**Annex III**

**Responses to the recommendations of the Advisory Committee on Administrative and Budgetary Questions**

1. The integrated resources plan and integrated budget, 2022-2025, document will be presented to the Advisory Committee on Administrative and Budgetary Questions, whose report will be shared with the Executive Board in a subsequent document, DP/2021/30.
2. The Advisory Committee reviewed the UNDP integrated resources plan and integrated budget, 2018-2021 (DP/2017/40) and provided recommendations which have informed the elaboration of the present document. The recommendations were grouped under three major headings – integrated resources plan, integrated budget and cost recovery –, each of which is discussed separately below.
3. In relation to the integrated resources plan, the Advisory Committee noted that actual funds received and the estimated expenditures for 2014–2017 were below the amounts projected for the same period. The Committee encouraged UNDP to continue to strengthen its fundraising efforts to broaden and deepen its donor base and to utilize more precise budgeting practices.
4. For voluntary agencies such as UNDP, preparing financial estimates with a quadrennial time horizon has always been a challenging process, even prior to the effects of the current pandemic. The 2022-2025 exercise is marked by additional uncertainties affecting baselines, targets, modes of implementation, funding and reliability of global supply chains, among other parameters. Against this backdrop, UNDP has developed ambitious yet prudent and intelligence-based income projections, which constitute the basis for this budget proposal.
5. During the first half of the current strategic plan period, UNDP reached 97.4 per cent of its fundraising target, a testament to its efforts both to build robust estimates and to attain ambitious goals. Indeed, UNDP would have reached 98 per cent of the planned level if not for the adverse impact of exchange rates attributed to both regular and other resources. In 2020, regular resources reached their highest volume since 2016, increasing 13 per cent over the prior year.
6. UNDP proactively monitors and manages resources on both the revenue and expenditure sides to ensure that its financial standing is robust. Funding and financing measures that are part of the budget preparation and implementation processes include:
   1. Hedging against foreign exchange fluctuations;
   2. Incentivizing more multi-year funding agreements;
   3. Conducting revenue projections in a more refined manner (i.e., intelligence gathering, outreach, sensitivity analysis), factoring various funding scenarios for budget planning;
   4. Diversifying revenue sources beyond ODA, such as individual giving, blended finance, and partnerships with international financial institutions;
   5. Developing “investment cases” to accelerate the achievement of results;
7. In relation to the integrated budget, the Advisory Committee recognized UNDP efforts to improve its budgeting approach, and reaffirmed the need for detailed supplementary information to facilitate consideration and analysis of the institutional component of the integrated budget.
8. In order to maintain the focus of the integrated resources plan and integrated budget document while at the same time providing the necessary data for an informed assessment and decision-making by the Executive Board, UNDP is supplementing the submission of the budget document with two annexes.
   1. Annex I contains detailed financial tables and information, including details of the integrated resources plan, comparison of budget versus actuals, allocations from the programmatic component, main areas of increase/decrease and the senior posts funded by regular resources, location. The annex includes a detailed comparative table of the 2018-2021 plan versus the latest available estimates. An overview of estimated actual financial performance is also included in the body of the integrated resources plan and integrated budget document;
   2. Annex II provides details of the methodology for country level allocations in the integrated budget. This includes a methodology for allocating country-level resources, principles and considerations for the allocation of TRAC resources, data used and step-by-step calculations.
9. In relation to cost recovery, the Advisory Committee recommended that UNDP set clear criteria in determining those countries to which the 8 per cent cost recovery rate does not apply and that exemptions should be limited, to the extent possible. The Committee also recommended that UNDP not use contributions to regular resources to subsidize programmes and funding partners that have a general management services rate below 8 per cent. The Committee looked forward to the update on the alignment of the cost-recovery methodology with General Assembly resolution 67/226 and the results of the independent and external assessment involving UNDP, UNFPA, UNICEF and UN-Women, to be provided to the Executive Board.
10. UNDP, along with UNFPA, UNICEF and UN-Women, submitted to the Executive Board a joint review in response to decision 2018/21. As requested, the document included (a) a preliminary comprehensive proposal on the cost-recovery policy (b) a review in a comprehensive manner of cost-recovery rates; and (c) an assessment of the reasons why full cost recovery was not being achieved. The joint proposal (DP/FPA-ICEF-UNW/2020/1) resulted in Executive Board decision 2020/12 which, inter alia, approved a cost-recovery policy that superseded the previous one.
11. The joint proposal included a detailed analysis of the financial impact of differentiated cost- recovery rates from 2014 to 2019 for thematic contributions, agreements with multilateral partners, preferential rates to programme countries and waivers.
12. There is indicative evidence that in certain instances, differentiated rates have been a useful tool to acknowledge and diversify among funding sources. For instance, differentiated rates in the Latin America and Caribbean region have provided additional incentives for many countries to participate financially in their own development priorities. With 63 per cent of UNDP funding coming from partner countries, the differentiated rate opens great opportunities for partner engagement as well as a broader array of substantive and operational cooperation in the region. The model with differentiated rates is broadly serving its purpose in terms of contributing to incentives for more support from programme countries, hence broadening the funding base. In another area, the 7 per cent charge for thematic contributions has helped UNDP to make the case for thematic funding.
13. The number of waivers granted has been steadily declining from 2014 to 2019, as shown in the joint report. For UNDP, the number of waivers has decreased from 24 s in 2014 just one in 2020.
14. The role of cost recovery is guided by General Assembly resolution 71/243 of 21 December 2016 on the QCPR, which emphasized two critical concepts that guide any cost-recovery policy and forms the basis for the harmonized proposal. These concepts are: (a) regular resources form the bedrock of United Nations operational activities owing to their untied nature; and (b) regular resources should not subsidize other resources.
15. The role of regular resources includes support to Member States in the establishment and implementation of United Nations norms or standards to implement the strategic plans. This differs from the mandate of a project implementation agency, particularly given the gradual and relative escalation of contributions to other resources. Nonetheless, the harmonized policy currently implemented by UNDP remains guided by QCPR mandates.