**Annex II to the UNDP integrated resources plan and integrated budget estimates for 2022-2025**

*Summary*

The present document is Annex II to the UNDP integrated resources plan and integrated budget estimates for 2022-2025 (DP/2021/29), and should be considered as part of that document.

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| ***Overview***   1. The present annex contains details on (i) integrated resources plan; (ii) integrated budget, with (ii.a) programmatic components of the integrated budget – methodology; (ii.b) programmatic components of the integrated budget – additional details; and (ii.c) institutional component of the integrated budget; (iii) Government local office cost contributions(GLOC); and (iv) funding of UNDP country office presence in MICs with GNI per capita above $6,692.   Integrated resources plan and harmonized cost classification categories   1. UNDP prepared its integrated resources plan and integrated budget in line with the budget harmonization exercise within the context of the ‘road map to an Integrated Budget from 2014 onwards’ conducted with UNICEF, UNFPA and UN-Women, and its most recent revision approved in decision 2020/12. It incorporates the harmonized results-based budgeting approach approved in decision 2011/10, including: (a) improved results focus and linkage with the strategic plan; and (b) key budget tables with respect to the Integrated Resource Plan 2022-2025 (DP/2021/29, table 1); a comparison of 2018-2021 original estimates and actual/estimated expenditures (DP/2021/29, annex I, table 1b); and a comparison of 2018-2021 latest estimates and 2022-2025 estimates (DP/2021/29, annex I, table 1a). 2. The integrated resources plan and the encompassed integrated budget are premised on the following three pillars:    1. Achieving synergies by integrating programmaticand institutional budget components**;**    2. Leveraging the cost classification, to respond to the quadrennial comprehensive policy review of United Nations operational activities for development and to further enhance the transparent and efficient usage of resources; and    3. Improving cost alignment through more rigorous and targeted implementation of the cost recovery. 3. Elements of the cost classification categories, which are harmonized with UNICEF, UNFPA and UN-Women, and applied in the presentation of the integrated resources plan encompassing the integrated budget are:   (a) **Development activities:** costs associated with programmes and development effectiveness activities which contribute to and are essential for the realization of effective development results, as follows:  (i) **Programmes:** activities and associated costs traced to specific programme components or projects, which contribute to delivery of development results contained in country/regional/global programme documents or other programming arrangements;  (ii) **Development effectiveness activities:** costs of activities of a policy-advisory, technical and implementation nature that are needed to achieve the objectives of programmes and projects in the focus areas of the organizations. These inputs are essential to the delivery of development results and are not included in specific programme components or projects in country, regional or global programme documents;  (b) **United Nations development coordination activities:** activities and associated costs supporting the coordination of development activities of the United Nations system;  (c) **Management activities:** activities and associated costs whose primary function is the promotion of the identity, direction and well-being of an organization. These include executive direction, representation, external relations and partnerships, corporate communications, legal, information technology, finance, administration, security and human resources. Management costs are classified as recurrent or non- recurrent;  (d) **Independent oversight and assurance activities:** activities and associated costs supporting the independent audit and investigations and corporate evaluation functions;  (e) **Special-purpose activities;** activities and associated costs of: (i) capital investments; and (ii) services for other United Nations organizations.  II. Integrated budget   1. The integrated budget is the component of the integrated resources plan funded from regular (core) resources. Compared to the latest forecast for 2021 of $697 million in core resources contributions, the 2022 – 2025 projections reflect a gradual growth in regular resources, i.e. $720 million in 2022; $747 million in 2023; $773 million in 2024; and $820 million in 2025. Based on the projected contributions of regular (core) resources of $3,060 million, other income of $230 million and an opening balance of $351 million (totalling to $3,641 million), UNDP proposes an estimated expenditure of $3,391 million for the period 2022-2025. This represents an increase of $635 million from $2,756 million in 2018-2021 (actuals for 2018-2020 and estimates for 2021). Details follow below on the programmatic and institutional components of the integrated budget.   II.a Programmatic component of the integrated budget - methodology.   1. The programming arrangements set the legal framework, as well as the principles and parameters, for the distribution of UNDP regular programme resources and their use. The resulting programmatic component of the integrated budget includes four main groups (or “windows”): Country window, Regional window, Global window and Development Effectiveness. 2. Allocations corresponding to the Country window are made in accordance with the framework of Targets for Resource Assignments from Core (known as ‘TRACs’). The TRAC is a three-tiered system in which TRAC-1 and TRAC-2 resources are linked in a combined pool, while TRAC-3 resources are made available through a separate pool. TRAC allocations form the financial foundation for the UNDP programmatic presence on the ground. 3. Majority of the programmatic components of the integrated budget (TRAC-1 and TRAC-2) are distributed to all eligible programme countries for country-level programme activities. This is to provide every programme country with a base on which they can access financing, expertise, and technologies to make progress on the Sustainable Development Goals.    * 1. TRAC-1 allocations are based on the Executive Board’s approved criteria, taking into account the income status and population size of each country, with the majority of these resources channelled to low-income and least developed countries.      2. TRAC-2 was designed to provide UNDP with the flexibility to allocate regular programme resources to high-impact, high-leverage, and high-quality programme activities and to help UNDP to respond effectively to differentiated country needs (decision 2013/4).      3. A portion of the regular resources, TRAC-3, is also channelled to programme countries that are affected by conflicts and natural disasters. In these countries, TRAC-3 resources are used in conjunction with TRAC-1 and other resources. 4. The development effectiveness (DE) related activities support the integration of development knowledge professional standards and quality assurance through specialized technical expertise to help countries access financing, by enhancing knowledge management practices and systems. The consolidation of DE lines, endorsed by the Executive Board decision 2017/31, reduces fragmentation of core resources in the integrated budget framework and facilitates support for the Global Development Advisory and Implementation Services Platform and the Country Support Platform. 5. A summary of the principles and parameters of the programmatic components of the Integrated Budget and a detailed explanation and salient features of each of the programme lines are provided below. 6. The purpose of regular programme resources is to fund programmes and other initiatives at the country, inter-country, regional and global levels, and to support selected high-priority initiatives. 7. The guiding principles of the framework are:    * 1. Predictability – the availability of sufficient regular programme resources within a stated time frame;      2. Universality – UNDP regular development resources and related activities are available to support all eligible countries; and      3. Progressivity – UNDP regular development resources and related development activities primarily support low-income and least developed countries. 8. In monetary terms, the earmarkings are tentative in nature since they are based on a targeted level of total regular programme resources for the four-year programming period. The target may or may not be realized depending on the actual level of voluntary contributions. Annex I, table 3a in DP/2021/29 presents proposed allocations for the 2022. 9. UNDP proposes to extend into the 2022-2025 budget period the two-tiered approach for the shielding of the development activities that was approved for 2018-2021. The approach is the following:    * 1. A Tier 1 of resources containing TRAC-1, TRAC-2, TRAC-3, South-South Cooperation and Human Development Report Office;      2. A Tier 2 of resources containing Regional Programme, PAPP, Consolidated Development Effectiveness line and UN Capital Development Fund. 10. The framework aims to protect Tier-1 programmatic resources from potential decreases vis-à-vis planned levels. In the event that resources are up to 5% lower than planned, the lines in tier 1 will not be reduced, but the lines in tier 2 will be reduced. For reductions higher than 5% , both the lines in tier 1 and tier 2 will be reduced in equal proportion.   ***Programmes – country window***  *Target for resource assignments from the core (TRAC) system*   1. UNDP regular resource allocations for country-level programme activities are made within the framework of targets for resource assignments from the core (known as ‘TRACs’). The TRAC is a three-tiered system in which TRAC-1 and TRAC-2 resources are linked in a combined pool, while TRAC-3 resources are made available through a separate pool. TRAC allocations form the financial foundation for the UNDP programmatic presence on the ground.   *TRAC-1 principles and considerations*   1. The TRAC-1 calculation is complex, having evolved over almost two decades to replace the previous entitlement-based system of funding according to indicative planning figures. Executive Board decisions in respect of the current arrangements essentially extended the principles, practices and approaches of the preceding cycle, with a number of technical incremental changes. 2. The TRAC-1 distribution methodology adheres to three basic principles:    * 1. Focus on low-income and least developed countries;      2. Progressivity in favour of lower-income countries within the categories of low-income and middle-income countries; respectively; and      3. A gradual move to net contributor country (NCC) status for countries that achieve higher gross national income (GNI) levels. 3. Allocations for TRAC-1 resources are based on the following Executive Board approved parameters:    * 1. *Country classification and eligibility:* Based on per capita gross national income, countries are grouped into three categories (Low Income, Middle Income, and Net Contributor Countries – NCCs). Starting in the 2014-2017 programming cycle, middle-income countries are divided into two groups. For the 2022-2025 cycle, the inflation-adjusted threshold of $6,692 will be applied, resulting in middle-income countries with GNI per capita equal to or below $6,692 and middle-income countries with GNI per capita above $6,692. The TRAC-1 model covers low-income and middle-income countries only and Net Contributor Countries are not eligible to receive TRAC-1 resources. The below table shows the country classification based on GNI per capita:   **Table 1. Country classifications**   |  |  |  | | --- | --- | --- | | **Category** | **GNI *per capita1*** | | | **2018-2021** | **2022-2025** | | Low-income | $1,280 or less | $1,286 or less | | Middle-income | $1,281 to $12,475 | $1,287 to $12,535 | | Net contributor | $12,476 or more | $12,536 or more |   1 Up to 2013, the GNI *per capita* data for the latest available year was used. Starting in 2014, in accordance with Executive Board decision 2012/28, a four-year average is used, to dampen the effect of sudden variations in a country’s GNI *per capita*. For the 2018-2021 cycle, the 2012-2015 average was used; for the 2022-2025 cycle, the 2016-2019 average will be used.   * + 1. *Distribution criteria and methodology:* The TRAC-1 model uses World Bank data on population and per capita gross national income (GNI) as the primary distribution criteria. As a general rule (subject to other model parameters), the lower the 4-year average GNI per capita and the larger the population, the higher a country’s TRAC-1 share*.*     2. *The predictability parameter (floor principle):* Predictability of UNDP programme resources for individual countries has been recognized by the Executive Board as an important element for effective technical cooperation. It is reflected in the “floor principle”, which is an integral part of the TRAC distribution methodology. The floor principle is meant to prevent abrupt major changes in the TRAC earmarkings of a country because of (sometimes temporary) shifts in its GNI per capita data. The floor concept ensures that a country receives at least a set percentage of its TRAC-1 earmarking in the previous programming cycle. Table 2 shows the floor percentages currently in use. If the country’s basic TRAC-1 earmarking is lower than the floor amount, a floor supplement is added to the basic TRAC-1 earmarking to make up for the difference.   **Table 2: The relative floor (predictability parameter)**   |  |  | | --- | --- | | **Income classification / LDC status** | **Floor percentage1** | | Least developed countries | 75% | | Low-income countries | 60% | | Transitional middle-income countries2 | 45% | | Middle-income countries | 40% |   1 Percentage of TRAC-1 earmarking in the previous programming cycle  2 Countries that just made the transition from low-income to middle-income   * + 1. *Minimum TRAC-1 allocations:* Country offices require a minimum amount of working capital to provide an effective and timely support to programme countries in their development efforts in the UNDP areas of focus and to leverage additional resources in support of the Sustainable Development Goals. This is reflected in the minimum TRAC-1 allocation provision according to which each non-NCC office is guaranteed a minimum TRAC-1 allocation. The current minimum allocations, approved by the Executive Board in its decision 2012/28, are listed on the below table.   **Table 3. Minimum country allocations**   |  |  |  | | --- | --- | --- | | **Income category / LDC status** | **Country office presence** | | | **Yes** | **No** | | Transitional middle-income/low-income/LDC | $450,000 | $50,000 | | Middle-income with GNI/capita below $6,692 | $350,000 | $50,000 | | Middle-income with GNI/capita above $6,6921 | $150,000 | $50,000 |   1 Middle-income countries with GNI/capita above $6,692 receive a fixed allocation of $150,000 ($50,000 if there is no country office presence).   1. The following considerations are also taken into account:    1. The transparency, general acceptability, reliability, consistency and availability of the data used in the distribution model have been key factors in the continuous use of GNI per capita and population data as the main criteria on which the methodology is based;    2. The universal nature of UNDP operations is reflected in special arrangements for higher-income countries. Once a certain graduating level is achieved, they can continue to participate in UNDP programmes as net contributor countries; 2. The Executive Board established in decision 2012/28 that there would be a system of biennial updates. In this regard, a four-year approach for GNI per capita averaging will be applied, with the average GNI per capita of the years 2016-2019 applied to the first two years of the Integrated Budget, 2022-2023, and the average GNI per capita of the years 2018-2021 applied to the last two years of the Integrated Budget, 2024-2025. 3. The biennial updates will affect only two groups of countries:    1. MICs during 2022-2023 (countries with 2016-2019 average GNI per capita less than $12,535) that cross the net contributor country threshold at the time of the biennial update (countries with 2018-2021 average GNI per capita greater than the new NCC threshold, namely $12,535 indexed for inflation in 2022-2023) will be considered transitional NCCs during 2024-2025. These countries will not have their TRAC-1 allocation adjusted; if they were to remain above the NCC threshold in 2022, they would be considered NCCs and would be ineligible for TRAC-1 resources from 2022 onwards; and    2. Transitional NCCs during 2022-2023 (countries with 2016-2019 average GNI per capita greater than $12,535 for the first time) will become full net contributor countries during 2024-2025 if they remain above the net contributor country threshold at the time of the biennial update; as such, they will no longer receive TRAC-1 resources during 2024-2025. 4. The diagram below summarizes the impact of the biennial updates.  |  |  |  | | --- | --- | --- | | LIC | Not affected | | | MIC | Below NCC threshold ($12,535) at biennial update | Not affected | | Above NCC threshold ($12,535) at biennial update | Considered transitional NCC in 2022-2023; Retains TRAC-1 allocation during 2022-2025 | | Transitional NCC | Above NCC threshold ($12,535) at biennial update | Considered NCC in 2024-2025; Not eligible for TRAC-1 allocation from 2024-2025 |   *TRAC-1 calculation*   1. The first step is to calculate average GNI per capita and population weights of individual countries in accordance with the approved weighting systems. The lower the average GNI per capita, the higher the weight assigned. A population weight is also calculated where a higher population weight is assigned to countries with higher population. 2. The second step is to determine the country’s basic share in the total resource pool. This is done by multiplying the GNI per capita weights by the population weights. The country’s preliminary TRAC-1 share is equal to its basic weight (product of the GNI and population weights) divided by the sum of the basic weights of all countries. 3. The third step is to make certain that the basic TRAC-1 earmarking of the country does not fall short of the floor mandated by the Executive Board. 4. The floor or predictability concept ensures that a country receives at least a certain percentage of its TRAC-1 earmarking in the previous financial period. If its basic TRAC-1 earmarking is lower than the floor amount, a floor supplement is added to the basic TRAC-1 earmarking to make up for the difference. 5. The fourth step is to take the highest of (a) the basic TRAC-1 calculated in the second step, or (b) the TRAC-1 floor calculated in the third step, or (c) the minimum TRAC-1 allocation, per Executive Board decision 2012/28, as the final TRAC 1 allocation. 6. It should be noted that the overall effect is that a country with a lower per capita GNI, higher population or LDC status receives a greater TRAC-1 allocation than a country with a higher per capita GNI, lower population or non-LDC status.   *TRAC-2 and TRAC-3 calculation*   1. TRAC-2 was designed to provide UNDP with the flexibility to allocate regular programme resources to high-impact, high-leverage and high-quality programme activities and to help UNDP to respond effectively to differentiated country needs (decision 2013/4). From a substantive perspective, TRAC-2 resources are considered fully fungible with TRAC-1 resources. They are allocated, on non-formula-based criteria, in line with regional TRAC-1 allocations, with the flexibility of transferring up to 10 per cent of TRAC-2 resource assignments between regions. 2. TRAC-2 resources are allocated in line with existing percentage allocation ranges for TRAC-1. 3. TRAC-3 was established to provide UNDP with the capacity to respond quickly and flexibly to the development needs of countries affected by conflicts and natural disasters. More frequent and more severe natural disasters, and the continuing challenge of conflict and armed violence in many developing countries, risk bringing significant damage to nations, lives and livelihoods. 4. TRAC-3 is the only core facility of UNDP for immediate action when crisis risks emerge, or when a crisis occurs. It is a demand-driven mechanism which enables the organization to quickly bring policy advice, technical expertise, and catalytic programmatic funding to bear at the country level for a comprehensive, coherent response. With efforts to refocus on assisting countries in building resilience so that they can sustain their development gains in the face of external shocks, TRAC-3 resources enable UNDP to be well positioned to analyze early warnings, advocate for and influence policies for crisis risk reduction and conflict prevention, and implement quick recovery interventions as early in the humanitarian phase as possible.   *Other lines*   1. The Programme of Assistance to the Palestinian People is a unique programme with funding arrangements that cover programmatic activities to support a specific group of people, in contrast to traditional country or regional programmes. 2. Support to the resident coordinator line is aimed to support the United Nations resident coordinator system. 3. Regional programmes will be designed in line with the strategic plan and the results and resources framework. Further details will be formally discussed with the Executive Board at its first regular session 2022. 4. The Regional Programme (regional window) provides support for inter-country cooperation in all five regions in response to development priorities and challenges. These resources help countries learn from each other’s experiences, and address problems that transcend national boundaries, contributing to the achievement of national development priorities. Programme objectives vary in line with cross country needs and regional priorities. 5. The Global window comprises of a resource facility that finances the Human Development Report Office, which supports global advocacy for human development by helping programme countries incorporate human development into programmes and policies.   II.b. Additional details on programmatic components, 2022-2025   1. Annex I, table 3c summarizes all programme country movements between income status categories for the 2022-2025 period compared to 2018-2021.   *Development effectiveness activities*   1. Executive Board decision 2017/31 consolidated five distinct development effectiveness related lines – global programme, policy advisory services, gender mainstreaming, development support services, and economist advisory services – into the global and country level programming component of the Integrated Budget. Bringing these activities within the scope of the two platforms provides several benefits including: a better articulation of development effectiveness roles at the global, regional, and country levels, stronger integration of thematic advisory services across and between the global and country platforms, improved leveraging of advisory and programmatic partnerships between global and local levels, stronger gender mainstreaming in policy and programming, and improved approaches to results based management, monitoring and evaluation using new approaches developed at the global level. 2. Separate from the above referred consolidated development effectiveness line, two other currently existing lines will remain, as follows:    1. South-South cooperation which focuses on the sharing of South-South experiences, expertise and knowledge making them an integral part of country, regional and interregional programmes, while introducing cost-effective modalities. The importance of promoting, facilitating and strengthening South-South and triangular cooperation for development globally is emphasized in the strategic plan; and    2. UNCDF, which provides grants, loans and guarantees to least developed countries, complemented by strong capacity-building and upstream policy advisory services that support the design and implementation of national policies and action plans in both local development finance and inclusive finance. Rooted in complementarity, the UNDP-UNCDF partnership aims at simplicity, coherence and effectiveness, leading to greater development impact in the least developed countries. The Executive Board, in its decision 2013/4, approved the inclusion of UNCDF in the programming arrangements   **II. Government local office cost contributions (GLOC)**   1. UNDP appreciates improvements made by programme countries toward meeting their obligations in cash or in kind with respect to government contributions towards local office costs. Middle-income country compliance remains at a less-than-desirable level. UNDP will maintain the option to withhold part of institutional budget resources for countries with significant deficits, with an emphasis on middle-income countries. 2. Waivers, granted based on respective gross national income levels, are an integral part of calculating programme country obligations. Local costs of a UNDP country office (the basis for the calculation) are reduced by a waiver percentage using the gross national income level. Waivers are reviewed in line with the decision on a new programme period. Table 4c.ii in annex I, presents the new income classifications and waivers for 2022-2023. 3. The gross national income per capita levels presented in the table are based on the average for 2016-2019, as endorsed in decision 2012/28. These will be updated in the biennial update at the mid-point of the integrated budget with the average GNI per capita for 2018-2021.   **III. Funding of country office presence in MICs with GNI per capita above $6,692**   1. The integrated resources plan and integrated budget, 2022-2025, is prepared in compliance with the provisions of two key Executive Board decisions on the funding of UNDP country office presence in middle-income countries (MICs) with Gross National Income (GNI) per capita above the $6,692 threshold as follows:    1. decision 2012/28 which endorsed a system of biennial updates for graduation for MICs with high levels of GNI per capita and transitional NCCs after a 2-year grace period; and    2. decision 2013/30 which endorsed a differentiated approach for the use of regular resource funding of UNDP's physical presence in MICs with GNI per capita above the threshold ($6,692 in 2022-2025). 2. The overall change in programme country status across the LIC to NCC spectrum is presented in detail in annex I, table 4d. Highlights with respect to funding of differentiated physical presence are as follows:    1. Panama will graduate to full-fledged NCC status starting in 2022 and will no longer receive TRAC-1 resources. Institutional budget (IB) will consist of full funding of the Resident Representative (RR) position and appropriate office capacities for the RR.    2. Dominican Republic, Cuba, and the Maldives will graduate to MIC status with GNI per capita above the $6,692 threshold. The annual TRAC-1 allocation for these countries will be $150,000, and, with respect to use of regular resources to finance UNDP’s physical presence, the two-year grace period will commence starting 2022.    3. For Azerbaijan, Belarus, Libya, Colombia, Venezuela, Suriname, and South Africa, the 4-year average GNI per capita dropped to the level below the ‘MIC status with GNI per capita above the $6,692’ threshold, hence they will be considered as regular ‘MICs’ for purposes of the funding of physical presence. Thus, the regular mechanism for funding of the CO presence in MICs, including through meeting their respective GLOC obligations, will apply.    4. For Argentina, which was a transitional NCC in 2020-2021, the 4-year average GNI per capita dropped to the level below the NCC threshold of $12,535, hence, it will not graduate to the full -fledged NCC status, and, instead, it will be considered as MIC with the GNI per capita above $6,692 for the purpose of the funding of the differentiated physical presence. The annual TRAC-1 allocation for Argentina will comtinue to be $150,000. |