

UN HABITAT **FOR A BETTER URBAN FUTURE**

**Introductory Statement by Dr. Joan Clos
Executive Director**

Quarterly Report on the Financial Status of UN-Habitat

Agenda Item 5

**HSP/CPR/62/5
Nairobi, 14 September 2016**

Mr. Chair, Excellencies and Distinguished Delegates,

Thank you for giving me this opportunity to provide you with an update on UN-Habitat's financial situation as at 30th June 2016. The detailed quarterly financial report for the period then ended has already been transmitted to you.

As presented in the Statement of Financial Performance for the quarter ended 30th June 2016, which outlines UN-Habitat's revenue and expenses, UN-Habitat's revenue for the period totalled USD 128.9 million of which USD 9.5 million is related to core funds, while USD 119.4 million was earmarked funds.

Total expenditure for the period amounted to USD 72.2 million comprising of USD 16.2 million for core expenses and USD 56.0 million for earmarked expenses. In addition to this actual expenditure, there were commitments of USD 2.8 million for activities under implementation.

Excellencies, as you are aware, the Board of Auditors conducted their audit work for the financial year 2015 from June to September this year. Based on the final draft of the audit report, UN-Habitat is pleased to inform the CPR that it has again achieved an unqualified audit opinion on its second year of implementation of IPSAS financial statements. This is a testimony that our conversion to IPSAS is sound and solid. It is important to note that this unqualified opinion has been achieved despite the tremendous challenges brought by the implementation of umoja in mid-year. The final audit report is expected to be available from October 2016 and we will circulate it as soon as it is available. In the meantime, I would like to provisionally highlight a few areas from the financial statements presented to the auditors.

At the beginning of 2015, total net assets stood at USD 323.2 million of which USD 298.3 million related to fund balances and USD 24.9 million was for operating reserves. Regarding the operating reserves of USD 24.9 million, USD 9.5 million is related to core funds while USD 15.4 million was for earmarked funds.

The core operating reserves of USD 9.5 million related to foundation general purpose (USD 6.6 million) and programme support (USD 2.9 million) while the earmarked operating reserves of USD 15.4 million related to the foundation special purpose (USD 4.0 million) and technical cooperation (USD 11.4 million).

The financial statement provides full details on fund balances, net assets, employee benefit obligations, and all other statutorily required information.

Excellencies, while the net assets of the organisation have remained steady, with business and support to member states and partners remaining strong, there are some notable shifts within our financial situation. We are particularly challenged by the rate of expenditure against income in our core budget. In 2015, we realised a deficit of some USD 5.6 million in our core, which comprises the regular budget, the foundation general purpose and the programme support costs. This placed an additional burden particularly on our Foundation, with our net assets dropping to USD 10.1 million, of which \$4.5 million is a statutory operating reserve.

There are a number of important reasons for this deficit. First, our delivery rates dropped sharply because of Umoja, which depressed income from overhead. This was further exacerbated by changes resulting from the introduction of IPSAS, the new accounting standard that was introduced to the UN, that treats income differently. We also saw a reduction in contributions to the foundation below what was anticipated in 2015, totalling approximately USD 22.8 million. Some of this was closely linked to the migration crisis, and shifting patterns of ODA globally. As you are aware, it is a very difficult situation for many UN development entities.

As the scale of the continuing deficit became clear in the middle of this year, I have instructed that steps be taken to reduce the deficit to a much more manageable level. This is in the light of our concerns that delivery will be further damaged by the ongoing problems of Umoja, further depressing overhead income.

If we 'do nothing', we will compromise our reserves in the last part of this year in the Foundation. We have therefore commenced a functional review of cost centres leading to final budgetary allocations being made in 2016. The exercise necessitates a review of our expenditures generally intended to reduce the burden on the core and particularly the foundation.

We will reduce the impact of this on both the results achieved by the organisation, and also on staff themselves. This may require certain activities and staff to be transferred to projects. This exercise, which will also directly impact on 2017 budget which will be

finalised within the month of November, is absolutely necessary to maintain financial prudence, and accountability to you as Member States.

In order to reduce the burden on the core, and to correctly attribute project costs, we have reviewed our cost recovery policy. We will be taking a more committed approach to cost recovery, in full accordance with current legislation and the practice of donors. Through this, we will ensure all direct project costs are attributed to the respective projects, including staff time as appropriate. For indirect costs, we will ensure negotiations aim at the best programme support cost rates possible in line with the UN policy. This will help bolster our Programme Support Costs fund balances.

Excellencies, with the financial position of the organisation, I believe that some urgent changes need to be made in the way core financing is managed for the organisation. The discussions of Member States towards the outcome of Habitat III and the future role of UN-Habitat are particularly important in this respect.

These important discussions come at a crucial time for UN-Habitat, and should not be unduly influenced by the current financial situation. I believe it is highly advisable for member states to consider, within this financial year, whether bridging funding can be found to support a basic 'core' of UN-Habitat capacity, pending the final decisions on UN-Habitat in 2018. I would be grateful if all Member States can raise this issue with their capitals, to allow UN-Habitat to maintain its current capacity until these critical discussions and assessments are concluded.

Excellencies, allow me to express my deep appreciation to the Governments of Argentina, Chile, India, Israel, Norway, South Korea, United States and Zimbabwe for their contributions to the core fund received as at the reporting date.

I am also grateful for contribution agreements signed in the second quarter for earmarked activities amounting to USD 80.5 million with governments and other donors. I would therefore like to extend my appreciation to the Governments of Australia, Brazil, Colombia, Finland, Germany, Japan, Kenya, Mexico, Nigeria, South Africa, Sweden, Switzerland, United States of America and Zambia.

As we now head towards the end of the financial year, I would like to take this opportunity, once again, to encourage member states to provide their contributions for 2016 and particularly those for UN-Habitat's Foundation General Purpose account to enable the

agency to carry out planned activities in the Governing Council approved programme of work.

Thank you for your kind attention.