found in document DP/2002/36, will also contribute to these important issues.

#### IV. EXECUTIVE BOARD ACTION

21. The Executive Board may wish to approve the report.

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