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PROGRAMME COORDINATING BOARD

Seventeenth meeting
Geneva, 27-29 June 2005

Provisional agenda item: 6.2

Interim financial management information for the 2004–2005 biennium and financial update as at 31 March 2005

Executive Summary

- This report provides information on funds received and expenditures (including transfers to Cosponsors) as at 31 March 2005 against the Unified Budget and Workplan for 2004-2005.
- The report also presents a plan for the utilization of the anticipated fund balance which should become available on 31 December 2005.

Action required at this meeting

The PCB is requested to:

- i. take note of the interim financial management information for the 2004–2005 biennium and the financial update as at 31 March 2005;
- ii. endorse the Executive Director's proposal for the utilization of anticipated fund balance at the end of 2005;
- iii. encourage donor governments and others to release their contributions towards the Unified Budget and Workplan for 2004–2005 as soon as possible, if they have not already done so.

INTRODUCTION

1. The financial period of UNAIDS covers two consecutive calendar years, beginning with an even-numbered year. This document presents interim financial management information on the 2004–2005 biennium, as at 31 March 2005. A formal and certified financial report covering the full biennium accompanied by an audit opinion will be prepared at the end of 2005, the second year of the financial period, and will be presented to the PCB in 2006.
2. This interim financial management information is not accompanied by an audit opinion. However, the accounts of UNAIDS are subject to continuous examination and review by both internal and external auditors of WHO, which provides the administration in support of UNAIDS as per resolution 1994/24 of the Economic and Social Council of the United Nations and Article XI of the 1995-96 Memorandum of Understanding among Cosponsors establishing UNAIDS.

THE UNIFIED BUDGET AND WORKPLAN FOR THE 2004–2005 BIENNIUM

Approved budget and workplan

3. The structure of the 2004–2005 Unified Budget and Workplan (UBW) is based on the United Nations General Assembly Declaration of Commitment on HIV/AIDS in 2001 and has six work areas:
 - building capacity and leadership, including human rights;
 - prevention and vulnerability reduction;
 - care, support and treatment;
 - alleviating socioeconomic impact and addressing special situations;
 - research and development;
 - resources, follow-up, monitoring and evaluation.
4. The Unified Budget and Workplan includes a breakdown of the expected results and resource needs of each Cosponsor, the Secretariat and Inter-Agency initiatives. The activities of each relate to specific objectives and work areas. The Unified Budget and Workplan also includes agreed principles and processes to harmonize the work of Cosponsors and the Secretariat.
5. At its 14th meeting, from 26 to 27 June 2003, the PCB endorsed the strategies and approaches contained in the 2004–2005 Unified Budget and Workplan. It approved a core budget of US\$ 250.5 million and a proposed distribution of those resources as follows: US\$ 85.7 million for Cosponsors; US\$ 91.2 million for the Secretariat; and US\$ 73.6 million for interagency activities. The PCB also approved an additional Inter-Agency core budget of US\$ 20 million, subject to availability of funds bringing the total budget to US\$ 270.5 million.

Funds made available to the Unified Budget and Workplan for 2004–2005

6. During the period under review, income totaling US\$ 184 042 944 was made available for the Unified Budget and Workplan for 2004–2005. Some 31 governments and the World Bank contributed respectively 97% and 2% of this amount. The remaining 1% is made up of interest received and apportioned during the reporting period, together with miscellaneous income, including funds received from public institutions and private contributors other than governments, small donations and honoraria received by UNAIDS Secretariat staff. Table 1 provides the details of the contributions received towards the Unified Budget and Workplan during the period 1 January 2004 – 31 March 2005.

**Table 1: Unified Budget and Workplan – details of income
as at 31 March 2005 (US\$)**

Voluntary contributions	Funds received towards the 2004-2005 Unified Budget and Workplan
Governments	
<i>Andorra</i>	17 898
<i>Australia</i>	1 465 000
<i>Austria</i>	124 834
<i>Belgium</i>	4 263 089
<i>Brazil</i>	100 000
<i>Canada</i>	6 955 597
<i>China</i>	100 000
<i>Czech Republic</i>	131 022
<i>Denmark</i>	5 258 900
<i>Finland</i>	4 813 478
<i>France</i>	553 483
<i>Germany</i>	1 707 875
<i>Greece</i>	106 101
<i>Ireland</i>	3 050 398
<i>Italy</i>	2 452 520
<i>Japan</i>	3 100 000
<i>Liechtenstein</i>	16 288
<i>Luxembourg</i>	939 024
<i>Monaco</i>	10 000
<i>Netherlands</i>	30 187 350
<i>New Zealand</i>	629 600
<i>Norway</i>	16 345 676
<i>Poland</i>	20 000
<i>Russian Federation</i>	300 000
<i>Spain</i>	409 619
<i>Sweden</i>	38 421 800
<i>Switzerland</i>	3 200 000
<i>Thailand</i>	49 973
<i>United Kingdom of Great Britain</i>	14 962 535
<i>United States of America</i>	36 440 000
<i>Autonomous Government of the Region of Extremadura, Spain</i>	606 796
<i>Ministry of the Flemish Community, Belgium</i>	863 496
<i>Sub-total</i>	<u>177 602 352</u>
Cosponsoring Organizations	
<i>World Bank</i>	4 000 000
<i>Sub-total</i>	<u>4 000 000</u>
Other	
<i>United Nations Federal Credit Union</i>	69 381
<i>Miscellaneous</i>	78 031
<i>Sub-total</i>	<u>147 412</u>
Other income	
<i>Interest</i>	2 293 180
<i>Sub-total</i>	<u>2 293 180</u>
TOTAL	<u><u>184 042 944</u></u>

7. Figure 1 shows a comparison by quarter of the percentage rate of income/programme funding requirements for the 2002-2003 and the 2004-2005 biennia respectively. The percentage of funds received against the Unified Budget and Workplan for 2004-2005 currently stands at 68% (US\$ 184 million against US\$ 270.5 million), which compares favorably to the 64% (US\$ 121.4 million against US\$ 190 million) experienced at the same time in the previous biennium.

Figure 1: % of Income received by quarter against the total Unified Budget and Workplan funding requirement

	Q1 March - Year 1	Q2 June - Year 1	Q3 September -Year 1	Q4 December - Year 1	Q1 March - Year 2
2002-2003	17	25	38	51	64
2004-2005	9	15	49	54	68

8. This table also reveals that despite the relatively low income rate experienced during the first two quarters of year 2004, that contributions for the period under review have remained at a high level, both in absolute and relative terms considering the drastically increased level of the funding requirements for 2004-2005 (over 42% above that of 2002-2003).

9. Several factors have contributed to this trend, such as a general increase in contributions from the donor community to UNAIDS, as well as the weakening of the US dollar against other major donor currencies which has increased the US dollar value of several donor contributions.

Expenditure made under the Unified Budget and Workplan for 2004–2005

10. In light of the level of funds already received for the Unified Budget and Workplan for 2004-2005, as well as assurances received from donor governments regarding the release of their outstanding pledges before the end of 2005, the Executive Director already has, on the basis of the authority vested in to him, increased the Inter-Agency resources component of the Unified Budget and Workplan for 2004-2005 by US\$ 20 million to scale up country level work, bringing the overall level of the Unified Budget and Workplan to US\$ 270.5 million.

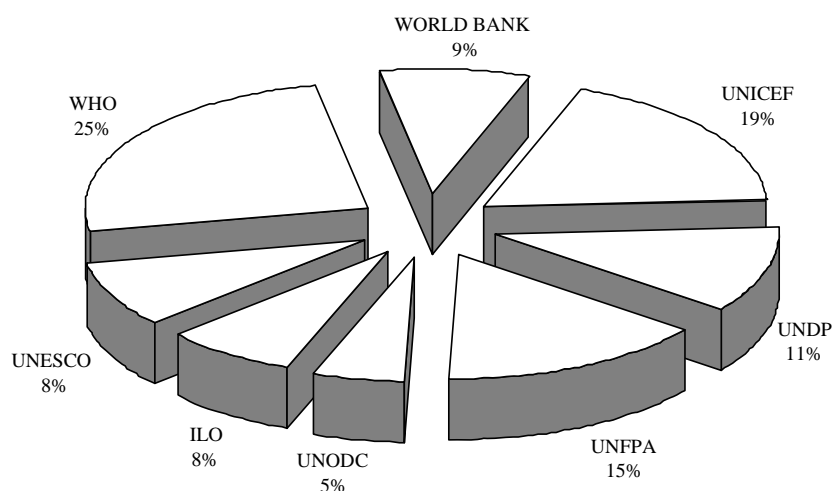
11. During the period 1 January 2004 to 31 March 2005, expenditure (including transfers to Cosponsors) totaling US\$ 207.8 million was incurred against the budget of US\$ 270.5 million approved for the 2004-2005 Unified Budget and Workplan, resulting in a financial implementation rate of 76.8%. This expenditure was made as follows:

- US\$ 85.6 million was transferred to Cosponsors for the implementation of their AIDS activities contained in the Unified Budget and Workplan;
- US\$ 50.3 million was expended under the Inter-Agency resources component of the Unified Budget and Workplan;
- US\$ 71.9 million was expended for Secretariat activities and staff.

i) *Funds transferred to Cosponsors*

12. As at 31 March 2005, financial transfers made to Cosponsors amounted to US\$ 85.6 million. These transfers represent 100% of Cosponsors' share under the Unified Budget and Workplan for 2004-2005. Information on the proportion of transfers made to individual Cosponsors versus total transferred together with amounts transferred against each of the six work areas is provided in Figure 2 below.

**Figure 2: Funds transferred to Cosponsors
as at 31 March 2005**



Work area	Funds transferred (in US\$)
1 <i>Building capacity and leadership, including human rights</i>	23 903 500
2 <i>Prevention and vulnerability reduction</i>	32 922 000
3 <i>Care, support and treatment</i>	8 618 000
4 <i>Alleviating socioeconomic impact and addressing special situations</i>	7 737 000
5 <i>Research and development</i>	5 365 000
6 <i>Resources, follow-up, monitoring and evaluation</i>	7 124 500
Total	85 670 000

ii) *Expenditure incurred against Inter-Agency resources*

13. The Inter-Agency resources share of the Unified Budget and Workplan consists of three main parts: direct financial support to catalytic projects that contribute to or strengthen an expanded response in priority countries through Programme Acceleration Funds (PAF) programmed by the UN Theme Groups on HIV/AIDS; operational and related support for UNAIDS country staff (UNAIDS Country Coordinators and Advisors in monitoring and evaluation, in partnership and social mobilization, and in resource mobilization) working with Theme Groups; and support to stimulate effective responses to AIDS through the implementation of targeted interventions at country, regional and global levels.

14. As at 31 March 2005, total expenditure amounting to US\$ 50.3 million was incurred against a biennial budget of US\$ 93.6 million. Expenditures were made as follows:

- US\$ 9.8 million disbursed for Programme Acceleration Funds;
- US\$ 33.4 million towards the operational support to Theme Groups, including salary and operational costs for UNAIDS Country Coordinators and Advisors in monitoring and evaluation, in partnership development and social mobilization, and in resource mobilization;
- US\$ 7.1 million to support a number of targeted interventions at country, regional and global levels.

15. A breakdown of Inter-Agency resource expenditure under the six areas of work is provided in Table 2.

Table 2: 2004–2005 Unified Budget and Workplan: Interagency resources - budget allocation and expenditure as at 31 March 2005
(in US\$)

Work area	Interagency resources		
	allocation	expenditure	%
1 Building capacity and leadership, including human rights	28 272 253	9 709 683	34
2 Prevention and vulnerability reduction	15 171 604	9 729 560	64
3 Care, support and treatment	12 999 628	9 146 759	70
4 Alleviating socioeconomic impact and addressing special situations	13 042 484	9 146 759	70
5 Research and development	416 568	190 892	46
6 Resources, follow-up, monitoring and evaluation	23 697 463	12 351 558	52
Total	93 600 000	50 275 211	54

iii) Expenditure incurred against the Secretariat budget

16. Secretariat expenditure amounted to US\$ 71.9 million as at 31 March 2005, representing a financial implementation rate of approximately 79%. This figure includes US\$ 36.7 million spent on activities, and US\$ 35.1 million on staff costs.

17. Further details on the funds spent by the Secretariat under the respective areas of work are shown in Table 3.

Table 3: 2004–2005 Unified Budget and Workplan: Secretariat budget allocation and expenditure as at 31 March 2005 (in US\$)

Work area	Secretariat		
	allocation	expenditure	%
1 Building capacity and leadership, including human rights	29 494 796	23 690 640	80
2 Prevention and vulnerability reduction	9 500 375	8 071 238	85
3 Care, support and treatment	7 868 184	6 641 061	84
4 Alleviating socioeconomic impact and addressing special situations	6 994 976	6 182 149	88
5 Research and development			
6 Resources, follow-up, monitoring and evaluation	37 341 669	27 287 007	73
Total	91 200 000	71 872 095	79

Fund balance

18. UNAIDS' accounts are maintained in accordance with the Financial Regulations and Financial Rules of WHO, which provides the administration in support of the Joint United Nations Programme on HIV/AIDS. As a result, contributions towards UNAIDS Unified Budgets and Workplans are recorded on a cash basis, i.e., as received, whereas expenditure (obligations) is recorded on an accrual basis.

19. Income against the Unified Budget and Workplan is entirely funded by voluntary contributions. Thus, depending on the level of income raised and of expenditure incurred for programme activities during a given financial period, the Joint Programme may end the period with either an excess or a shortfall of income over expenditure. The fund balance at the end of each financial period is a result of a combination of the amount of the excess or shortfall of income over expenditure together with other factors¹ occurring during the financial period.

20. The UNAIDS Secretariat has been successful to date in obtaining full funding of its successive Unified Budgets and Workplans owing to steadily growing awareness of and commitment to reversing the epidemic, and the successful resource mobilization efforts it engaged itself into since the inception of the Programme in 1995.

21. Hence, and despite an overall financial implementation rate of nearly 100% during the eight-year period from 1996 to 2003, the Joint Programme has consistently ended each financial period with an increasingly sizeable accumulated fund balance, commensurate with the successive biennial budget increases. On 31 December 2003, this accumulated fund balance amounted to US\$ 84.8 million.

¹ These factors include savings generated as a result of the reduction and cancellation of some prior financial periods' unliquidated obligations as well as adjustments between categories of income under the Trust fund.

22. Immediate access to this fund balance at the beginning of 2004 provided the possibility for the Secretariat to transfer to Cosponsors up to 75% of their shares under the 2004-2005 Unified Budget and Workplan during the first quarter of 2004, thus ensuring continuity and smooth implementation of their activities. It is worth noting in this context, that the financial rules of most cosponsors organizations require the costs of filled posts be obligated for the full year at the beginning of each calendar year, and that such upfront payments therefore facilitate continuity.

23. On the assumption that the UNAIDS Secretariat is successful in raising the totality of resources to fund the US\$ 270.5 million 2004-2005 Unified Budget and Workplan and again in a position to fully implement it by 31 December 2005, the Programme will be left with US\$ 78 million² representing the amount remaining from the 2002-2003 fund balance.

24. In light of its importance and as of the year 2000, the PCB was regularly consulted on the use of the fund balance. It was agreed that beyond providing the Joint Programme with an essential financial protection from possible shortfalls on income at a time when targets set by the PCB for successive Unified Budgets and Workplans were increasing drastically (i.e. 36% from 2000-2001 to 2002-2003; and 42% from 2002-2003 to 2004-2005), that the Executive Director was also in a position to meet urgent additional funding requirements arising during the course of financial periods which had not been foreseen in the Unified Budgets and Workplans.

25. In this context, the PCB agreed in 2001 that part of the anticipated fund balance for 2000-2001 could be utilized to foster urgent finalization of the UN Strategic Plan, and to cover expenditure incurred around the United Nations General Assembly Special Session on HIV/AIDS in June 2001. More recently, at its June 2004 session, the PCB endorsed the Executive Director's proposal to cover unforeseen costs related to strengthening security measures at country level in compliance with UNSECOORD Minimum Operating Security Standards (MOSS), as well as additional payments to be made in conjunction with the construction costs of the new UNAIDS Secretariat premises in Geneva from the available fund balance at the time these expenditures are made.

26. Moreover, and as of 2001, the growing size of the anticipated fund balance also enabled the Executive Director to recommend to the PCB to make advance payments to Cosponsors under their shares of the Unified Budget and Workplan for 2002-2003, and, later, for 2004-2005, before receipt of income in order to avoid disruption in the smooth implementation of their activities and maintain steady momentum. An amount of US\$ 32.6 million was thus disbursed to Cosponsors in December 2001 as a 50% advance against their shares under the 2002-2003 Unified Budget and Workplan. Likewise, an amount of US\$ 64.2 million, representing a 75% advance against Cosponsors' shares under the 2004-2005 Unified Budget and Workplan, was transferred to Cosponsors during the first quarter of 2004.

27. The Executive Director again recommends that a similar advance be made to Cosponsors against their shares under the 2006-2007 Unified Budget and Workplan. Subject to the separate approval of the 2006-2007 Unified Budget and Workplan by the PCB, it is therefore recommended to earmark US\$ 60.2 million under the anticipated fund balance as at 31 December 2005, representing 50% of Cosponsors' share under the proposed 2006-2007 Unified Budget and Workplan, for transfer to Cosponsors in January 2006.

² At its 15th meeting in June 2004, PCB approved the utilization of US\$ 6.8 million out of the 2002-2003 fund balance (US\$ 84.8 million) to cover the costs of additional security measures at country level and payments in conjunction with the construction of new premises in Geneva, including installation costs as is also referred to in paragraph 25 above.

28. In addition, in view of the number of new challenges emerging recently in the global response to AIDS, the Executive Director recommends to programme an additional amount of US\$ 7.8 million from the anticipated and available fund balance under the 2004-2005 Unified Budget and Workplan towards a number of urgent and priority strategic initiatives during the remainder of 2005 as follows:

- *US\$ 3 million to facilitate, monitor and measure the application of the “Three Ones” principles as outlined by the international meeting in London UK on 9 March 2005. This includes follow-up of the Global Task Team recommendations to further harmonization of AIDS policies and procedures and the promotion and alignment of support to ensure effective coordination, implementation and monitoring of more inclusive, efficient and scaled-up national AIDS responses.*
- *US\$ 3.5 million for information technology upgrades and infrastructure required in view of three interrelated components: (i) the upcoming move of the UNAIDS Secretariat to new premises during the summer of 2006, (ii), adjustments made necessary due to the implementation by WHO of its new comprehensive enterprise resource planning system on which the UNAIDS Secretariat is dependent, and, (iii), an upgrade of infrastructure to strengthen field connectivity for enhancing country support.*
- *US\$ 0.5 million to review and enhance the effectiveness of the UNAIDS Committee of Co-sponsoring Organizations (CCO) with an in-depth analysis and renewed understanding of its role, functions and modus operandi in the management of UNAIDS. Current UN reform efforts will represent the backdrop against which the analysis will be conducted.*
- *US\$ 0.8 million to immediately start implementing activities focusing on intensification of HIV prevention as stated in the policy position paper submitted to the PCB separately, in addition to related prevention activities already underway under the 2004-2005 Unified Budget and Workplan.*

29. Finally, in order to align the level of the Operating Reserve Fund which was set at US \$ 25 million in 1999 with increasingly higher requirements of Unified Budgets and Workplans since, the Executive Director recommends to increase its level by US\$ 10 million to be taken from the anticipated fund balance in 2005, bringing its total value up US\$ 35 million by 31 December 2005.

30. Successive increases of Unified Budgets and Workplans from 1999 to 2005 have brought its overall level up from US\$ 120 million in 1998-1999 to US\$ 270.5 million in 2004-2005, resulting into a net increase of 225 %. With a possible further increase of the Unified Budget and Workplan to US\$ 320 million for 2006-2007, keeping the 1999 level of Operating Reserve Fund in 2006-2007 is no longer tenable.

31. This recommended increase of the Operating Reserve Fund is also commensurate with similar financial protection tools put in place by other voluntary funded United Nations Programmes (e.g. UNDP, UNFPA and UNIFEM), and will enable the Joint Programme to satisfy the WHO Financial Regulations requirements to the effect that the costs of filled fixed-term posts be obligated for the full year at the beginning of each calendar year.