



Joint United Nations Programme on HIV/AIDS

**UNAIDS**

UNICEF • UNDP • UNFPA • UNDCP  
UNESCO • WHO • WORLD BANK

UNAIDS/PCB(8)/99.4  
3 May 1999

## **PROGRAMME COORDINATING BOARD**

**Eighth meeting**  
**Geneva, 27-28 June 1999**

*Provisional agenda item 5.2*

### **Financial and Budgetary Matters**

**UNAIDS Operating Reserve Fund**



UNAIDS/PCB(8)/99.4  
3 May 1999

## PROGRAMME COORDINATING BOARD

**Eighth meeting**  
**Geneva, 27-28 June 1999**

*Provisional agenda item 5.2*

### **Financial and budgetary matters**

#### **UNAIDS Operating Reserve Fund**

### *CONTENTS*

Background .....	2
Action Taken by UNAIDS on PCB's 1998 Recommendations .....	3
Trends in Income .....	4
Use of the Operating Reserve Fund .....	5
Summary and Recommendations .....	6
Figure 1 Percentage of Funds Received on Year's Pledges during the 1st Quarter: 1996, 1997, 1998 and 1999 .....	4
Figure 2 Funds Available to the Core Budget by Quarter: 1997, 1998 and 1999 ....	4
Figure 3 Gap between Income Flow and Expenditure, as of 31 March 1999 .....	5
Table: Tracking of UNAIDS Operating Reserve Fund (ORF) (1 December 1996 to 30 April 1999) .....	7

## UNAIDS Operating Reserve Fund

### Background

1. At its meeting in May 1998, the UNAIDS Programme Coordinating Board (PCB) approved the establishment of the UNAIDS Operating Reserve Fund (ORF) from the carry-over funds available to the Programme at a level of US\$ 33 million, based on recommendations made by the PCB Working Group on Resource Mobilization.
2. The Fund is used to ensure the necessary continuity of UNAIDS operations under its biennial budget and workplan, pending the receipt of contributions. In this way, the Fund helps to mitigate the impact of receiving payment of voluntary contributions late in the year, and thus provides UNAIDS with financial sustainability.
3. The PCB approved the following rules and procedures for the Fund:

“If, in the current financial period, the sum of available carry-over balances (other than those in the Operating Reserve Fund), contributions from donors and miscellaneous income (including interest earned on income), are not sufficient to enable UNAIDS to commit funds within its approved budget, advances may be made from the Operating Reserve Fund, provided that:

  - (a) any advances made are covered by written pledges from donors, the funds for which are expected to be received for the current calendar year; or
  - (b) any advances not covered by such written pledges will be made only during the first six months of the year, and will be repaid to the Operating Reserve Fund prior to the end of the calendar year.

Advances made under sub-paragraph (a) above shall be repaid when payment against written pledges has been received, or as a first charge on any available income.

Advances made under sub-paragraph (b) above shall be repaid as soon as contributions are received, but in any event prior to the end of the calendar year in which they were made. Any shortfall shall be recovered through reprogramming of the approved biennial programme budget, if necessary, unless otherwise decided by the PCB.

Advances from the ORF for other purposes may be proposed by the Executive Director to the PCB, to be approved under such terms and conditions, and with such repayment provisions, as the PCB may determine.”

## Action Taken by UNAIDS on PCB's 1998 Recommendations

4. The PCB will recall that the establishment of the level of the ORF at US\$ 33 million was calculated based on the following two factors:

- The need to obligate salaries for UNAIDS staff at the beginning of each calendar year for the full year, [under the rules and procedures of the World Health Organization \(WHO\) which is responsible for the administration in support of the programme as per resolution 1994/24 of the Economic and Social Council of the United Nations](#). In a situation of full staffing, UNAIDS requires around **US\$ 20 million** in January of each year to obligate the cost of all Geneva-based and field-based posts. The costs of posts in the 1998-1999 approved budget amount to US\$ 22 million each year.
- The need to have around **US\$ 13 million** available for the first **four months** of operations, with the average monthly activity obligation being approximately US\$ 3.3 million.

5. During its May 1998 session, the PCB noted the concerns raised by some delegates concerning the level of the ORF. The PCB was eager to ensure that the [UNAIDS Secretariat](#) use its resources effectively while taking into account the existing administrative agreements between UNAIDS and WHO. It therefore requested the UNAIDS Secretariat to continue discussions with WHO's administration regarding the specific requirement to obligate salaries for the full year at the beginning of each calendar year, and to report on the outcome of these discussions to the PCB at its next session in 1999.

6. [The UNAIDS Secretariat](#), therefore, brought the PCB's concerns to the attention of WHO and officially requested WHO to review the possibility of applying some flexibility in this matter. In February 1999, WHO's Executive Director in charge of General Management communicated the Organization's policy as follows:

“The obligations which are established for staff salaries should reflect the true substance of the underlying liability for the financial period concerned. WHO Manual IV.4.100 says “For funds other than regular budget, Special Account for Servicing Cost and Associate Professional Officers, salaries and allowances obligations are established on an annual basis to 31 December of the current calendar year or to the end of the contract or expiry of the authorized positions, as applicable, whichever is the earlier.”

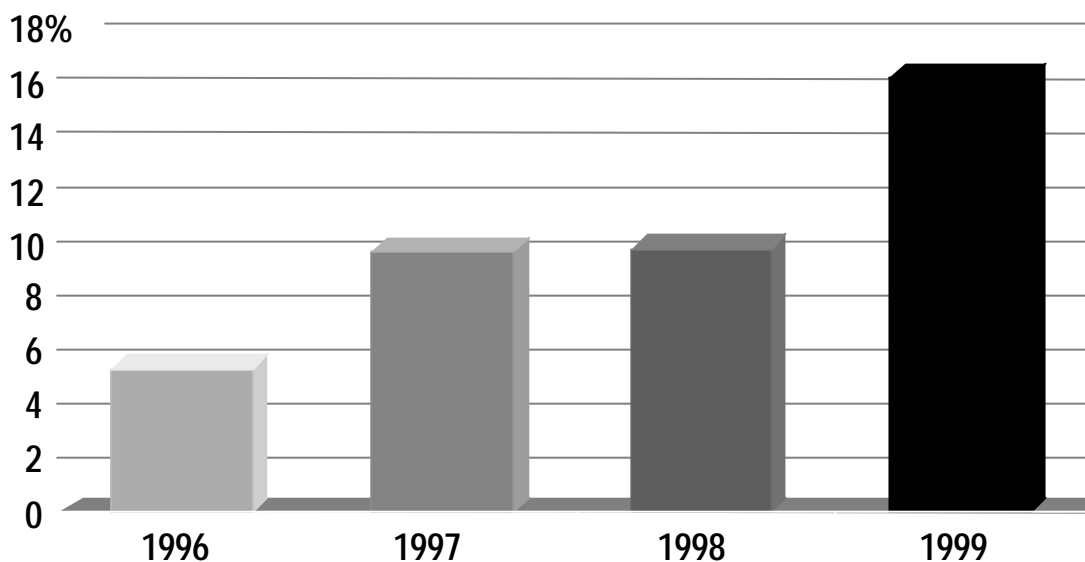
7. In summary, WHO concluded that it is currently not in a position to alter existing Rules and Regulations pertaining to this matter, [and that these apply to the UNAIDS Secretariat](#). WHO will therefore continue to obligate UNAIDS staff salaries in full at the beginning of each year for 12 months.

8. The PCB further recommended that donors be requested to inform the Secretariat, in writing, of the proposed level of their contribution to the UNAIDS core budget, as early as possible in the calendar year. This recommendation has been followed up by the UNAIDS Secretariat and by the PCB Working Group on Resource Mobilization which is exploring ways and means to increase the sustainability and predictability of UNAIDS' funding.

**Trends in Income**

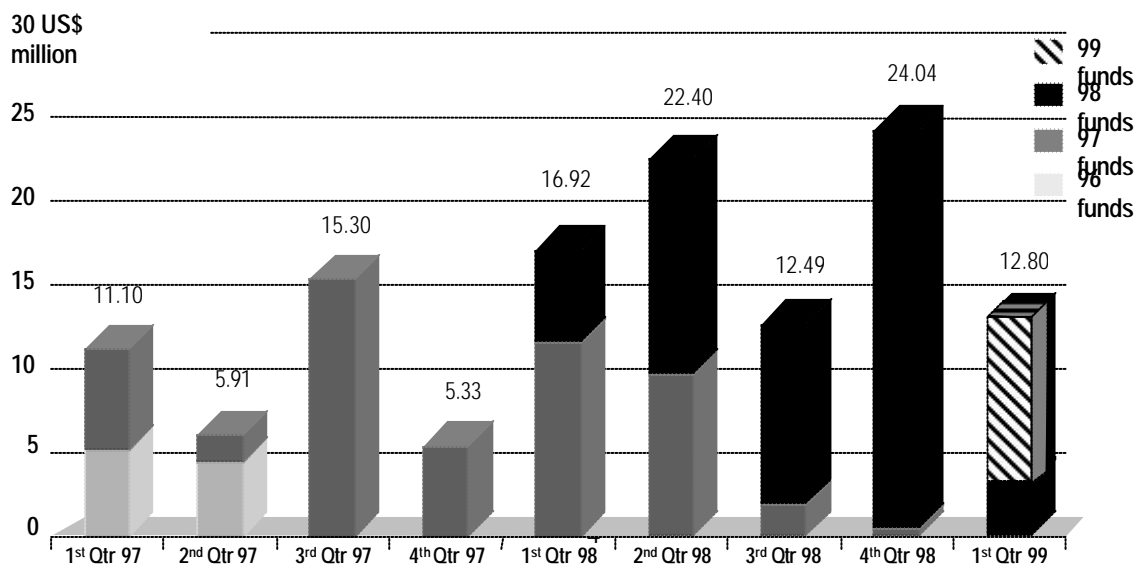
9. Figure 1 shows a comparison by quarter of the percentage of actual funds received against year's pledges towards core activities during the first quarter of 1996, 1997, 1998 and 1999. During the first quarter of both 1997 and 1998, about 10% of the contributions pledged for each year were made available to the Programme. This was a positive increase as compared to only 5.3% of pledged contributions received in the early months of 1996. In 1999, there was also significant improvement in the rate of contributions provided by cosponsoring organizations and donors during the first quarter of the year, as by 31 March 1999 about 16% of expected contributions for the year had been received.

**Figure 1. Percentage of Funds Received on Year's Pledges during the 1<sup>st</sup> Quarter: 1996, 1997, 1998 and 1999**



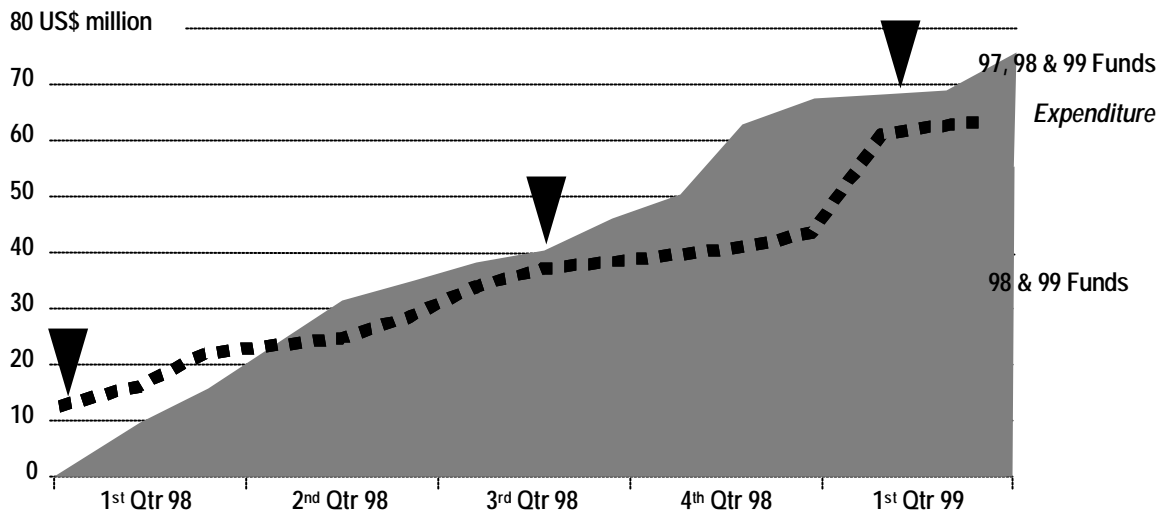
10. In addition to the positive trends referred to above, there has also been an overall improvement in the funding patterns throughout the 1998-1999 biennium, as illustrated in Figure 2.

**Figure 2. Funds Available to the Core Budget by Quarter: 1997, 1998 and 1999**



11. Figure 3 shows that the expenditure patterns of the Programme since 1 January 1998 have been similar to those that prevailed during the 1996-1997 biennium. The figure also indicates the improvement of the cash-flow situation during 1998 and the first quarter of 1999.

**Figure 3. Gap between Income Flow and Expenditure, as of 31 March 1999**



### Use of the Operating Reserve Fund

12. At the beginning of the 1998-1999 financial period, the Programme had in its Trust Fund an amount of US\$ 17.3 million brought forward from the 1997 core fund balance. While waiting to receive the funds pledged towards the approved biennial budget, that amount was obligated to partially cover staff salaries. To fully meet staff salaries and related costs for the calendar year, and to ensure the continuity of UNAIDS operations during the first months of 1998, an amount of US\$ 15 million was also borrowed from the provisional US\$ 20 million set aside under the ORF. The ORF was restored to its original level of US\$ 20 million at the end of March 1998.

13. Despite the relatively low level of borrowing from the ORF (i.e. US\$ 15 million), the Programme was able to continue to make financial commitments to its core budget activities during the first quarter of 1998. This was possible because, in addition to the US\$ 17.3 million brought forward from 1997, the Programme also had access to outstanding contributions from 1997, totalling US\$ 11.5 million in February and March 1998.

14. Following the PCB's decision in May 1998 to establish the ORF at the level of US\$ 33 million, in June 1998 an additional amount of US\$ 13 million was transferred to the ORF from the funds available in the Trust Fund.

15. At the end of July 1998, in order to make funds available for activities, another US\$ 9 million was borrowed from the ORF. Contributions received during the fourth quarter enabled the programme to refund the US\$ 9 million advance.

16. At the beginning of 1999, the ORF thus stood at its approved level of US\$ 33 million, from which the Secretariat borrowed again US\$ 10 million in February 1999 in order to have

## UNAIDS/PCB(8)/99.4

enough funds available to ensure the smooth running of its operations and for obligating 1999 salaries. It is expected that this advance will be refunded during the second half of 1999.

17. The table shows the advances made from the ORF and the subsequent refunds since its establishment.

### Summary and Recommendations

18. The severe cash-flow problems, such as the ones experienced during the 1996-1997 biennium, can now be prevented owing to a steadier rate of incoming contributions and an earlier access to outstanding contributions from previous years.

19. The frequent borrowing from the ORF as described above, clearly shows that the ORF is essential to ensuring the continuity of UNAIDS operations in accordance with its approved biennial budget and workplan.

20. It is therefore proposed to adjust the level of the ORF from US\$ 33 million to US\$ 25 million, taking into account the positive trends in the area of funding experienced since the beginning of the biennium. With the current patterns of income and expenditure, US\$ 25 million represents an adequate level to satisfy the Financial Rules of WHO, as well as the Programme's funding obligations during the first quarter of the year.

21. The PCB is [requested](#) to endorse the proposed re-evaluation of the level of the ORF from US\$ 33 million to US\$ 25 million, therewith authorizing the Secretariat to utilize the amount of US\$ 8 million that will be freed [to intensify country activities within the framework of the "Partnership against AIDS in Africa"](#).

Table: Tracking of UNAIDS Operating Reserve Fund (ORF),  
1 December 1996-30 April 1999 (in US\$ million)

Date	Action	(ORF)	
		Transaction	Balance
Dec. 1996	Funds set aside to create the provisional ORF		20
Jan. 1998	Advance from ORF: 15	-15	5
Mar. 1998	Refund of advance: 15	+15	20
June 1998	Transfer to ORF *: 13	+13	33
Jul. 1998	Advance from ORF: 9	-9	24
Nov. 1998	Refund of advance: 9	+9	33
Feb. 1999	Advance from ORF: 10	-10	23

*\*(as per PCB's May 98 approval)*