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Programming arrangements

Proposals on programming arrangements for the period 2008-2011*

Summary

This report is prepared in response to Executive Board decisions 2002/18, 2005/26 and 2007/3, which requested UNDP to seek further enhancement of its programming arrangements with consideration for simplification and harmonization and taking into account existing legislation, changes foreseen as part of the strategic plan, 2008-2011, and best practices within the United Nations funds and programmes. The report presents proposals for the 2008-2011 programming arrangements — integral to the UNDP strategic plan. These proposals are intended to facilitate integrated decisions by the Executive Board to further improve, streamline, and synchronize the programme financial framework to effectively support the implementation of the strategic plan.

Proposals for enhancing the 2008-2011 programme financial framework are:

(a) A systematic adjustment of country classification thresholds at the beginning of each programming cycle to ensure that they remain constant over time;

(b) Standardization of the target for resource assignment from the core (TRAC)-2 distribution methodology by applying Executive Board decision 2005/26 to the entire pool of TRAC-1/TRAC-2 resources. Consequently there would be a 50-50 per cent share between TRAC-1 and TRAC-2, regional flexibility of up to 10 per cent above regional pro rata shares of total TRAC-1, and without country limitation on TRAC-2 resource assignments;

(c) Increase in the annual programming base of the programme financial framework from $450 to $700 million in nominal terms;

* The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report.

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(d) Adjustments to specific fixed lines of the programme financial framework, as follows:

(i) Re-cost all fixed lines to account for inflation;

(ii) Regularize the funding of Programme of Assistance to the Palestinian People in line with decision 2005/26;

(iii) Introduce a new line: gender mainstreaming;

(iv) Transfer the evaluation line to the biennial support budget;

(v) Provide limited annual volume increases to all existing fixed lines.

In accordance with the objective of maximizing resources available for country level programming in line with development priorities set forth in country programmes, the combined allocation of TRAC-1, TRAC-2, and TRAC-3 will maintain its existing share of 86 per cent of total variable lines.

Elements of a decision

The Executive Board may wish to:

(a) take note of the present report on proposals for the programming arrangements for the period 2008-2011 as an integral part of the strategic plan, 2008-2011; and

(b) approve the programme financial framework, the programming base of $700 million, the relative shares of fixed and variable lines and the proposed funding level of each individual component of the financial framework as presented in table 6.

Contents

I. Background

1. In response to decision 2002/18, UNDP presented the midterm review of the 2004-2007 successor programming arrangements[2] to the Executive Board at its annual session 2005. The Executive Board provided subsequent guidance in decision 2005/26, which requested an assessment of the arrangements, with a particular focus on the approved changes, to be presented at its first regular session in 2007. The assessment was intended to take place in the same context as the proposal for a successor programming arrangement.

2. UNDP complied with the Executive Board request and, in submitting its assessment of the current programming arrangements,[3] focused primarily on the general effectiveness and performance, the structure of the programme financial framework, and a number of technical changes that had been introduced. The assessment was undertaken in parallel with the preparation of the UNDP strategic plan in order to enhance integration. As a result, UNDP was able to identify the following critical elements that the 2008-2011 programming arrangements should address, namely:

(a) Further streamlining and simplification of the programming arrangements, reflecting both existing legislation and the substantive and structural changes taking place within UNDP;

(b) Confirmation of the continued relevance of the current methodology and criteria used for the distribution of TRAC resources;

(c) Refinement of some elements of the programming arrangements to effectively support the priorities and goals of the UNDP strategic plan and country programme priorities.

3. This proposal on programming arrangements is presented for consideration in conjunction with the information note on the 2004-2007 programming arrangements, as requested by the Executive Board.

II. Key considerations

4. Five key, interrelated elements inform the proposals developed in this document. These are: guiding principles; the UNDP strategic plan, 2008-2011; the midterm review; the assessment of existing arrangements; and incremental progressive change.

A. Guiding principles

5. As presented in the assessment of programming arrangements, 2004-2007 (DP/2007/8), the role of regular resources is threefold: (a) to fund programmes and other initiatives at the country and inter-country levels; (b) to support selected high priority initiatives such as South-South cooperation and resident coordinator activities; and (c) to support the UNDP infrastructure. The programme financial

N.B.: Numbers in cross-references between tables may not agree due to rounding.

[2] See DP/2005/18.

[3] See DP/2007/8.

framework, which is an integral part of the programming arrangements, seeks primarily to maximize resources available for programming, especially at the country level, in line with development priorities set forth in country programmes. This principle continues to be reflected in the share of resources allocated to the TRAC-1, TRAC-2 and TRAC-3 funding ‘lines’; these three lines represent 86 per cent of the ‘variable’ lines of the programme financial framework (table 1 offers a summary of ‘variable’ and ‘fixed’ lines that constitute the framework).

6. Existing guiding principles (which focus on least developed and lower-income countries), transparency, impartiality and predictability of resources flow for all recipient countries will remain the core of the 2008-2011 programming arrangements. This is further elaborated in the information note accompanying this document.

B. UNDP strategic plan, 2008-2011

7. The strategic plan precedes and informs the proposals on programming arrangements for the period 2008-2011. It sets forth the overall direction of UNDP support to programme countries in achieving their stated national development objectives. In fact, national ownership is the foundation for the development work of UNDP and governs the selection and design of UNDP country, regional and global programmes as well as special initiatives, such as South-South cooperation. The primary focus for accomplishing this is through the strengthening of national capacities in areas where UNDP provides a comparative advantage, in full alignment with the objectives of the Millennium Declaration.

8. The resource lines presented here constitute the programming arrangements for the period 2008-2011 and provide the funding base for individual country, regional and global programmes, which are prepared on the basis of national, regional and global priorities, a rigorous and inclusive programming process, and final approval by the Executive Board.

C. Midterm review of the existing programming arrangements

9. The 2005 midterm review of the programming arrangements for 2004-2007 provided an opportunity to consider further alignment of programme resource earmarkings affecting two interrelated areas. The first was a midterm recalculation of TRAC line 1.1.1 earmarkings for the last two years of the 2004-2007 programming period. The second involved a change in earmarkings between TRAC lines 1.1.1 and 1.1.2 for available resources over the base total programming level of $450 million. This was done specifically to provide UNDP with the flexibility to support programme country capacity development in achieving the Millennium Development Goals (MDGs). The third was a proposal and decision for a separate, predictable level of funding for the Programme of Assistance to the Palestinian People (PAPP), which was in line with General Assembly resolution A/RES/33/147 and pursuant to Executive Board decisions. Changes proposed by the Board in decision 2005/26 are critical, as they constitute the basis for further enhancement and streamlining of the 2008-2011 programming arrangements.

D. Assessment of the existing arrangements

10. This document is also informed by key findings and conclusions highlighted in document DP/2007/8, presented to the Executive Board at its first regular session 2007. The assessment discussed in that document identified critical issues to be addressed by the 2008-2011 programming arrangements, including:

(a) *Achieving* greater simplicity and transparency by simplifying resource distribution methodology, further streamlining and simplifying TRAC-2 methodology; enhancing the overall financial framework and its components; and, to the extent possible, simplifying the cost categorization of UNDP activities in relation to functions funded in the biennial support budget;

(b) *Aligning* the financial framework with the strategic plan through resource facilities (lines) within the programming arrangements to reflect priorities clearly; and

(c) *Integrating* strategic and financial planning with Executive Board review processes so as to provide the Board with a holistic view of the strategic plan, the programming arrangements and the biennial support budget. This would also align the midterm review of the programming arrangements with that of the strategic plan.

E. Progressive and incremental changes

11. UNDP recognizes the need to continue to refine its programming arrangements to support implementation of the strategic plan most effectively. However, UNDP is also aware it must adapt to new demands and emerging priorities progressively, in a manner that provides sufficient time to adjust country programmes to proposed changes, while also limiting risks to substantive and financial commitments. UNDP is proposing the introduction of progressive, incremental changes in the 2008-2011 programming arrangements, based on guidance from the forthcoming midterm review.

12. Proposals presented in the following sections focus on three critical and inter-related elements: the resources framework structure; the annual programme allocation baseline, currently established at $450 million; and the specific lines of the framework and distribution of resources therein.

III. Proposals for the 2008-2011 programming arrangements

13. The main legislative features introduced in 2002 for the 2004-2007 programming arrangements remain unchanged for 2008-2011. They are presented in annex 1 and relate to four areas: (a) the distinction between fixed and variable lines, (b) the concept of fixed annual amounts to selected components of the programming arrangements framework, (c) the percentage share of variable lines; and (d) the TRAC distribution methodology. Detailed proposals for individual components of the programme resources framework are presented in this chapter.

A. Resource framework structure

14. During the 2008-2011 period, UNDP proposes to maintain the existing overall structure of the programme financial framework with distinctions between variable and fixed lines, as summarized in table 1.

15. The objective of distinguishing between fixed and variable lines was to ensure: (a) that fixed lines were adequately funded so that they could contribute to expected results; and, most importantly, (b) that country level and related activities covered by the variable lines (TRAC-1/TRAC-2, TRAC-3, regional and global programmes) would benefit from future resource growth, as core resources available above the baseline are fully allocated to variable lines.

16. Fixed lines were introduced at a time when the total level of regular resources was estimated to be relatively low. Each fixed line represents a specific programme that is designed to provide direct support or essential inputs for key country level operations and substantive programmatic activities of UNDP at the global, regional and country levels. Annex 1 highlights fixed lines and the main legislative features introduced for the 2004-2007 programming period.

Table 1
Programme financial framework, 2004-2007

Variable lines	
Lines 1.1.1 and 1.1.2	– TRAC-1/TRAC-2
Line 1.1.3	– TRAC-3
Line 1.2	– Regional programmes
Line 1.3	– Global programme
Fixed lines	
Line 1.4 – Evaluation	
Line 1.5 – South-South cooperation programme	
Line 1.6 – Human Development Report Office	
Line 1.6 – Office of Development Studies	
Line 1.6 – Economist programme	
Line 3.1.1 – Development support services	
Line 3.1.2 – Support to resident coordinator	

B. Annual programming base

17. During 2008-2011 UNDP proposes to increase the annual programming base from $450 million to $700 million.

18. The annual programming base for 2004-2007 was established at $450 million during a period of declining regular resources to ensure that a critical mass of resources would be available to the fixed lines, while any amounts available above that level would flow exclusively to the variable lines. Conversely, if available resources were to fall below the $450 million baseline in a given year, the fixed

lines would be proportionally reduced. During 2004-2005, programme resources were released at the $450 million baseline. As the resource situation improved in 2006-2007, programme resources were released in the amount of $550 million. The regular resource situation of UNDP is expected to continue to improve, as reflected in the strategic plan. Therefore, it is proposed that the annual programming base during 2008-2011 be established at $700 million with an understanding that, as and when the resource situation warrants, regular resources available to programmes above the $700 million[4] baseline will be allocated exclusively to the variable lines.

C. Programme financial framework lines and distribution

19. Within the existing programme financial framework structure, UNDP proposes some enhancements to selected variable and fixed lines, with limited impact on the overall distribution of resources. These enhancements are summarized for each line in table 2. UNDP also proposes to re-cost the fixed lines to account for inflation over the past four years. The rationale and substance for each proposal is further elaborated in the remainder of this section.

Table 2
Summary of proposals for individual lines for 2008-2011

Variable lines		**Proposed enhancements for 2008-2011**
Lines 1.1.1 and 1.1.2	– TRAC-1/TRAC-2	*(a) Change in country classification threshold* *(b) Application of Executive Board decision 2005/26*
Line 1.1.3	– TRAC-3	*No change in percentage share*
Line 1.2	– Regional programmes	*No change in percentage share*
Line 1.3	– Global programme	*No change in percentage share*
Fixed lines		
Line 1.4	– Evaluation	*Transfer to biennial support budget*
Line 1.5	– South-South cooperation programme	*Real growth*
Line 1.6	– Human Development Report Office	*Real growth*
Line 1.6	– Office of Development Studies	*Real growth*
Line 1.6	– Economist programme	*Real growth*
Line 3.1.1	– Development support services	*Real growth*
Line 3.1.2	– Support to resident coordinator	*Real growth*
Proposed new fixed line and regularization of decision 2005/26		
Programme of Assistance to the Palestinian People		*New line (regularization of decision 2005/2)6*
Gender mainstreaming		*New line*

[4] The regular resources financial projections in the strategic plan, 2008-2011, are $5.3 billion in nominal terms.

TRAC-1 proposal: Introduce a systematic adjustment of country classification thresholds at the beginning of each four year programme cycle

20. The Administrator proposes to index 2005 country classification thresholds to international inflation for the period of 2002-2005 to ensure they remain constant in real terms over time. The income thresholds would be adjusted every four years, using the Word Bank methodology, to incorporate the effect of international inflation, which is measured by the average inflation of Japan, the United Kingdom, the United States and the 'Euro Zone'[5]. For 2008-2011 programming arrangements, UNDP proposes to use the 2001 thresholds adjusted to 2005 real terms.

21. For the purpose of TRAC-1/TRAC-2 resources distribution, countries are classified in three categories: low income countries (LICs), middle income countries (MICs) and net contributor countries (NCCs). Some countries are also granted least developed country (LDC) status by General Assembly resolutions. Countries are categorized during a four-year planning period using World Bank per capita gross national income (GNI), as indicated below:

Category	**GNI per capita breakpoints**
Low income	Less or equal $900
Middle income	From $901 to $4,700
Net contributor	higher than $4,700

22. Countries in the low- and middle-income categories are eligible to receive UNDP regular funding for programmatic activities in line with its mandate. Regular resources (TRAC-1) are allocated to individual countries based on a formula agreed upon with the Executive Board. The main criteria of the formula are GNI per capita and population. Those criteria will continue to apply in 2008-2011. UNDP will continue to use the World Bank methodology in calculating the GNI per capita.

23. In the past, UNDP has revised the LIC, MIC and NCC thresholds. The threshold for LICs was revised for the current programming cycle from $750 to $900. The objective of indexing the classification thresholds is to take account of real (as opposed to nominal) economic growth in the allocation of TRAC-1 resources. Thus, the thresholds remain constant in real terms over time. As there is continuous graduation due to economic growth and/or world inflation, indexing would better reflect countries that are experiencing real economic growth. The result is that classification of countries is more stable over time. According to World Bank data, the average international inflation that is derived from the 'special drawing rights' inflation rates from 2002 to 2005 was about 4 per cent. Thus, $900 and $4,700 in 2001 dollars would respectively amount to roughly $1,050 and $5,500 in 2005 dollars.

24. According to the latest GNI per capita available (2005), a number of countries are moving from the low to middle income category, from the middle to low income

[5] The inflation rate representing international inflation is measured by the change in the special drawing right (SDR) deflator. SDRs are the unit of account for the International Monetary Fund.

category, and from the low and middle income to net contributor category. Annexes 2 and 3 present the details of country movements between the different income categories based respectively on non-indexed and indexed thresholds for country classification. Table 3, below, compares the movement of countries between income categories based on the 2005 indexed and non-indexed GNI per capita thresholds.

Table 3
Indexed versus non-indexed gross national income per capita thresholds; changes in country income category

	2004-2007 based on 2001 GNI per capita	**2008-2011 based on 2005 non-indexed GNI thresholds**	**2008-2011 based on 2005 indexed GNI thresholds**
Country category	Number of countries	Number of countries	Number of countries
Low income	72	56 *(minus 16)*	63 *(minus 9)*
Middle income	70	69 *(minus 1)*	74 *(plus 4)*
Net contributor	32	49 *(plus 17)*	37 *(plus 5)*
Total	174	174	174

25. Table 4, below, shows the proposed 2008-2011 programming arrangements country classification thresholds, revised to reflect indexed 2005 GNI per capita thresholds that impact countries (also see annex 3). The approved TRAC-1 resource distribution for 2004-2007 (with an annual programming baseline of $450 million) is compared with the equivalent resource distribution for 2008-2011 (with an annual programming baseline of $700 million) based on the non-indexed and indexed thresholds for country classification, as shown in annex 4.

Table 4
Proposed revised income thresholds for 2008-2011

Category	**Existing (2001) GNI per capita thresholds for 2004-2007**	**Proposed indexed (2005) GNI per capita thresholds for 2008-2011**
Low income	Less or equal $900	Less or equal $1,050
Middle income	from $901 to $4,700	From $1,051 to $5,500
Net contributor	higher than $4,700	Higher than $5,500

TRAC-2 proposal: streamlining distribution methodology

26. The Administrator proposes to streamline and simplify TRAC-2 arrangements by standardizing the TRAC-2 distribution methodology through the application of Executive Board decision 2005/26 to the entire pool of TRAC-1/TRAC-2 resources. The focus of TRAC-2 resources remains on supporting national capacity towards achievement of the MDGs.

27. The arrangements governing the assignment of TRAC-2 resources were originally established by Executive Board decision 1995/23 and reaffirmed, with

some slight modifications, in decisions 1998/19, 1999/2 and 2002/18. In essence, the TRAC-2 facility was designed to provide the Administrator with the flexibility to allocate resources to high-impact, high-leverage activities and to reward programme quality. Despite its original policy intent, the flexibility and effectiveness of the TRAC-2 facility was constrained by a number of factors – the most significant of which was a declining regular resource base – and mandated distribution principles and ceilings that limited the flexibility of resource flows.

28. These concerns were addressed during the mid-term review of the 2004-2007 programming arrangements, resulting in the introduction of a number of temporary changes to the TRAC-2 distribution methodology for programme resources above the $450 million baseline, per Executive Board decision 2005/26, highlighted in the box below.

TRAC-2 resources available above the programming base level of $450 million

Ratio of internal earmarking between TRAC-1.1.1 and 1.1.2*:* the ratio is fixed at 50:50;

Established regional percentages: unchanged; the percentages remain as per decision 2002/18;

Country limitation: There is no country limitation;

Regional distribution: there is a flexibility of up to 10 per cent above regional pro rata shares of total TRAC-1. This flexibility would allow movement of resources across regions and would be utilized in exceptional cases.

29. In view of the above, TRAC-2 resources are currently allocated under two different methodologies according to the overall levels of regular resources available to programmes: (a) at or below the $450 million baseline; and (b) above the $450 million baseline. In reviewing the existing arrangements, UNDP conducted a survey of country offices to assess the effectiveness of the current TRAC-2 arrangements. Respondents pointed to the need to simplify and streamline this two-pronged approach, which results in a complex internal process for allocating TRAC-2 resources.

30. Decision 2005/26 recognizes that capacity development and ownership of national development strategies are essential for the achievement of the MDGs. The objective of the TRAC-2 distribution changes approved in that decision was to enhance the capacity of programme countries for the achievement of the MDGs. The application of decision 2005/26 to the whole pool of TRAC-1/TRAC-2 resources results in an internal 50-50 distribution of TRAC-1/ TRAC-2. This removes any country-level limitation in the allocation of TRAC-2 resources, simplifies and streamlines the TRAC-2 distribution process, and provides for interregional flexibility (up to 10 per cent).

TRAC-3 and other variable lines

31. TRAC-3 continues to provide the Administrator with a capacity to respond swiftly and flexibly to the needs of countries in special development situations. Over the years, this facility has proven to be instrumental in addressing critical programmatic needs as crises occur. There is no specific allocation formula; resources are immediately and exclusively allocated on an as-needed basis. It is

proposed that the TRAC-3 facility retain its current share of 7.2 per cent of total variable lines for the period 2008-2011.

Regional programmes

32. Regional programmes for Africa, Latin America and the Caribbean, and Asia and the Pacific will be presented and discussed at the second regular session 2007 of the Executive Board. The three programmes are synchronized and aligned with the programming period and priorities of the UNDP strategic plan. The main thrusts of these programmes are presented in documents for consideration by the Board in the context of the 2008-2011 programming arrangements. It is proposed that the existing percentage share of resources allocated to regional programmes be maintained at 9 per cent of total variable lines. The two remaining regional programmes – Arab States and Europe and the Commonwealth of Independent States – are still ongoing, for the periods 2006-2009 and 2006-2010, respectively.

The global programme

33. The current global programme covers 2005-2007; an in-depth evaluation of the programme is planned for the last quarter of 2007. UNDP is submitting a request to the Executive Board to extend the current global programme to 2008. It is proposed that the existing share of resources allocated to the global programme be maintained at 5 per cent of total variable lines.

Proposed adjustments to fixed lines

34. The Administrator proposes to make the following adjustments to fixed lines, which are also reflected in the funding levels summarized in table 5. The adjustments are:

(a) Re-cost all fixed lines to account for inflation;

(b) Regularize the funding of the PAPP in line with decision 2005/26;

(c) Introduce a new line – gender mainstreaming;

(d) Transfer the evaluation line to the biennial support budget;

(e) Provide limited annual volume increases to all existing fixed lines.

Table 5
Summary of proposed changes in the fixed lines

(millions, in nominal terms)

	2004-2007	2008-2011		
Fixed lines	$450 million baseline approved by Executive Board $ (annual)	$700 million baseline proposal $ (annual)	Cost increase $ (annual)	Volume increase $ (annual)
Line 1.4 – Evaluation	2.5	-	-	(2.5)
Line 1.5 – South-South cooperation	3.5	4.5	0.5	0.5
Line 1.6 – Human Development Report Office	5.3	6.7	0.7	0.7
Line 1.6 – Office of Development Studies	1.1	1.8	0.2	0.5
Line 1.6 – Economist programme	4.5	7.0	2.3	0.2
Line 3.1.1 – Development support services	6.0	7.0	0.7	0.3
Line 3.1.2 – Support to resident coordinator	13.5	16.0	1.8	0.7
Proposed new line (and regularization of decision 2005/26)				
Programme of Assistance to the Palestinian People	--	3.2	0.2	3.0
Gender mainstreaming	--	3.2	0.2	3.0
	36.4	49.4	6.6	6.4

Evaluation

35. The transfer of the evaluation programme from the programming arrangements to the biennial support budget is in line with the harmonized approach of UNDP to results based budgeting with UNFPA and the United Nations Children’s Fund (UNICEF). Corporate evaluation is recognized as an integral part of corporate oversight and accountability. Accordingly, it is one of 16 harmonized functions that the three organizations have recognized as critical to support organizational management and operational capacity.

South-South cooperation programme

36. The proposed fixed allocation for the South-South cooperation programme is $4.5 million. This incorporates an annual volume increase of $0.5 million necessary to strengthen the programmatic and substantive capacity of the Special Unit for South-South Cooperation. The programme is designed to finance the sharing of successful South-South experiences, expertise and knowledge, with the objective of

making them an integral part of country, regional and interregional programmes while introducing cost-effective modalities for South-South technical cooperation. This line provides base funding to support those activities. In addition, UNDP will continue to fund the operational capacity of the Special Unit with approximately $2 million per year from the biennial support budget.

37. At its annual session 2007, the Executive Board discussed the report on the implementation of the third cooperation framework for South-South cooperation, 2005-2006. As a result of that review, the Executive Board adopted decision 2007/25 that encourages further mainstreaming of South-South perspectives into UNDP and United Nations system programme activities. The Executive Board also reiterated the importance of capacity-building, knowledge sharing and dissemination of best practices in development solutions and innovations as a “means of achieving self reliance and sustainability”. The South-South programme cooperation framework will be subject to an independent evaluation; subsequent to which the fourth cooperation framework will be presented to the Executive Board session in January 2008. Given the continued importance of this programme as outlined in the strategic plan, it is proposed that the funding of this programme be increased as indicated in the preceding paragraph. South-South cooperation will continue to be mainstreamed into regional and country programmes, and additional resources will be mobilized by the Special Unit for South-South Cooperation.

Human Development Report Office

38. The proposed fixed allocation for the Human Development Report Office (HDRO) is $6.7 million. This incorporates an annual volume increase of $0.7 million necessary to sustain and enhance this worldwide policy and advocacy document on global development issues. Since 1990 – the year of its inception – the Human Development Report (HDR) has become a critical publication for academics, policy makers and the public around the world. The interest in policy recommendations put forth in successive HDRs continues to grow, reflected in numerous presentations to important national and global policy-making forums. Building on those successes, the main priorities for HDRO for 2008-2011 are:

(a) *Extend the cycle of research and production of the report from 12 months to 24.* The longer research cycle would enable HDRO to foster stronger links with the research community on selected themes. Also, the extended schedule would enhance transparency in the preparation of the report while respecting editorial independence.

(b) *Implement a sustained follow-up of the main policy recommendations of the HDR after the report is launched.* The follow-up strategy will include working both internally and externally to bring the policy recommendations made in the report to the programme level.

(c) *Strengthen support to human development country teams and regional teams.* HDRO provides support on demand to several processes of elaboration of national human development reports worldwide. Nevertheless, HDRO aims to become a real catalyst of human development knowledge and practices through: the publication of the annual global Human Development Report; discussions on human development and statistics networks; and training courses and activities organized with partners from academia, civil society, and sister organizations.

Office of Development Studies

39. The proposed fixed allocation for the Office of Development Studies (ODS) is $1.8 million. This incorporates an annual volume increase of $0.5 million. The proposed increase reflects the need to adequately fund this strategic function whose mandate is to scan the development horizon for new thinking on economics, development and global challenges. ODS collects up-to-date information on key areas and keeps abreast of relevant literature and policy developments, allowing it to play a critical advisory and quality-control role on behalf of the Administrator with regard to policy analysis on substantive economic and development issues.

40. Long-term, in-house research on topics of strategic relevance to UNDP is a critical element of ODS work. This ensures that specific issues and challenges are analysed from a perspective that is relevant to UNDP priorities. The main outputs will continue to be working papers, published booklets on key development issues, and publications in economic journals. The proposed funding increase will ensure that ODS is staffed with the substantive capacity critical to carrying out the strategic work of the organization.

The economist programme

41. The proposed fixed allocation for the economist programme is $7.0 million. This incorporates an annual volume increase of $0.2 million and a $2.3 million increase in costs. The latter reflects the fact that the economist programme is implemented through a network of economic advisors; the cost calculated for these advisors at current staffing levels, based on International Civil Service Commission standard salary and entitlement tables, is estimated at $6.8m per year.

42. The economist programme is concentrated mainly in sub-Saharan Africa. The importance of the programme has been reaffirmed by periodic evaluations, the most recent of which was conducted in the second half of 2006 in response to the introduction of a new UNDP strategy for Africa, intensified United Nations reforms, and the evolving development cooperation architecture. The review indicated that the economist programme was and continues to be a major asset in its support to sub-Saharan African countries.

43. The work of the programme in the coming four years will focus on supporting critical areas of the 2008-2011 strategic plan and responding to specific country demands in the following areas: (a) MDG-based planning processes; (b) formulation of pro-poor economic policies and inclusive growth strategies, including the empowerment of women and promotion of gender equality; (c) reinforcement of capacity development in all four UNDP focus areas and to help sustain national changes in human development; (d) contribution to greater coherence within the United Nations system; and (e) knowledge management and dissemination of best practices.

Development support services

44. The proposed fixed re-costed allocation to development support services is $7.0 million, which incorporates an annual volume increase of $0.3 million. Those resources will be distributed equitably to country offices. The average amount available for each country is about $50,000 per year.

45. A review of the existing programming arrangements reaffirmed the importance of this facility, which enables country level management to obtain independent, short-term expert advice nationally, regionally or internationally. That advice is often used to kick start the programming process. Though limited, the above amount provides UNDP country offices with a modest pool of resources to leverage resources mobilization in critical development areas.

Programme support to the resident coordinator system

46. The proposed fixed allocation for programme support to the resident coordinator system is $16 million, which incorporates an annual volume increase of $0.7 million.

47. The vision of UNDP support to the resident coordinator system is presented in the strategic plan, which also highlights United Nations coordination for coherence. Existing programming arrangements stress the importance of adequately funding the programmatic support of the resident coordinator system. Proposed funding for 2008-2011 represents programme resources available to resident coordinators which serves as seed money in support of United Nations programming. The proposed level of $16 million will continue to provide an average of $100,000-$150,000 per country office.

48. In addition to the proposed $16 million per year allocation under the programming arrangements, it is estimated that UNDP will provide approximately $110 million per year in management support through the biennial support budget, including: ongoing country office and headquarters support; support from United Nations system cross cutting funds, such as the United Nations Volunteers and the United Nations Capital Development Fund (UNCDF); and a number of new investments. Thus, the total UNDP contribution to United Nations system-wide coherence and coordination, inclusive of the proposed fixed line-support to the resident coordinator, will approximate $125 million per year (about 0.8 per cent of the total funding for United Nations system operational activities in 2005).

Programme of Assistance to the Palestinian People

49. The incorporation of the PAPP as a fixed line in the programming arrangements is consistent with Executive Board decision 2005/26, which approved a predictable level of annual funding in the amount of $3 million for the programme during 2006 and 2007. The proposed fixed allocation is re-costed to $3.2 million to take inflation into account.

Gender mainstreaming

50. The incorporation of gender mainstreaming as a fixed line in the programming arrangements reflects previous Executive Board requests for UNDP to commit resources in this area. Accordingly, UNDP exceptionally allocated $3 million per year from the 2006-2007 biennial support budget, since it was the only source of funding available. This was further supplemented by $2 million per year in resources internally earmarked from regional and global programmes, which will continue during 2008-2011. UNDP will continue to fund the operational capacity of the Gender Unit within the biennial support budget with an estimated annual amount of $0.7 million. The proposed fixed allocation is re-costed to $3.2 million to take inflation into account.

51. In addition to the base programme funding from regular resources, a gender trust fund has been established. A UNDP gender strategy for 2008-2011 will be available at the end of 2007 and will outline key policy development and programmatic focus areas in order to achieve gender equality results in each of the four focus areas.

IV. Proposed 2008-2011 programming arrangements resource framework

52. Proposals for enhancing the 2008-2011 resource allocation system are reflected in table 6, which highlights the programme financial framework and provides the 2004-2007 framework for comparison. The Administrator proposes a mid-term review and re-costing of the fixed lines in synchronization with the mid-term review of the strategic plan and the presentation of the 2010-2011 biennial support budget. The mid-term review would assess the adequacy of funding for fixed lines and propose the necessary adjustments. The following summarizes the changes proposed by the Administrator:

(a) *Change* country classification thresholds to account for world average inflation rate for the last four years in order to take into account real economic growth of TRAC recipient countries (the inflation rate used is 4 per cent.

(b) *Standardize* TRAC-2 distribution methodology by applying Executive Board decision 2005/26 to the entire pool of TRAC-1/TRAC-2 resources. Consequently, there would be a 50-50 per cent share between TRAC-1 and TRAC-2, regional flexibility of up to 10 per cent above regional pro rata shares of total TRAC-1, and no country limitation on TRAC-2 resources.

(c) *Increase* the annual programming base of the programme financial framework from $450 million to $700 million.

(d) *Enhance* fixed lines of the programme financial framework as follows:

(i) Re-cost all fixed lines to account for inflation;
(ii) Introduce two new lines – gender mainstreaming and PAPP;
(iii) Transfer the evaluation line to the biennial support budget;
(iv) Provide limited annual increases to all existing fixed lines.

Table 6
UNDP regular resources annualized programme financial framework for 2004-2007 and 2008-2011

(millions, in nominal terms)

	2004-2007		2008-2011	
	$450m baseline approved by the Executive Board		$700m baseline	
Variable lines	**%**	**$ (annual)**	**%**	**$ (annual)**
Lines 1.1.1 and 1.1.2 – TRAC-1/ TRAC-2	78.8%	325.9	78.8%	512.7
Line 1.1.3 – TRAC-3	7.2%	29.8	7.2%	46.8
Line 1.2 – Regional programmes	9.0%	37.2	9.0%	58.6
Line 1.3 – Global programme	5.0%	20.7	5.0%	32.5
Total variable lines	100.0%	413.6	100.0%	650.6
Fixed lines		**$**		**$**
Line 1.4 – Evaluation		2.5		-
Line 1.5 – South-South cooperation programme		3.5		4.5
Line 1.6 – Human Development Report Office		5.3		6.7
Line 1.6 – Office of Development Studies		1.1		1.8
Line 1.6 – Economist programme		4.5		7.0
Line 1.8 – Programme of Assistance to the Palestinian People		-		3.2
Line 1.8 – Gender mainstreaming		-		3.2
Line 3.1.1 – Development support services		6.0		7.0
Line 3.1.2 – Support to resident coordinator		13.5		16.0
Total fixed lines		**36.4**		**49.4**
Grand total		**450.0**		**700.0**
TRAC-1/ TRAC-2 line as a percentage of grand total		**72.4%**		**73.2%**
Variable lines as a percentage of grand total		**91.9%**		**92.9%**
Fixed lines as a percentage of grand total		**8.1%**		**7.1%**

V. Other considerations

53. Executive Board decisions 2005/26 and 2007/3 requested UNDP, in proposing successor programming arrangements, to consider opportunities for harmonization and building on best practices within the United Nations funds and programmes.

54. UNDP continues to collaborate with UNFPA and UNICEF in order to capitalize on best practices within the three organizations. The introduction of a minimum TRAC allocation in UNDP in the current programming arrangements is a product of the collaboration. In the process of preparing the present proposal, UNDP, UNFPA and UNICEF held informal consultations and reviews of the critical aspects of their respective resources allocation frameworks. The meetings reconfirmed similarities and differences within the three organizations related to mandates, organizational structures and management requirements driven by the way the organizations are organized to respond to programme country demands. Similarly, the frameworks in place are designed to respond to oversight requirements from the respective Executive Boards. UNDP is aware that opportunities remain for future enhancement and simplification. Areas that could be considered for future enhancement in the context of the mid-term review include UNCDF, cost classifications, and programming arrangements terminology.

United Nations Capital Development Fund

55. In response to Executive Board Decision 2007/28 on the strategic partnership between UNDP and UNCDF, both organizations continue to explore opportunities to increase donor contributions to UNCDF core programmes. Particular emphasis is placed on ways to further leverage the programmatic contributions of UNCDF within the context of the UNDP strategic plan with respect to decentralized local development and micro-financing activities. Of paramount importance is the need to ensure a more predictable and stable funding base for UNCDF, including appropriate funding levels. UNDP will continue to provide $5 million per year from its biennial support budget to support UNCDF management activities underpinning its development programme. UNDP will also continue to provide increasing levels of funding to jointly support UNCDF-UNDP programmes through country, regional, and global resource facilities falling under the 2008-2011 programming arrangements. In the past, this has averaged approximately $12 million per year. Moving forward, UNDP and UNCDF are exploring alternative methods for strengthening UNCDF investment opportunities at the country level. Both organizations agree that increased resources need to be provided directly to UNCDF in order to fund core programme activities, thus ensuring the long-term sustainability and financial integrity of UNCDF, especially for the funding of investment activities in LDCs. Joint consultations with donor countries are planned in this regard.

Cost classification and the overall programme financial framework

56. The report on the UNDP strategic plan, programming arrangements and biennial budget (DP/2007/CRP.2), presented at the first regular session 2007, raised the issue of the cost classification of activities and functions funded from the biennial support budget and the programming arrangements. The Administrator will continue to address this issue in a progressive manner so as to ensure better clarity and accountability with respect to the work of UNDP. The objective is for all activities providing direct support to programme effectiveness functions to be covered by the programming arrangements framework, and for activities related to the support of management functions to be funded from the biennial support budget.

Terminology of programming arrangements

57. Board members have raised questions about the meaning of ‘programming arrangements’ and related terminology. The term ‘programming arrangements’ pre-dates the multi-year funding framework and the strategic plan, and has been used interchangeably to indicate both the corporate programming framework of UNDP and its regular resources allocation system for programme activities. Programming arrangements – an integral part of the strategic plan – represent the system of allocation of regular resources to programme activities. Moving forward, consideration should be given to phasing out the term ‘programming arrangements’ in favour of the term ‘regular resources allocation for programme activities’.

Annex 1

Main legislative features of the 2004-2007 programming arrangements

1. Introduction of a distinction between fixed and variable lines.

2. Establishment of fixed annual absolute amounts to selected components:
    - Human Development Report Office ($5.3 million)
    - Office of Development Studies ($1.1 million)
    - Economist programme ($4.5 million)
    - Development support services ($6 million)
    - Resident coordinator system ($13.5 million)
    - Evaluation Office ($2.5 million)
    - Technical Cooperation among Developing Countries (South-South, $3.5 million)

- Allocations to variable lines: *
    - TRAC-1.1.1 and 1.1.2 (78.8 per cent)
    - TRAC-1.1.3 (7.2 per cent)
    - Regional programmes (9 per cent)
    - Global programme (5 per cent)
    - Annual planning base of $450 million and adjustments

- TRAC distribution methodology:
    - TRAC 1 distribution formula applies to one pool of resources [6]
    - Low income country allocation range set at 85 – 91 per cent
    - Minimum allocation of $350,000 to all non-net contributor country and multi-country offices (plus use of TRAC-1.1.2 to compensate for TRAC-1.1.1 shortfalls)
    - Mid-term recalculation of TRAC-1.1.1 earmarkings
    - Special arrangements for a net contributor country that experiences a 25 per cent drop in GNI/capita
    - Extension of net contributor country grace period from three years to four years.

*Available programme resources, net of fixed-line amounts.

[6] There existed, in the 2001-2003 programming framework, two pools of resources for low- and middl- income countries. The TRA-1 distribution methodology applied to two pools of resources, which created some distortions in the progressivity feature of the distribution formula.

Annex 2

Country movements using non-indexed thresholds

New low-income from middle-income	**New middle-income from low-income**	**New NCC* from low-income**
Iraq	Angola	Equatorial Guinea
Total: 1	Armenia	Subtotal: 1
	Azerbaijan	**New NCC from middle-income**
	Cameroon	Botswana
	China	Chile
	Congo	Cook Islands
	Djibouti	Croatia
	Georgia	Gabon
	Guyana	Latvia**
	Honduras	Lebanon
	Indonesia	Lithuania**
	Kiribati	Malaysia
	Lesotho	Mauritius
	Nicaragua	Montserrat
	Sri Lanka	Poland**
	Ukraine	Saint Lucia
	Total: 16	Slovak Republic**
		South Africa
		Turkey
		Subtotal: 16
		Total: 17

* For new NCCs, a grace period of four years applies; thus new NCCs will receive 60 per cent of their previous TRAC 1. In addition they are eligible for TRAC 2 and for countries in crisis such, as Lebanon they are eligible for TRAC 3 resources.
** European Union country that relinquished its TRAC-1 from 2006.

<u>Net movements</u>

- **Low income: minus 16** low-income to middle-income countries; **minus 1** low-income to net contributor country; **plus 1** middle-income to low-income country;
- **Middle income**: **plus 16** low-income to middle-income countries; **minus 16** middle-income to net contributor countries; **minus 1** middle-income to low-income country; and
- **Net contributor**: **plus 1** net contributor country from low-income country; **plus 16** net contributor countries from middle-income countries.

Annex 3

Country movements using indexed thresholds

New low-income from middle-income
Bolivia
Iraq
Total: 2

New middle-income from low-income
Angola
Armenia
Azerbaijan
China
Equatorial Guinea
Georgia
Honduras
Indonesia
Kiribati
Sri Lanka
Ukraine
Subtotal: 11
New middle-income from NCC
Saint Helena
Venezuela
Subtotal: 2
Total: 13

New NCC* from middle-income
Chile
Croatia
Latvia**
Lebanon
Lithuania**
Poland**
Slovak Republic**
Total: 7

* For new NCCs, a grace period of four years applies; thus new NCCs will receive 60 per cent of their previous TRAC 1. In addition they are eligible for TRAC 2 and for countries in crisis such, as Lebanon they are eligible for TRAC 3 resources.

** European Union country that relinquished its TRAC-1 from 2006.

<u>**Net movements**</u>

- **Low income: minus 11** low-income to middle-income countries; **plus 2** low-income from middle-income countries;
- **Middle income**: **plus 11** low-income to middle-income countries; **plus 2** net contributor countries to middle-income countries; **minus 2** middle-income to low-income countries; **minus 7** middle-income to net contributor countries;

  Net contributor: **plus 7** net contributor countries from middle-income countries; **minus 2** net contributor countries to middle-income countries.

Annex 4

TRAC-1 resource distribution for 2004-2007 (baseline of $450m) compared to 2008-2011 (baseline $700m) with non-indexed and indexed thresholds

	2004-2007 2001 GNI per capita $450 million baseline		**2008-2011 2005 GNI per capita $700 million baseline Non-indexed thresholds**		**2008-2011 2005 GNI per capita $700 million baseline Indexed thresholds**	
Category/ region	$ millions	As percentage of total TRAC-1	$ millions	As percentage of total TRAC-1	$ millions	As percentage of total TRAC-1
LIC	171.2	88%	214.7	86%	218.0	87%
MIC	23.1	12%	35.6	14%	32.3	13%
Total	**194.3**	**100%**	**250.3**	**100%**	**250.3**	**100%**
LDC	116.3	60%	161.5	65%	159.5	64%
Africa	94.8	49%	132.6	53%	132.6	53%
Asia and Pacific	57.3	29%	71.3	28%	71.0	28%
Arab States	14.3	7%	17.0	7%	16.8	7%
Latin America and Caribbean	10.7	6%	11.9	5%	12.2	5%
Europe and the Commonwealth of Independent States	17.2	9%	17.5	7%	17.7	7%
Total	**194.3**	**100%**	**250.3**	**100%**	**250.3**	**100%**
NCC	1.0		4.7		2.2	

Note: For 2004-2007, a $1.3 million reserve exists for potential adjustments to TRAC-1. Similarly, for 2008-2011, a $6 million reserve is proposed for potential adjustments to TRAC-1.

Annex 5

Distribution of resources based on current TRAC-1/TRAC-2 legislation and proposed changes for 2008-2011

	2004-2007					2008-2011						
	Current distribution										**Proposal**	
	At **$550** million* total level of resources using the ***current*** TRAC-1/TRAC-2 distribution methodology					At **$700** million** total level of resources using the ***current*** TRAC-1/TRAC-2 distribution methodology					At **$700** million*** total level of resources using the ***proposed*** TRAC-1/TRAC-2 distribution methodology	
Variable lines	**60/40 distribution between TRAC-1/TRAC-2 at the $450m baseline**		**50/50 distribution between TRAC-1/TRAC-2 above the $450m baseline**		**Total**	**60/40 distribution between TRAC-1/TRAC-2 at the $450m baseline**		**50/50 distribution between TRAC-1/TRAC-2 above the $450m baseline**		**Total**	**50/50 distribution between TRAC-1/TRAC-2 for the total $700 million level of resources**	
	%	$ (annual)	%	$ (annual)		%	$ (annual)	%	$ (annual)		%	$ (annual)
TRAC-1	**47.3%**	195.6	**39.4%**	39.4	235.0	**47.3%**	189.4	**39.4%**	98.5	287.9	**39.4%**	256.3
TRAC-2	**31.5%**	130.4	**39.4%**	39.4	169.8	**31.5%**	126.3	**39.4%**	98.5	224.8	**39.4%**	256.3
TRAC-3	7.2%	29.8	7.2%	7.2	37.0	7.2%	28.8	7.2%	18.0	46.8	7.2%	46.8
Regional programmes	9.0%	37.2	9.0%	9.0	46.2	9.0%	36.1	9.0%	22.5	58.6	9.0%	58.6
Global programme	5.0%	20.7	5.0%	5.0	25.7	5.0%	20.0	5.0%	12.5	32.5	5.0%	32.5
Total variable lines	100.0%	**413.6**	100.0%	**100.0**	**513.6**	100.0%	**400.6**	100.0%	**250.0**	**650.6**	100.0%	**650.6**
Total fixed lines		**36.4**			**36.4**		**49.4**			**49.4**		**49.4**
Grand total		**450.0**		**100.0**	**550.0**		**450.0**		**250.0**	**700.0**		**700.0**

* The current distribution methodology distributes TRAC-1/TRAC-2 resources at the 60/40 ratio. Per Executive Board decision 2005/26, the TRAC-1/TRAC-2 resource distribution ratio becomes 50:50 above $450 million (indicated as $100 million in the above table). This two-pronged resource distribution approach was implemented for the years 2006-2007.

** This resource distribution methodology reflects TRAC-1/TRAC-2 using the current two-pronged approach of distributing TRAC-1/ TRAC-2 at the 60:40 ratio at the $450 million level and the 50:50 ratio for resources above $450 million (indicated as $250 million in the table above).

***The resource distribution methodology reflects all TRAC-1/TRAC-2 resources at the 50:50 ratio.