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WORKING GROUP ON BUDGET REFORM

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REVISED PROPOSALS FOR CORE BUDGET INDICATORS

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Background

1. At the meeting of the Working Group on Budget Reform held on 24 October 2017, the Administration presented document WG/BR/2017/8, which contained a list of proposed indicators to measure the stress on the core structure resulting from sustained growth. The indicators presented were divided into two categories: (a) growth indicators, to broadly measure the effects of the Organization's expansion on the core structure; and (b) risk indicators, to broadly assess the effects of increased risk on the core functions.

2. The value of using the indicators as an early warning system for the Organization was appreciated as a sound management practice to manage the risks and reduce the impact of threats. The importance of measuring impact and efficiency was also highlighted. Furthermore, some delegations reflected on the importance of risk management for the Organization and suggested that the indicators under this category could be expanded.

3. The Administration referred to its reporting on organizational effectiveness as a way of providing information to Member States on measures taken by IOM to ensure an effective and efficient stewardship of the resources entrusted to it. The Administration also highlighted that the Organization was continuing to make progress on the implementation of risk management policies and initiatives. This revised version of the abovementioned document includes some new indicators related to critical areas of risk identified by the Administration.

Proposed core budget indicators

4. An updated list of possible core budget indicators is provided below.

Growth indicators

(a) <u>Ratio of the total core budget to total annual expenditure</u>: This measures the effect of growth on the overall capacity of the core structure. The core budget funds the units that oversee and support IOM project operations, which constitute the bulk of IOM's total expenditure.

<u>Impact</u>: If the core budget declines as a percentage of total expenditure, it is an indication that the core units are becoming overwhelmed and, consequently, the delivery of services could be compromised. It should be noted that the effects of growth go far beyond any single core unit and broadly affect all functions.

(b) <u>Number of active projects</u>: This indicator assesses both the growth of the Organization and the level of complexity of its work. As each project comes with a project proposal, an agreement, a budget and an implementation plan, a steadily increasing number of projects is indicative of a greatly increased level of work throughout the core functions, including in areas such as human resources, accounting and financial reporting, information technology, knowledge management, procurement, legal support and auditing.

<u>Impact</u>: A steep increase in the number of projects, without a proportional strengthening of the core support functions, puts more pressure on the core structure to provide adequate oversight of the management of the Organization's activities.

(c) Number of contracts: IOM signs contracts with Member States, other donors, vendors, implementing partners and consultants. Each contract requires upfront negotiation and agreement to terms and conditions, and subsequently requires both the implementation of services, and management to monitor contract compliance and to regularly produce reports.

Impact: An increase in the number of contracts is highly indicative of an increase in workload across all core functions and a potential need for strengthened management and oversight capacity.

(d) Number of staff: The number of staff is a key indicator of administrative workload and resource needs. Significant core resources must be devoted to supporting staff to ensure good performance, and staff retention and development. Among other things, staff members go through labour-intensive and time-consuming processes for recruitment (including contract-related formalities), training and performance evaluation.

Impact: An increase in the number of staff puts pressure on existing human resource management structures.

(e) Ratio of core staff to total staff: This indicator measures the proportion of the total number of staff in the Organization that work in core areas. The comparison of these two elements is critical to determine the level of stress the core structure is under and its capacity to exercise sound management throughout the Organization's global operations and to ensure efficient service delivery.

Impact: A continuous decrease in this ratio could imply a deterioration in the capacity of the Organization to care for its staff, especially if this is not coupled with the enhancement of corporate systems and the optimization of internal procedures.

(f) Number of staff in hardship locations: The number of staff in hardship locations provides an indication of the overall workload and level of risk. Such staff work in demanding conditions in locations often experiencing conflict or disaster. They require a substantially higher level of resources and support, particularly in terms of security, health care and family matters.

Impact: An increase in this number would affect the core functions devoted to supporting the staff who risk their lives on a daily basis to ensure the delivery of services to migrants in vulnerable situations.

Risk indicators

(g) Number and size of Level 3 emergencies: The Inter-Agency Standing Committee (IASC) humanitarian framework assigns the largest and most challenging humanitarian emergencies its highest rating of "Level 3". IOM has responded to Level 3 emergencies in the Democratic Republic of the Congo, Iraq, the Syrian Arab Republic and Yemen, as well as in Bangladesh, Libya and Nigeria. Interventions in response to such emergencies require a higher degree of oversight and coordination, and increased resources and support due to the significant risks associated with their implementation and the short turnaround times.

Impact: Multiple concurrent Level 3 emergencies, some extending over several years, greatly affect the capacity of the constrained core structure to provide the needed resources and support at the right level. Operating in such an environment also requires elaborate internal control procedures, which are both financially and structurally challenging.

(h) Number and size of frauds and presumed frauds: In recent years, the Organization has begun tracking the number of frauds and presumed frauds. In 2016, 29 such instances were reported. An increase in the number and size of frauds would imply a deterioration in the capacity of the Organization to effectively enforce compliance with internal controls, which would have a direct impact on its credibility as an efficient manager of funds.

Impact: Depending on the frequency and trends, this indicator could be useful in assessing the need to broadly strengthen all of the various oversight, control and remedial functions within IOM.

(i) Number of unimplemented audit recommendations: IOM has internal and external auditors who visit locations and audit projects, preparing recommendations to improve systems and controls. It is the responsibility of management to implement the recommendations in a timely manner. An increasing number of unimplemented recommendations could indicate a stressed or underresourced management team and core structure.

Impact: Failure to identify and address the underlying causes of non-implementation of audit recommendations would prevent management from being able to ensure the necessary level of compliance and stewardship in IOM operations and projects. Failing to both learn from audit results and implement the resulting recommendations could decrease the Organization's credibility.

(j) Amount of write-offs: Every year, IOM incurs losses that have to be written off. Given the breadth of IOM operations, there are always challenges, which sometimes result in losses. Common types of losses are project budget overruns, penalties resulting from project audits, disputes with States or vendors, and fraud or other uninsurable losses.

Impact: While some write-offs are unavoidable, a large number of write-offs may indicate an overstretched structure in need of strengthening to ensure that adequate controls and management structures are in place to mitigate the risks and to respond effectively to the audits, disputes and other challenges as they arise. Failure to identify and address the root causes may lead to increased losses and write-offs.

(k) Number of States offering privileges and immunities comparable to those of other United Nations agencies: Only a portion of Member States grant privileges and immunities comparable to those afforded to specialized agencies of the United Nations.

Impact: The absence of privileges and immunities prevents the Country Office in question from operating in an efficient and cost-effective manner due to: the lack of tax exemption; increased bureaucracy; and delays related to clearing supplies through customs, obtaining permits needed for delivering project outputs and providing staff the required residence/work permits and accompanying privileges in the country.

(l) Outstanding Member State assessed contributions: A key risk for IOM is that Member States do not pay their assessed contributions. Member States in arrears and subject to Article 4 of the IOM Constitution can lose their voting rights. At the time of writing the present document, 21 Member States had lost their right to vote.

Impact: An increasing trend in Member State arrears could jeopardize the financial situation of the Organization, particularly the core structure, upon which IOM's operational and organizational architecture is based.

(m) Number of no-cost extensions: While the majority of no-cost extensions are caused by external factors, some delays could be caused by internal reasons.

Impact: An increasing number of no-cost extensions could be a sign of inadequate project planning and management capacity.

(n) Amount of accounts receivable: This figure represents the money owed to the Organization for goods and services that have been delivered at a given time but for which payment is still outstanding.

Impact: An increasing amount of accounts receivable implies a deterioration in the liquidity of the Organization, which may hamper its ability to meet financial commitments and operational deliverables.

(o) Number of critical management frameworks that have yet to reach full maturity: Institutional initiatives to strengthen oversight and management across the Organization, such as those related to results-based management, procurement, risk management, internal control, and transparency and accountability, are not fully developed owing to the lack of core funding to provide staff with adequate training, to automate and simplify processes or to facilitate compliance by Country Offices.

Impact: A lack of appropriate tools, processes and knowledge affects the efficiency and effectiveness of Country Offices and their ability to objectively demonstrate results, compliance and effectiveness.

5. The above list of indicators illustrates the information that could be obtained to facilitate assessment of the pressures being placed on management and the core units. No single indicator alone is sufficient to draw an overall conclusion; however, when evaluated collectively, these indicators provide an objective and coherent assessment of the overall status, thus serving as a useful stress test of the Organization’s core capacities. The simultaneous deterioration of the trends identified by several indicators would almost certainly be indicative of overstretched core functions, and therefore would highlight a need to strengthen those functions.

Next steps

6. If the Working Group is satisfied with the set of indicators, it could recommend to the Standing Committee on Programmes and Finance that the indicators – with further development of specific impact descriptions, as and when required – should be taken into consideration in future discussions on funding for the core structure.