
ITC

UNDERSTANDING
FINANCIAL
RESOURCES

ITC mission:

ITC enables small business export success in developing and transition countries by providing, with partners, sustainable and inclusive trade development solutions to the private sector, trade support institutions and policymakers.

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Frequently used abbreviations and acronyms

ACABQ	Advisory Committee on Administrative and Budgetary Questions
BoA	United Nations Board of Auditors
CBFA	World Trade Organization Committee of Budget, Finance and Administration
GA	United Nations General Assembly
ITF	ITC Trust Fund
JAG	Joint Advisory Group
OIOS	Office of Internal Oversight and Services
PSC	Programme support costs
RB	Regular budget
RBM	Results-based management
TRTA	Trade-related technical assistance
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WTO	World Trade Organization
XB	Extrabudgetary funds/resources

1. INTRODUCTION

This report outlines the source, nature and governance of the financial resources available to the International Trade Centre (ITC). The work of ITC is enabled by the regular budget (RB) and extrabudgetary funding (XB), which includes programme support costs (PSC). The RB is approved on a biennial basis by the United Nations General Assembly and the World Trade Organization (WTO) General Council.

Extrabudgetary funds are activated through the ITC Trust Fund (ITF). This includes two categories of funds known as windows. Window I consists of un-earmarked and soft-earmarked contributions from donors, while Window II is composed of bilateral contributions for specific projects and programmes, as well as income earned through revolving funds. PSC is earned via a charge to extrabudgetary expenditures and the budget is approved on a yearly basis.

Funding

ITC receives funds from different sources and holds them in accounts known as pockets. The rules applied to the accounting, management and use of these funds vary depending on their source, nature and agreements concluded. As agreed in the administrative arrangements for the regular ITC budget, the RB is assessed, approved and paid in Swiss francs (SwF) while its accounts are kept in United States dollars (US\$). Payments are received monthly and at present represent approximately 50 per cent of annual ITC financial resources (see table 1).

Table 1 Funding types

Type	Currency	Source	Payment frequency	% of resources
Regular budget	SwF	United Nations WTO	Monthly	50
Extrabudgetary funds	US\$	Donors	Varies	50

The remaining 50 per cent of ITC resources, referred to as extrabudgetary funds (XB), are provided principally by donor countries in support of technical assistance in trade. A smaller component is comprised of income earned by ITC from support costs and from selling its services and products. These funds are accounted for separately in US\$ and are subject to different conditions depending on their nature and the agreements governing their use when the funds were accepted by the organization.¹

Results-based management of ITC financial resources

ITC is progressively improving its outcome measurement and aggregation of results, risk management, automating reporting and harmonizing indicators. To achieve these goals ITC works with the support of the Office of Internal Oversight Services (OIOS) and the United Nations Board of Auditors (BoA) in designing and implementing risk management procedures.

¹ For the purposes of this report all figures are listed in US dollars (US\$) unless otherwise indicated.

Results-based management (RBM) is a core recommendation in the ITC evaluation report of 2006 and an essential requirement of the United Nations and many donor governments. Recommendation 15, the relevant clause in the evaluation report, reads as follows:

'ITC's initial preparations for, and experience with RBM should be carried forward as a priority, and should include as the next step the development of an appropriate performance management framework at the corporate level based on logical framework analysis, with a structured set of indicators for monitoring and assessing results'²

ITC has made significant efforts to embed RBM in the organization by creating clear and transparent connections between corporate objectives and the intervention logic at the project level.

Audience familiarity with ITC financial information

ITC programmes and budgets are reviewed by member state representatives at the Joint Advisory Group (JAG), the WTO Committee of Budget, Finance and Administration (CBFA) and the United Nations General Assembly (GA):

- The JAG brings together representatives of its member countries to review ITC activities and to consider its future plans. The member state representatives on the JAG are sometimes the same delegates attending United Nations Conference on Trade and Development (UNCTAD) meetings. In some cases the same individuals attend meetings of the WTO, but in other cases it is not the same individuals as some member states have sufficient staff to allocate separate representatives to WTO and UNCTAD.
- The ITC budget is reviewed by CBFA. The WTO General Council approves the budget.
- The ITC budget is reviewed by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and by the Fifth Committee of the GA. The GA approves the budget.

While some delegates who review the ITC programme and budget in the WTO General Council may also attend the JAG, the GA delegates who review the ITC programme and budget in New York are not likely to be the same delegates that participate in the JAG in Geneva.

² DMI Associates, *Evaluation of the International Trade Centre UNCTAD/WTO, Synthesis Report*, April 2006.

2. REGULAR BUDGET

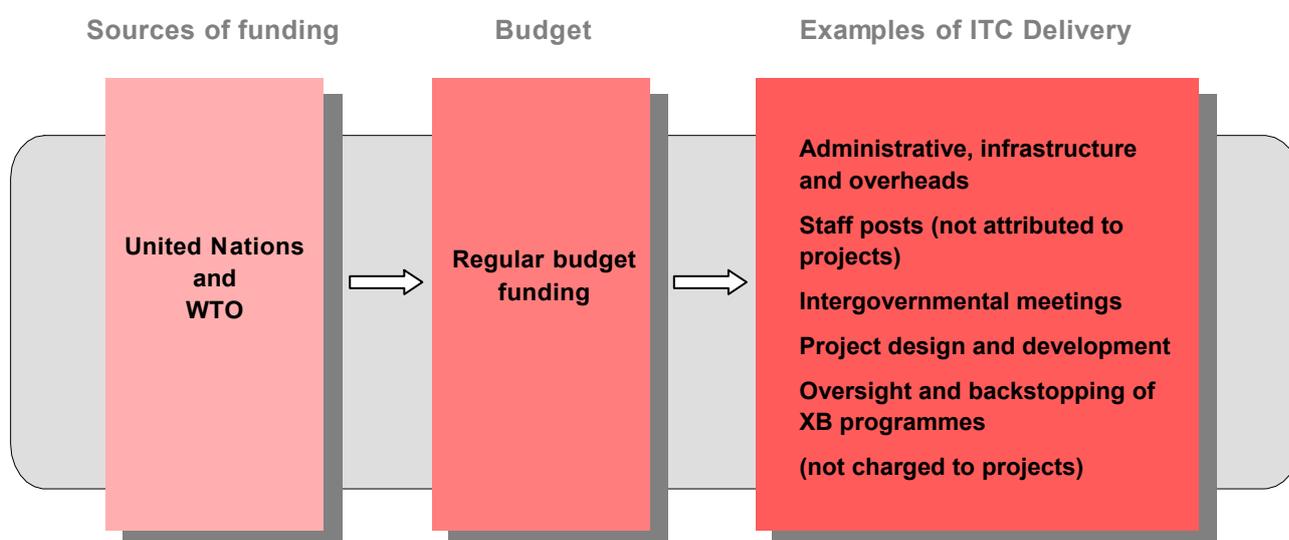
The regular budget (RB) is funded equally by the United Nations and WTO and is intended to cover the organization's running costs, including salaries and common staff costs, over a two-year period.

These resources are spent on the development and implementation of core ITC competencies, or business lines, as well as programme implementation at all levels. As ITC is a purely technical cooperation agency, probity and good management have dictated the allocation of a share of RB resources to the oversight, administration and backstopping of technical cooperation activities largely funded by extrabudgetary contributions.

The RB requires approval by the GA and the WTO General Council; this dual approval mechanism has resulted in some challenges and inefficiencies in the past. The budgetary process has been improved by streamlining the number of budget documents produced as well as through simplifying the budgetary approval process. The proposed programme budget for the 2012–2013 biennium is prepared in the United Nations budget format. Additional documentation providing a 'crosswalk' between the United Nations and WTO budget formats is included.

RB resources available for the biennium 2012–2013 amount to approximately US\$ 80.82 million.

Figure 1 ITC regular budget funding structure and delivery as of 2013



3. EXTRABUDGETARY RESOURCES

Extrabudgetary funds (XB) are activated through the ITF. The funds and activities financed from XB are administered by ITC in accordance with applicable United Nations regulations and ITC procedures. The amount of XB funds depends on agreements reached with donors on an ongoing basis, with project budgets often covering several years.

The ITF consists of two categories of funds: Window 1 consists of un-earmarked and soft-earmarked contributions from donors, while Window 2 consists of bilateral contributions for specific projects or programmes as well as income earned through revolving funds.

Window 1 – Un-earmarked and soft-earmarked funding

The purpose of Window 1 funds is to support expenditures contributing to preparing the future of ITC and to finance initiatives critical to ITC corporate interests and performance. This includes activities that do not fit the Window 2 portfolio of traditional trade-related technical assistance (TRTA) activities. Window 1 funds can be broken down into the following main categories:

CATEGORY A: Un-earmarked funds - Corporate innovation, research and development

This category is used to finance initiatives focused on raising the overall efficiency of ITC in delivering TRTA and ensuring that ITC remains at the cutting edge of TRTA. It is subdivided into:

A 1: Global public goods

Global public goods are products and services ITC has identified as tools to reduce information asymmetries which limit the scope of developing countries to take advantage of export opportunities.

A 2: Innovation for corporate efficiency

Investments in innovation for corporate efficiency may include:

- Improving information and communication systems and services;
- Innovation in the efficiency of processes to reduce transaction costs; and
- Continual learning.

A 3: Innovation for the development or maintenance of products and services

Research and development (R&D) are essential to remain relevant to beneficiary country clients.

CATEGORY B: Soft-earmarked funds for innovative services and projects

Decisions pertaining to category B of Window 1 are pre-constrained by donor indications of preference in particular targets and areas of focus. This category is therefore primarily used to support initiatives that include an innovation element in the ITC approach to TRTA. A non-exhaustive list of examples includes:

- Mainstreaming a new policy angle within TRTA (examples are gender, climate, and poor communities);
- Developing a pilot project helping to achieve a demonstrative and duplicable effect (this could develop the product of an R&D initiative into full implementation);
- Developing a new partnership;
- Ensuring private sector participation in developing countries' accession to the WTO; and
- Leveraging donor funds.

Window 2 – Earmarked funding

Earmarked XB funding is used for bilaterally or multilaterally funded projects whose technical cooperation goals and outcomes fall within the scope of the ITC Strategic Framework. Some examples of earmarked funding follow.

Bilaterals

A major portion of XB is generated in the form of bilateral agreements, where funding is received from a donor for the completion of specific project proposals. These funds frequently support customized country and regional projects. In such instances, funds may only be used for the defined project(s) and unique financial and results reporting are prepared on behalf of each donor for both contributions and expenditures. These funds may not be redeployed without a donor's specific consent.

European Commission

The EC, particularly the Directorate General for Trade and the Directorate General for Development and Cooperation, is a major donor to ITC projects and programmes. The EC was the largest single donor to ITC in 2012 with a contribution of more than US\$ 4 million. The financial and administrative modalities of ITC-EC technical cooperation partnerships are governed by the Financial and Administrative Framework Agreement signed between the EU and the United Nations in 2003.

Enhanced Integrated Framework

The EIF has replaced the Integrated Framework (IF). ITC continued to foster its cooperation with the least developed countries (LDCs) in 2012 through its active participation in the EIF, a multi-stakeholder initiative and the most relevant Aid for Trade framework for LDCs. In close collaboration with EIF partners, ITC supported LDCs participating in the programme in areas related to export development for good.

United Nations Development Programme

Funding by the United Nations Development Programme (UNDP) has progressively decreased over recent years and it is not expected to be a major funder to ITC going forward.

Associate experts

This pocket comprises funding by donors for associate expert staff working for ITC. While associate experts work on a variety of tasks and functions, this fund, composed of the monies to pay their salaries, cannot be deployed for any other purpose.

Revolving funds

Revolving funds are established to carry out specific activities in attaining certain objectives resulting in repayment to the fund. Revolving fund activities are financially self-supporting and of a recurring nature. The income they generate is credited back to the funds and is used for the activities of the funds. There are nine revolving funds within ITC that receive money through the sale of products and services. The use of resources within each fund is governed by the fund's terms of reference.

Programme support costs

The charge collected on trust funds or extrabudgetary expenditures is called Programme Support Costs (PSC) and is expressed as a percentage of direct costs (expenditure). The recovery and uses of PSC resources are of central importance to the financing and organization of efficient and effective programme support services.

In its decision 80/44 of 27 June 1980, the UNDP Governing Council approved a PSC rate of 13 per cent of annual project expenditures. In its report on the PSC arrangements embodied in UNDP Governing Council decision 80/44, the ACABQ recommended that the UNDP formula be approved by the GA for use by the United Nations Secretariat. This recommendation was accepted in resolution 35/217 of 17 December 1980, remains in force and is applicable to the ITC.

The standard rate is set at 13 per cent for extrabudgetary expenditures with the following exceptions:

UNDP	10 per cent
Associate experts	12 per cent
EC and EIF	7 per cent

The purpose of the 13 per cent PSC charge is to recover incremental indirect costs, defined as additional expenses incurred supporting activities financed from XB contributions. This charge is intended to ensure that the additional cost of supporting activities financed from XB contributions is not borne by assessed funds or other core resources that are central to the budget review and approval process in the United Nations Secretariat.

Incremental costs can be divided into two basic categories, direct costs and indirect costs:

- (i) Direct costs (which should be included in the main budget lines) are those costs that can be readily and directly attributed to, and recovered either wholly or in part from, an operation, programme or project financed from XB contributions. Their definition requires that a direct link between the cost and project can be identified. These costs include but are not limited to: (i) substantive and operational staffing, facilities, equipment and activities,³ and (ii) programme services including planning, resource mobilization, monitoring, evaluation and management. They may also include direct costs pertaining to the administration of human, financial, physical and information and communications technology (ICT) resources (e.g. service costs). All direct costs should be financed by the relevant operation, programme or project.
- (ii) Indirect costs are those that cannot be traced unequivocally to specific services providing administrative and other support functions to a range of operations, programmes and projects. These costs include but are not limited to:
 - The central administration of human, financial, physical and ICT resources;
 - Staffing, facilities, equipment, activities and legal liabilities related to (i) above;
 - The implementation of United Nations-wide initiatives related to (i) above (e.g. Umoja⁴ and IPSAS implementation, which are explained below); and
 - Oversight (the OIOS and the BoA).

They may also include indirect or overarching costs pertaining to central programme services (e.g. monitoring, evaluation and management). Indirect costs are appropriately, and cost-effectively, recovered through the support costs charge expressed as a percentage of direct costs (i.e. by PSC).

³ Including, for example, conference facilities, language and documents processing services.

⁴ It must be noted, for example, that the General Assembly, in its resolution 63/262 of 24 December 2008, endorsed a cost-sharing formula for the Umoja project which requires that 23 per cent of project costs are borne by Special Accounts for Programme Support Costs.

Use of PSC revenue

PSC resources may be used to finance indirect costs under the following categories:

- (i) Central/programme/departmental administration. For example, staff in the human, financial, physical and ICT resources management areas that support operations, programmes and projects financed from XB contributions; and rent, maintenance, operating expenses, furniture and equipment relating to these staff.
- (ii) Other internally and externally provided services, e.g. IT, legal, security and oversight (the OIOS and the BoA); UN-wide initiatives (e.g. Umoja and IPSAS) and centrally managed charges.
- (iii) Programme/departmental programme services such as central planning, resource mobilization, donor relations, monitoring, evaluation, and reporting and programme development.

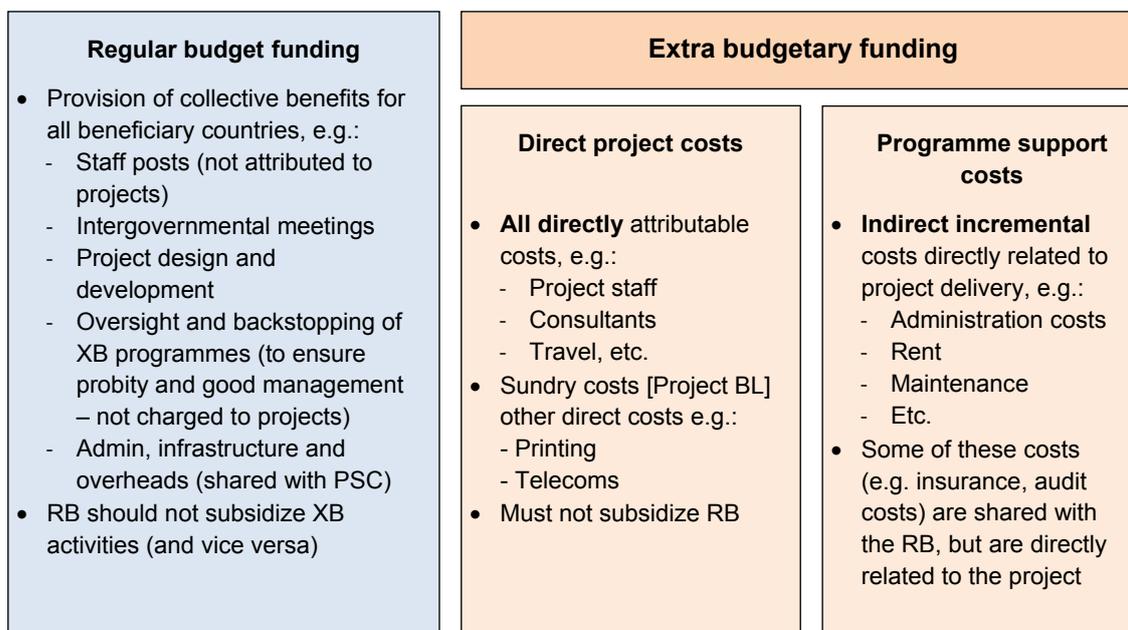
Available XB funds amounted to US\$ 70.68 million for 2012 and included:

- Approximately US\$ 37.54 million rolled over from 2011; and
- Approximately US\$ 33.14 million in net contributions received in 2012.

The trend towards higher TRTA delivery funded by XB expenditure is expected to resume in future years as demand for ITC services continues to grow. There was a balance of US\$ 30.86 million to be used for activities in 2013 and subsequent years.

Summary of ITC regular and extrabudgetary funding

Figure 2 ITC regular and extrabudgetary funding structure as of 2013



Operating reserves

As a legislative requirement, ITC maintains two operating reserves to cover financial liabilities arising from operations funded from XB resources.

1. The PSC Operating Reserve is made up of 20 per cent of the estimated annual programme support income to protect against unforeseen shortfalls in delivery, inflation and currency adjustments, or to liquidate legal obligations in the cases of abrupt terminations of activities financed from XB.
2. The Trust Fund Operating Reserve was established to cover delays in the payment of pledged contributions and to meet any shortfalls of income in the trust funds. It is used to meet the final expenditures of trust fund technical cooperation activities, including liquidating liabilities and to cover unexpected project-related requirements for which funds are not available. ITC has increased this reserve so that, over the years, it reaches the statutory level of 15 per cent of the annual estimated expenditure.

During the 12-month period of the biennium 2012–2013 ended 31 December 2012, with the agreement of donor governments, the level of the operating reserve was increased from US\$ 4,261,000 as at 31 December 2011, to US\$ 4,775,000 as at 31 December 2012 equivalent to a level of approximately 13 per cent of estimated annual expenditures.

The Trust Fund Operating Reserve is also used as a cash-flow tool. When pledges have been received from a donor but the funds are not actually in hand, an advance from the operating reserve may be extended to the project to allow work to commence or continue. Once donor funds are received the operating reserve is reimbursed and the funds are again available to meet a future need of the same nature.

The resources in both operating reserves may not be redeployed to serve any other purposes.

4. RESULTS-BASED BUDGETING AT ITC

RBM architecture

Results-based management (RBM) is generally understood as a management strategy by which an organization ensures that all its processes, products and services contribute to the achievement of desired results. The report of the ACABQ on the proposed programme budget for the biennium 2012–2013 took note of ITC efforts in implementing RBM principles and encouraged ITC to continue working towards full implementation of both RBM and results-based budgeting (RBB) [A/66/7/Add.5]. The GA endorsed the conclusions and recommendations contained in the ACABQ report at the 66th session of the Fifth Committee [A/C.5/66/L.19].

A cornerstone of ITC efforts to achieve full RBM implementation has been the introduction and embedding of RBM methodology into the project portfolio. The Project Quality Assurance Group, which undertakes a peer review of all new projects across the organization, significantly supported this process. An analysis of the ITC portfolio at the end of 2011 showed significantly positive results with state-of-the-art RBM methodology embedded in more than 64 per cent of the overall portfolio.

More efficient management of ITC financial resources

ITC aims to comply with the direction from the ACABQ that there should be no cross-subsidy between RB and XB resources. ITC XB activities are not to be subsidized by RB funds.

As outlined above, XB resources are used to complement regular budget financing to achieve ITC goals on behalf of beneficiary countries. XB funding is also used for bilaterally or multilaterally funded projects whose technical cooperation goals and outcomes fall within the scope of the ITC Strategic Framework as adopted by the JAG and the GA.

While the finite nature of ITC resources requires a sequential and focused response to country needs, over time all countries will benefit from ITC programmes through one delivery channel or another. While not every country can benefit within a financial period, eventually all beneficiary countries will benefit either from ITC activities in the country or through global goods, multi-country focus and organizational development.

Implementation of International Public Sector Accounting Standards

At the same time ITC is building its project delivery capability through modernizing its financial reporting toward implementation of International Public Sector Accounting Standards (IPSAS) by January 2014. Combined with the work on RBM principles, ITC will be in a position to have better financial and management reporting in support of its management decisions.

The United Nations common system is also moving towards the adoption of IPSAS, which provides for an accrual rather than cash accounting approach. ITC will adopt IPSAS in 2014 and automated financial systems will be implemented to support their adoption and implementation. An Enterprise Resource Planning (ERP) system is foreseen for this purpose. A full set of accounting policies and procedures has been finalized and discussions are continuing on the impact of ITC Swiss franc budgets and United States dollar\$ functional currency on the United Nations ERP.

While ITC is using the United Nations' automated Integrated Management System (IMIS), it will continue to invest in Umoja, the ERP system which is planned for 2015 implementation and which will replace the current IMIS system, which dates back to the early 1990s.

During the interim period ITC will continue generating financial reports through the use of a combination of systems and tools including IMIS, ITC-specific portal database systems, desktop tools (such as Excel) and manual processes.

Cost transparency project

The cost transparency project has enabled better understanding of the main administrative processes and products as well as their underlying resource and costs. As RBM is an area of priority focus for ITC, the cost transparency project provides data to the RBM development project. Analysis of the results and costs over several years will identify areas where more efficient approaches can be adopted and develop more reliable and transparent project costing and budgeting.

5. GOVERNANCE

ITC regularly reports to the Consultative Committee of the ITC Trust Fund (CCITF), providing a report which contains financial information and outcome-based performance. The CCITF report focuses on the analysis of ITC XB resources, providing a detailed description of the source of funds, their status and use. It also provides an update on programme support and RB resources.

The institutions and bodies exercising governance functions over the ITC – the United Nations Secretariat, the WTO Secretariat, GA member states, the WTO General Council – require formal budget and financial statements in respect to ITC finances. ITC financial statements covering both RB and XB resources are signed by the United Nations Controller and audited by the BoA. The programme and budget submissions describe the complete programme of work, including activities funded by RB as well as XB contributions, even though the result of the budgetary process is restricted to the approval of RB funding. Guidance, advice and control are exercised through these bodies on the entire ITC programme of work.

In addition, ITC governing bodies receive the results of the External Audit of ITC financial statements. These reporting mechanisms enable the governing bodies to make decisions about the level of contribution they wish to make to the RB. In addition, the reporting mechanisms provide reassurance that all monies received by ITC (regardless of source) and all financial transactions conducted by the ITC correspond to the rules and regulations established for their management.

As part of the regular budget process, the JAG reviews the Strategic Framework for ITC programmes. The UNCTAD Trade and Development Board and the WTO consider the report of the JAG annually. The Committee for Programme and Coordination of the GA in New York formally considers the ITC Strategic Framework.

While the detailed review of the regular budget and the examination of external audit reports are handled through the WTO and United Nations mechanisms, in keeping with the recommendation of the Denmark evaluation of 2006, ITC updates the JAG annually on its entire programme activity (funded by either source of funds).

The JAG requires financial information focusing on the results and use of XB contributions. In addition, the JAG needs to understand the overall ITC financial situation (including the RB) to provide guidance on the definition and implementation of ITC technical assistance programmes.

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