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**Executive Committee of the  
High Commissioner's Programme**

Distr.: Restricted  
3 March 2020  
English  
Original: English and French

**Standing Committee**  
77<sup>th</sup> meeting

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## **Proposed revision of UNHCR's financial rules concerning the operational reserve and the new or additional activities – mandate-related reserve**

### *Summary*

UNHCR financial rules concerning the operational reserves and the new or additional activities – mandate- related reserve have not changed over the last twenty years, despite a significant increase in the volume of its activities and the size of its budget. The Office therefore needed to assess whether the level of these reserves continues to remain suitable to and commensurate with the current level of UNHCR's activities.

The purpose of this paper is to present a brief analysis and to propose amendments to the financial rules regarding the operational reserve (OR) and the new or additional activities – mandate- related reserve (NAM). The proposed revision of the related financial rules is included as annex I of this paper, while a draft decision on this revision is included as annex II for consideration of the Standing Committee at its seventy-seventh meeting.

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## I. Introduction

1. Per its statute,<sup>1</sup> UNHCR is subject to the United Nations Financial Regulations (ST/SGB/2013/4). Based on paragraph 8 of General Assembly resolution 1166 (XII) dated 26 November 1957, the Office has established its own financial rules in accordance with the United Nations Financial Regulations.
2. Unless provided otherwise by the General Assembly or the Executive Committee of the High Commissioner's Programme, UNHCR's financial rules govern all financial activities pertaining to UNHCR's voluntary funds, while remaining consistent with the United Nations Financial Regulations.
3. UNHCR's financial rules were last time revised in 2011 (A/AC.96/503/Rev 10, of 12 October 2011) to align them with the international public sector accounting standards (IPSAS) adopted by the United Nations General Assembly in 2006 for implementation as of 1 January 2012, and they have not been changed since.
4. The purpose of this paper is to propose amendments to the financial rules that govern the operational reserve (OR) and the new or additional activities – mandate-related reserve (NAM). The proposed revision of the financial rules is included as annex I of this paper, while a draft decision on this revision is included as annex II for consideration of the Standing Committee at its seventy-seventh meeting.
5. Subject to the endorsement by the Executive Committee, the revised financial rules will be promulgated by the High Commissioner with effective date from 1 January 2022. This would allow the Office to integrate the effects of the revised rules into the upcoming budgetary cycle.

## II. Proposed revision of the financial rules on the operational reserve

### A. Background and analysis

6. UNHCR's financial rules concerning the OR currently read:
  - Rule 6.11 "An Operational Reserve shall be constituted at an amount equivalent to 10 per cent of the proposed programmed activities in the Annual Programme Budget being submitted for approval. The Operational Reserve shall be maintained at not less than \$10 million by replenishments from the Working Capital and Guarantee Fund."
  - Rule 6.12 "The High Commissioner may make transfers of appropriations from the Operational Reserve to other parts of the Annual Budget for the purposes set out in Article 6.10 provided that the amount made available for any one programme or project shall not exceed \$10 million in any one financial period."
7. These financial rules have not changed over the last twenty years, notwithstanding that the volume of activities and the size of the budget of UNHCR has significantly increased. The Office therefore needed to assess whether the level of operational reserves and NAM continue to remain suitable to and commensurate with the current level of UNHCR's activities. This paper presents the aspects that should be considered in updating these rules and proposes alternatives for their amendment.
8. In its regular reporting to the Executive Committee and its Standing Committee, UNHCR has included reports on the use of the OR. At its seventy-fourth meeting in March 2019, the Standing Committee was informed that, out of an approved OR of \$547.7 million for 2018, \$83.3 million was transferred to respond to urgent operational needs, resulting in a balance of \$464.4 million.<sup>2</sup> Out of an approved OR of \$620.1 million for 2019, \$160.8

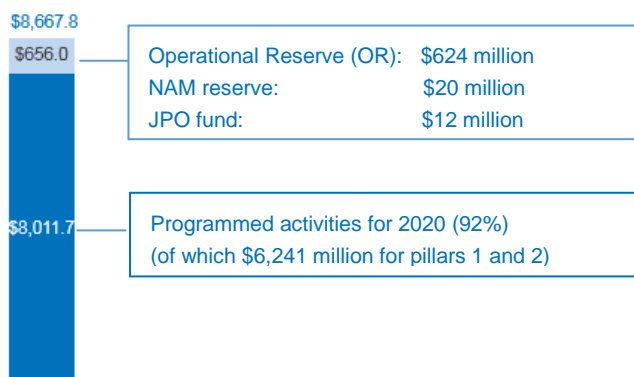
<sup>1</sup> See General Assembly Resolution 428 (v), 14 December 1950.

<sup>2</sup> See EC/70/SC/CRP.7/Rev.2

million was transferred (including one transfer of \$30 million to the NAM reserve), leading to a balance of \$459.4 million as at 31 December 2019.<sup>3</sup> This shows that over the last two years, less than one-third of the approved reserves have been used, resulting in significant balances.

9. The Programme Budget for 2020-2021, approved by the Executive Committee at its seventieth plenary session,<sup>4</sup> provides for the following levels of reserves, based on the current rules of setting the reserves at 10 per cent of programmed activities:

**Chart 1:**  
**Programme Budget for 2020** (in US\$ millions)



10. Based on information on actual use of the OR, UNHCR has developed two scenarios for its reduction:

- Scenario 1: the OR to be set at 5 per cent of the annual programme budget (i.e. pillars 1 and 2). This would have led to a reduction of \$312 million in the overall programme budget for 2020;
- Scenario 2: the OR to be set as a flat amount of \$150 million. This would have led to a reduction of \$474 million in the overall programme budget for 2020.

11. Both scenarios reduce the OR significantly and thus ensure a higher relative allocation to programmed activities: 96 per cent in the case of scenario 1, and 98 per cent in scenario 2, leaving a significantly reduced balance, versus 92 per cent corresponding to the situation where the current rule for OR is applied.

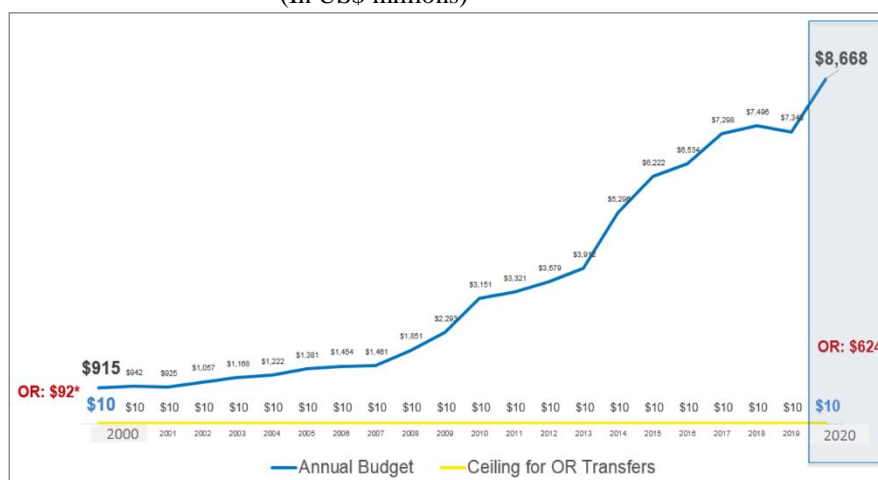
12. UNHCR is of the opinion that Scenario 1 would provide the most adequate results at this stage because this would ensure a level of proportionality with the volume of programmed activities, as opposed to having a single flat amount

13. Chart 2 below shows the time series for UNHCR’s budget, and the ceiling for transfers from the OR.

<sup>3</sup>. See EC/71/SC/CRP.6

<sup>4</sup>. See A/AC.96/1191

**Chart 2:**  
**Operational reserve limits-financial rules for 20 Years**  
(In US\$ millions)



14. Increasing the limit in transfer of appropriations from the OR to the budget from \$10 million to \$50 million would be an efficiency gain, requiring less applications for transfers. This limit has never been adjusted despite the significant increase in UNHCR's activities and total budget envelope over recent years. This level would yield efficiencies in the management of approved budgets - for instance it would reduce the need for supplementary budgets, allowing allocation of budget space from within the approved OR.

## B. Proposed changes

15 In view of the above it is proposed to change the financial rule along the lines presented in Scenario 1 above so that:

- Financial rule 6.11 is amended to calculate the OR as **5 per cent** of the proposed programme activities in the annual programme budget being submitted for approval;
- Financial rule 6.12 is amended so that the transfer of appropriations made by the High Commissioner is increased up to a ceiling of **\$50 million**;

## III. Proposed revision of the financial rules on the new or additional activities – mandate-related reserve

### A. Background and analysis

16. UNHCR's financial rules concerning NAM currently read:

- Rule 6.17 - The "New or Additional Activities – Mandate-related" Reserve is established to provide UNHCR with the budgetary capacity to accommodate unbudgeted activities which are consistent with the activities and strategies in the approved Annual Programme Budget and with the Mandate of the Office.
- Rule 6.18 The "New or Additional Activities – Mandate-related" Reserve shall be constituted at \$50 million for each financial period of the Biennial Programme Budget, or at a different level if so decided by the Executive Committee.

17. UNHCR assesses that the budgetary needs to cover any new or additional activities which are consistent with the activities and strategies approved in the annual programme budget can be covered through the mechanisms provided by either the OR, as described above or a supplementary budget, in line with financial rule 7.5.

## **B. Proposed changes**

18. Financial Rules 6.17 and 6.18 should be abolished, leading to discontinuation of NAM. This type of reserves will not be included in the budget of 2022.

## **IV. Conclusion**

19. This paper presents in annex I the proposed revision of the current version of the financial rules for voluntary funds administered by the High Commissioner for Refugees (A/AC.96/503/Rev.10). The proposed changes are shown in ~~strikeout~~ and **bold**,

20. Annex II contains a draft decision acknowledging this amendment. If endorsed, these changes will take effect as of 1 January 2022.

## Annex I

**Draft revision 11  
Financial Rules for Voluntary Funds Administered by the High Commissioner for  
Refugees (A/AC.96/503/Rev.10)**

### **Operational Reserve**

6.11 An Operational Reserve shall be constituted at an amount equivalent to ~~5~~ 40 per cent of the proposed programmed activities in the Annual Programme Budget being submitted for approval. The Operational Reserve shall be maintained at not less than \$10 million by replenishments from the Working Capital and Guarantee Fund.

6.12 The High Commissioner may make transfers of appropriations from the Operational Reserve to other parts of the Annual Budget for the purposes set out in Article 6.10 provided that the amount made available for any one programme or project shall not exceed ~~\$50~~ \$10 million in any one financial period.

### **~~The "New or Additional Activities — Mandate Related" Reserve~~**

~~6.17 The "New or Additional Activities — Mandate related" Reserve is established to provide UNHCR with the budgetary capacity to accommodate unbudgeted activities which are consistent with the activities and strategies in the approved Annual Programme Budget and with the Mandate of the Office.~~

~~6.18 The "New or Additional Activities — Mandate related" Reserve shall be constituted at \$50 million for each financial period of the Biennial Programme Budget, or at a different level if so decided by the Executive Committee.~~

## **Annex II**

### **Draft decision on a proposed revision of the financial rules**

*The Standing Committee,*

*Having considered* the proposed revision of the financial rules for voluntary funds administered by the High Commissioner for Refugees (A/AC.96/503/Rev.10), as set out in annex I of conference room paper EC/71/SC.CRP.5,

*Requests* the High Commissioner to submit a final draft of the revised financial rules (A/AC.96/503/Rev.11) to the seventy-first session of the Executive Committee for endorsement, and for subsequent promulgation by the High Commissioner with effect from 1 January 2022.

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