

The scalability model for the non-earmarked Foundation budget

I. Introduction

1. The present report sets forth the guiding principles of a scalability model for UN-Habitat to systematically identify priorities in staffing in order to fulfil strategic objectives while respecting the availability of funds.

II. Background

2. UN-Habitat funding is received through four segments: the regular budget; the non-earmarked foundation; the earmarked foundation (also known as foundation special purpose), for global programmes or regional projects; and technical cooperation, for sub-regional or country-specific projects. An internal sub-segment of funding, programme support costs, is derived entirely from the earmarked foundation and from technical cooperation to fund the indirect activities to implement programmes and projects.

3. Amongst the funding sources that UN-Habitat defines as core funding, regular budget resources are designated to fund normative and intergovernmental functions, while foundation non-earmarked resources are used to fund normative and core operational functions. The scalability model is specific to the non-earmarked foundation.

III. Impetus

4. This report is in accordance with the request¹ from the Executive Board to report on the scalability model and coincides with its recommendation² of a budget level in 2023 at a baseline of \$3 million, which will be scaled up to a level of \$12 million should adequate funds be received.

5. This recommendation is in response to the financial capability of the non-earmarked foundation and the proper treatment of the budget as a spending plan, in alignment with how budgets are formulated for the other funding sources of UN-Habitat.

6. Furthermore, this recommendation is in alignment with the recent recommendation³ from the Joint Inspection Unit that the Executive Board approve a realistic budget for the non-earmarked foundation based on actual revenue levels, against a backdrop of a depleted reserve of the fund.

7. In addition, the Board of Auditors recently expressed concern⁴ regarding the insolvency and liquidity risk for the non-earmarked foundation, with attention to negative net assets in 2020 and 2021.

IV. Baseline

8. The recommended baseline of \$3 million largely aligns with annual revenue received in recent years, with the average annual revenue received during 2017-2021 at \$4.36 million. However, it is noted that the opening balance (net assets) of the non-earmarked foundation going into 2022 was negative \$1.1 million. It is also noted that the non-earmarked foundation carries the liability to pay back a loan of \$3 million to the programme support cost fund, made in 2017.

9. A conservative spending plan is further reinforced by the need for the non-earmarked foundation to rebuild its reserve, now fully depleted. The purpose of the reserve is to ensure that the fund can sustain unplanned expenditures such as staff entitlements and after-service liabilities, and that the fund can sustain planned expenditures if the revenue unexpectedly decreases or is disrupted.

¹ [Decision 2022/1](#), para. 5

² [ibid.](#), para. 3

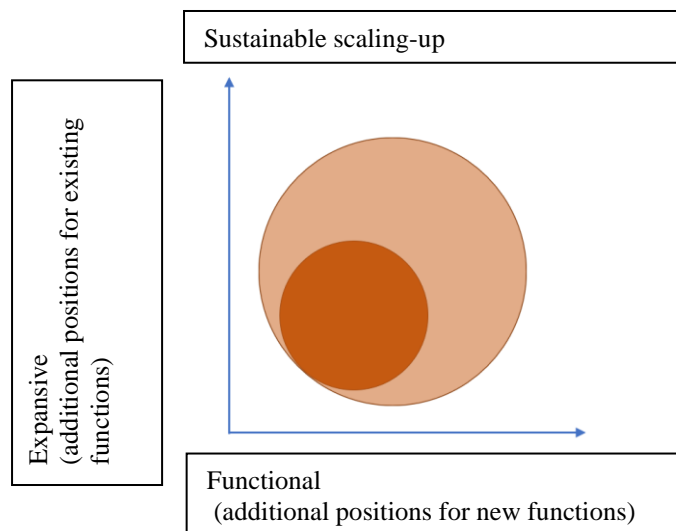
³ [JIU/REP/2022/1](#), paras. 64-65

⁴ A/77/5/Add.9, paras. 17-19

10. The budget planning assumption is that prior to scaling up, the non-earmarked foundation first returns to solvency with positive net assets; repays the loan; and establishes a reasonable reserve to cover unplanned expenditures or unplanned reductions in revenue.

V. Scaling up

11. As organizations can afford to increase in size, the scaling up can take multiple dimensions depending on the strategic objectives of the organization. One dimension is functional: the addition of new positions to execute new functions, i.e., to do activities not currently funded by the non-earmarked foundation. Another dimension is expansive: the addition of new positions to execute existing functions, i.e., to do a higher volume of the same activities already being funded by the non-earmarked foundation, including in additional geographic locations. Each dimension may grow independently or conjointly.



VI. Methodology

12. In consultation with the Executive Board, inter alia its working groups, the Secretariat will identify priorities in positions to be funded by the non-earmarked foundation based on strategic objectives. These priorities will be on both dimensions: functional and expansive.

13. In recognition of the financial situation, the Joint Inspection Unit has commended the efforts of the Secretariat to pursue its mandate within limited resources and recommended that new activities not be considered until adequate contributions are received.⁵

14. Scaling up will be managed through the budget process for the non-earmarked foundation, in which positions are established, converted, reclassified, reorganized, upgraded, downgraded or abolished.

15. Comparative reference may be made to the prioritization process in other United Nations organizations, where strategic priorities are reflected in the maintenance of the organizational structure via the budget process and constrained by the availability of funding.

16. As a prerequisite, the Secretariat will complete a rationalization analysis of all positions across all sources of funding to ensure the proper use of each source of funding with respect to the functions of each position. Appropriate realignments of funding and function will be implemented within the authority of each source of funding.

⁵ [JIU/REP/2022/1](#), para. 113