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United Nations development system reform

United Nations Development System reform

Report by the Director General

At its forty-sixth session, the Board was provided with a report on the United Nations Development System reform (IDB.46/11) and a conference room paper on UNIDO in the United Nations Resident Coordinator system (IDB.46/CRP.3). These provided details on the repositioned United Nations development system, funding arrangements, benefits of the resident coordinator system, and on common premises and business operations.

In its decision IDB.46/Dec.12, the Board requested the Director General to regularly report to the Programme and Budget Committee, the Industrial Development Board and the General Conference on matters related to the United Nations development system reform.

Building on the above-mentioned documents, the present report provides an update on recent developments concerning the United Nations development system reform, as well as on funding-related aspects.

I. Background and latest developments

1. General Assembly resolution [71/243](#) on the quadrennial comprehensive policy review of operational activities for the development of the United Nations system, together with General Assembly resolution [72/279](#) on the repositioning of United Nations development system (UNDS) initiated the most far-reaching reform of the UNDS in decades.
2. On 1 January 2019, a reinvigorated and independent United Nations resident coordinator system came into being. The system comprises 129 Resident Coordinators (RCs), including 12 Assistant Secretaries-General, 36 Directors at the D-2 level and 81 Directors at the D-1 level. They now serve as the highest-ranking development representatives of the UNDS, leading 131 United Nations Country Teams (UNCTs) serving 164 countries and territories. The UNCTs are the main inter-agency mechanism at the country level for inter-agency coordination and

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decision-making, and are composed of the representatives of the United Nations entities carrying out operational activities for development in the respective country. UNIDO is currently a member of UNCTs in 81 countries, and a member of 191 UNCT inter-agency groups globally. It chairs or co-chairs 21 groups that are mainly concerned with economic development, but also address social inclusion and environmental sustainability.

3. The RCs are supported by the resident coordinator offices (RCOs), for which a minimum capacity of five substantive staff members on average in each has been identified in the context of the reform. Based on the current fund availability, RCOs are currently staffed with three national officers administered by the United Nations Development Programme (UNDP), assisted by two support staff provided by UNDP on the basis of a fee.

4. A service-level agreement (SLA), signed between the United Nations Secretariat and UNDP, establishes the future operational support needed from UNDP. In the first year of implementation of the new system, the budget estimates associated with the SLA indicate that in 2019 up to \$204 million, or more than 70 per cent of the RC system budget, may be operationalized by UNDP.

5. To ensure the independence and impartiality of RCs, the RC function has been separated from the function of the UNDP Resident Representative, and RCO staff contracts will be gradually converted to United Nations Secretariat contracts.

6. The reinvigorated RC system is supported by an upgraded United Nations Development Coordination Office (UNDCO), comprising 67 posts at the United Nations Headquarters and 28 posts at five regional desks. UNDCO is the entity responsible for the management of the RC system and provides advisory services to UNCTs under the leadership of the Deputy Secretary-General. UNDCO is a stand-alone coordination office within the United Nations Secretariat, headed by the Assistant Secretary-General for Development Coordination, who reports to the Deputy Secretary-General in her capacity as Chair of the United Nations Sustainable Development Group (UNSDG).

7. Under the leadership of the RC, UNCTs prepare United Nations Development Assistance Frameworks (UNDAFs) together with national governments and in consultation with other stakeholders, to ensure ownership and alignment with national development priorities, including the 2030 Agenda. UNDAFs are the most important instrument for the planning and implementing United Nations development activities in each country. They thereby inform the presence, composition and programmatic focus of the United Nations entities engaged in the design and delivery of the UNDAF.

8. At the time of writing, two important guiding documents, the UNDAF Guidance and the Management and Accountability Framework (MAF), were still under preparation by the UNDS transition team and supporting reference groups composed of RCs and UNCT members. The MAF is planned to be finalized by September 2019. It will replace the 2008 Management and Accountability System (MAS) of the RC system and will delineate roles, responsibilities and accountabilities within the UNDS. As such, it is linked with the design of the new UNDAF, where United Nations entities will be accountable to the RC for their contribution to UNDAF outcomes.

9. The UNSDG and Member States are currently also in the process of defining the selection process and criteria for the composition of future UNCTs. UNCT membership is defined at the outset of new UNDAFs and facilitated by RCs.

II. Funding arrangements

10. As detailed in the report of the Secretary-General “Revised estimates relating to the resident coordinator system under section 1, Overall policymaking, direction and coordination” (73/424), the reinvigorated RC system will cost \$281.2 million per year. This includes approximately \$246 million for RCs and the staffing cost of RCOs and UNDCO. The remaining \$35 million are intended for coordination activities,

allocated across RCOs and five regional UNSDG teams, to catalyse in-country efforts for priority initiatives, including joint assessments; analytics and data collection; joint programme development; joint planning and innovation; communications and advocacy; and the monitoring and reporting on the progress of UNDAF outcomes.

11. In 2014, and following the phasing-out of the donor-funded portion of the RC budget, a system-wide cost-sharing agreement was put in place to fund the RC system. The agreement was based on a global funding scenario of approximately \$125 million for 2016, with \$89 million covered by UNDP (71 per cent) and \$36 million (29 per cent) shared by the 18 member entities, including UNIDO.

12. The most essential aspect of the reinvigorated RC system is the decoupling of the RC function from UNDP. This decoupling has implications for the new funding model, including a reduction of the UNDP contribution to the RC system to \$10.3 million, concurrent with the increased cost-sharing contributions of other UNSDG member entities.

13. In its resolution [72/279](#), the General Assembly decided that funding for the reinvigorated RC system and DCO should be provided on an annual basis, starting from 1 January 2019, through:

- (a) A one per cent coordination levy on tightly earmarked third-party non-core contributions to United Nations development-related activities;
- (b) Doubling the current cost-sharing arrangement among UNSDG entities;
- (c) Voluntary, predictable, multi-year contributions to a dedicated trust fund to support the inception period.

A. Cost-sharing arrangement

14. Resolution [72/279](#) foresees doubling the current United Nations Development Group cost-sharing arrangement among United Nations development system entities as one element of the new RC funding model. This is expected to generate \$77.5 million towards the 2019 costs of the RC system.

15. The cost-sharing contribution was and is currently calculated based on a formula that comprises: (i) an annual base fee (depending on annual expenditures of the entity); (ii) system load (based on the share of UNDAFs the entity participates in); and (iii) agency expenditures (excluding humanitarian) and staff count as a combined proxy for agency size. The figures used for the calculation of the shares for 2016, 2017 and 2018 were based on Chief Executives Board for Coordination data for 2012/2013.

16. As several UNSDG member entities are currently in the middle of a biennium with an already approved budget, the doubling of their share for 2019 was not possible. In September 2018, UNIDO received a request for an increased 2019 contribution in the amount of \$2.6 million. Due to the biennial budget cycle (2018–2019) and its financial regulations and rules, UNIDO was however not in a position to increase the contribution for 2019 beyond the \$789,817 approved by Member States and agreed with the United Nations Secretariat in an agreement signed on 30 May 2018 and 14 June 2018.

17. The exact amount for the contribution expected from UNIDO in 2020 and beyond is currently not determined, as the UNSDG Principals meeting on 2 May 2018 agreed that the cost-sharing formula will need to be reviewed and updated for the biennium 2020–2021.

18. In preparation of the Director General's proposals for the programme and budgets for 2020–2021 (PBC.35/5–IDB.47/5), the UNIDO Secretariat took the UNSDG request for UNIDO's 2019 cost-sharing contribution as an indication that the amount for the next biennium would amount to \$5.3 million (or €4.7 million).

19. The amounts approved by Member States for 2017, 2018 and 2019, and the agreements signed between UNIDO and the United Nations Development Group Secretariat amounted to less than \$0.8 million per year. The proposed increase would result in additional costs of \$3.7 million (or €3.2 million) in the 2020–2021 biennial budget of UNIDO. Following past practice, the UNIDO Secretariat proposes that the cost-sharing contribution be covered from the regular budget of the Organization.

20. The contribution to the UNSDG cost-sharing arrangement for 2020–2021 is subject to the ongoing deliberations and approval of the programme and budgets for 2020–2021.

B. Coordination levy

21. Another element of the funding model is a one per cent levy to be added by donors to voluntary contributions that are tightly earmarked third-party non-core contributions, for the purpose of United Nations development-related activities.

22. In consultation with Member States in New York and with UNDS entities, UNDCO prepared an Operational Guidance for Implementing the Coordination Levy.

23. According to the latest draft Guidance dated 27 February 2019, a contribution agreement is potentially subject to the levy if all the following conditions are met: the contribution will fund development-related activities; the contribution is tightly earmarked to a single entity programme or project; and the contribution is from a single donor. For voluntary contributions to UNIDO, this may include earmarked allocations from sub-accounts of the Industrial Development Fund (IDF) and project-specific trust fund agreements, unless one of the conditions listed below applies.

24. The levy would not apply if at least one of the following conditions applies: the contribution is from a global vertical fund; the contribution is from a United Nations entity; the contribution is for an entire entity country programme, without earmarking within the country programme; the contribution is to a project or programme funded by multiple donors where funds are co-mingled and no separate donor-by-donor report is provided; the contribution is to a pooled fund, including joint programmes and agency-specific thematic funds; the contribution is in-kind; the contribution is from a programme country, whether to their own programme or the programme of another country; the overall contribution agreement is for less than \$100,000; or the purpose of the contribution is to fund activities that the United Nations entity has classified as Humanitarian Assistance, Peace Operations, or Global Agenda and Specialized Assistance.

25. For UNIDO this would exclude, inter alia, contributions from global vertical funds, such as the Global Environment Facility and the Multilateral Fund for the Implementation of the Montreal Protocol; multi-donor or inter-agency funding, such as United Nations multi-donor trust funds (MDTFs/MPTFs), national MDTFs and Joint Programmes; pooled funds and thematic funds, such as the Trust fund on food security, Trust fund on renewable energy, Trust fund on trade-related capacity-building, Trust fund for youth employment, Trust fund for Latin America and the Caribbean, and the Partnership Trust Fund; as well as local non-core resources, for instance in the form of programme country cost-sharing.

26. The levy furthermore does not apply to core contributions, such as to the regular budget and regular budget-funded projects under the Regular Programme of Technical Cooperation; the Special Account to Voluntary Contributions for Core Activities (SAVCCA); the Major Capital Investment Fund (MCIF); and the general purpose account in the IDF.

27. The Operational Guidance further stipulates that the Deputy Secretary-General will send a letter to donors and all Member States to officially inform them of the levy. The coordination levy will be applied to all relevant contribution agreements

signed on, or after, the date of this letter. The letter will offer two options for payment of the levy: donor-administered and agency-administered.

28. In the case of the donor-administered option, the United Nations Secretariat and the donor will formally agree on the basis for calculating the levy and the timing of the payment of the levy. Individual entities will have no role in the administration of the levy.

29. In the case of the agency-administered option, UNIDO will assess at the proposal stage whether an agreement is subject to the levy; will inform the donor of the amount of the levy; and will, in such cases, insert a standard coordination levy clause into the text of the contribution agreement. The levy will be paid to UNIDO, which will subsequently transfer it to the United Nations Secretariat. Administering the agency-administered levy will require UNIDO to prepare and negotiate new contractual modalities with donors; record receipt of the levy; maintain a list of agreements signed, so as to regularly update the Secretariat; and make periodical transfers to the Secretariat.

30. Regardless of the option selected, accountability for the use of the levy is with the United Nations Secretariat and not the entity signing the contribution agreement. Accordingly, reporting on the use of the levy will be prepared by the Secretariat.

III. Action required of the Committee

31. The Committee may wish to take note of the information contained in the present document.
