A. Introduction

1. This paper is provided to Member States further to the decision of the General’s Assembly through Resolution A/RES/72/226, where it:

   “6. Requests the Chair of the Committee of Permanent Representatives to establish an open-ended Working Group in Nairobi to ... also include consideration of the appropriateness of financial rules and regulations and of personnel, procurement and budgetary matters, and requests the Chair of the Committee of Permanent Representatives to make available to Member States findings and recommendations of the Working Group, including any necessary adjustments to UN-Habitat’s existing governance and administration arising from the options presented, as soon as possible, but no later than 30 June 2018, for the consideration and appropriate action of the General Assembly during the seventy-third session;”

2. UN-Habitat’s proposals are fully compatible with the Secretary-General’s reform agenda, although they do not mirror all aspects of his approach, which deal with a much more complex set of challenges, across the entire Secretariat, Peacekeeping and other entities. UN-Habitat’s proposals can be seen therefore to be compatible, but at a lower level and covering a much smaller area of focus. Given that strong precedent exists in the creation of UN-Women, and the decisions made by Member States on the management of the Funds and Programmes, UN-Habitat believes (having consulted with the Secretary-General’s office) that the proposed measures could be practically implemented in the near term.

3. The strengthening of UN-Habitat more generally, and the implementation of measures outlined above, requires a significantly strengthened governance and oversight mechanism. This mechanism to be considered by Member States would need not only to have oversight over the entire programme, focused on both strategic and programme level results, but also be in a position to scrutinize actions taken by the Executive Director through his/her position and Delegation of Authority, and by extension the delivery of the entire programme of work.

4. This requires a body that is equipped to provide that oversight, while at the same time being affordable and efficient. It should operate on the basis of the audit system of the United Nations, which ensures that resources are not misdirected and that the financial statements are correctly constituted; and focus its efforts on the overall use of funds, and their orientation towards results. The governing body may wish to move UN-Habitat towards results based budgeting, and other innovations that strengthen the link between the programme, its clients, and Member States.

B. The Work of UN-Habitat

5. The United Nations Human Settlements Programme (UN-Habitat) is the specialized programme for sustainable urbanization and human settlements in the United Nations system. The mandate of the programme is derived from General Assembly resolution 3327 (XXIX), by which the General Assembly
established the United Nations Habitat and Human Settlements Foundation; and resolution 32/162, by which the Assembly established the United Nations Center for Human Settlements (Habitat).

6. In the New Urban Agenda, adopted by the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) in Quito in October 2016, Member States reaffirmed the role and expertise of UN-Habitat, within its mandate, as a focal point on sustainable urbanization and human settlements, including in the implementation, follow-up to and review of the New Urban Agenda, in collaboration with other United Nations system entities. This also strengthened the coordination mandate of UN-Habitat, as did the General Assembly Resolution on Strengthening UN-Habitat in the 72nd Session of the GA.

7. **UN-Habitat is currently active in over 76 countries around the world**, in addition to normative work in its Nairobi HQ. It has a wide range of diverse projects, largely focused on integrated programming for sustainable urbanisation. It includes in this regard crisis response through to post-disaster reconstruction. It operates in Least Developed Countries, Middle Income Countries, as well as High Income Countries in both rural and urban areas. Its activities can be found in detail in the annual progress report, with the latest available at: [http://bit.ly/2FeeTc5](http://bit.ly/2FeeTc5).

8. This paper outlines the requirements for and considerations of developing an operational, service and financial model that allows UN-Habitat to implement its programme of work efficiently and effectively.

### C. Diagnostic

#### Current situation

9. The financial framework of UN-Habitat comprises three sources of funding: (i) United Nations regular budget allocations approved by the General Assembly; (ii) United Nations Habitat and Human Settlements Foundation contributions, consisting of general purpose budget allocations (non-earmarked) that are approved by the Governing Council and special purpose budget allocations (earmarked) that are approved by the Executive Director; and (iii) technical co-operation contributions, agreed between host country, donor and the Programme. In the last years the programme has seen a reduction of Regular Budget in constant dollar terms and a substantial reduction in the non-earmarked voluntary contributions to the UN-Habitat Foundation. This decrease in core funding (Regular Budget and non-earmarked voluntary contributions) poses a threat to the financial viability of the agency and the delivery of its mandate.

10. On the other hand, UN-Habitat has expanded its technical cooperation activities over the years. In the past fifteen years, UN-Habitat has recorded a growth in country level activities in response to Member States and donors’ demand. By 31st January 2018, the agency had an active portfolio of USD 355 million and more than 451 projects. In 2017, UN-Habitat signed 155 agreements of cooperation (AoCs), a modality used by the agency to hire partners and implement projects in the field for a total value of USD 43 million. Technical cooperation work represented about 83% of the agency budget (USD 392 million) for the 2016-2017 biennium.

11. UN-Habitat believes that the demand for its specialized technical cooperation support will continue to grow, driven by (i) the rapid growth of urbanization worldwide: more than half the world’s population is living in urban areas, a figure expected to increase to 59% by 2030; (ii) the support to
Member States in the implementation of the New Urban Agenda and the urban dimension of the SDGs as part of the 2030 Agenda; and (iii) the response to the Paris Agreement and its linkages to sustainable urbanization.

12. UN-Habitat will need to respond to requests for support in a much more flexible, dynamic, efficient and innovative manner, notably the growing demands from a number of middle income countries which are contracting directly UN-Habitat for its expertise and knowledge. More than 60% of UN-Habitat projects have a lifetime of less than two years. UN-Habitat strives to execute all its projects on time and on budget.

13. UN-Habitat is one of the three entities in the UN Secretariat that implement development programmes (alongside UNEP and UNODC), and is bound by Secretariat policies, procedures, systems and rules. A fundamental dichotomy currently exists between the needs of the increasing activities of UN-Habitat at country level and the UN Secretariat policies and procedures, which are not designed for dynamic country and broader operational needs. Recent assessments (e.g. MOPAN, OIOS, etc.) have observed inefficiencies in programme implementation, due to the lack of adequate policies, systems, and procedures across all areas of business designed for voluntary funded, field focused development operations, especially in (i) procurement, (ii) human resources (staff and consultant); (iii) budget and financial management; and more broadly (iv) the Umoja system and its associated business processes.

14. **Procurement challenges:** The delegations of authority of UN-Habitat’s regional offices are USD 40,000 (Asia Pacific, Africa, Latin America) and USD 200,000 (Arab States), while UNICEF delegates authority for procurement to country managers up to the total budget levels for the respective country. UNDP delegates authority to regional offices up to USD 3-5 million.

15. With the current procedures, it takes a minimum of 90 days to complete a procurement process, and normally much longer (between six months and one year), which results in costly and unacceptable delays in the delivery of technical cooperation work. Between July and December 2015, the UN-Habitat procurement portfolio totaled more than USD 36 million.

16. **Human Resource challenges:**
   
a. **Staff:** UN-Habitat’s recruitment of international staff under the Secretariat needs a minimum of 12 steps and about 9-10 months to complete, which can be seen negatively by development partners and donors in the case of a one or two-year development project. UNDP, for example, can normally recruit an international fixed term staff member in three months. UNOPS achieves the same in 42 days. On the advertising of posts, UNDP requires an open period of two weeks on its website for international staff recruitments. **Inspira, the Secretariat’s HR system, normally requires two months advertising, with lengthy and complex classification procedures.** Screening of hundreds of applicants is very complex and time consuming. The CRB/CRC process has been abolished by UNDP, under the same “Regulations” of Member States, but UN-Habitat is required to use what is often a lengthy and complex procedure. Moreover, UN-Habitat lacks procedures and contract types suited for project personnel, as the Secretariat abolished the 200 series of contracts, which were designed for technical cooperation and positions requiring recruitment for a few months, up to 2-4 years.

   b. **UN-Habitat** has been left with little option (for reasons of speed, efficiency, project delivery and flexibility) but to contract UNDP and UNOPS to provide HR services. UNOPS normally charges UN-Habitat 8% of payroll for project staff services, which will cost, for a $60,000 salary, $4800 annually. UNDP charges
transactional pricing for staff services. For example, in a mid-high cost country, recruitment and onboarding a staff will cost $850, and annual maintenance of a staff will cost $246.

c. **Consultants**: Recruitments of consultants through the Secretariat require a minimum of 11 steps and takes at least one whole month, when UNOPS can hire a consultant in a week or less. The often slow and heavy recruitment procedures of the UN Secretariat create additional financial and opportunity costs, or require alternative means to move forward. The cost of providing these services in this way must be paid in spite of the Secretariat having already been paid through regular and supplemental common budget to provide common services to UN-Habitat.

d. Given the onerous nature of the Secretariat recruitment system, which is not in line with the flexibility and agility that UN-Habitat needs, a number of personnel and consultancy contracts are issued through UNOPS (586 as of October 2017) and UNDP (279 as of December 2017).

17. **Agreement of Cooperation challenges**: UN-Habitat uses agreements of cooperation to hire partners and deliver its technical cooperation work. Delays in payment to partners, which can take eight weeks, have been observed. It takes a minimum of 13 steps to make a payment in UMOJA. This area of work is critical for UN-Habitat’s delivery: by 31st December 2015, the cumulative value of agreements of cooperation (AoCs), a modality used by the agency to hire partners and implement projects in the field was USD 762 million for a total of 704 AoCs. The challenges encountered by UN-Habitat with the AoCs result in considerable inefficiencies in the execution of projects, as some implementing partners do sometimes suspend a whole project, lay off staff and rehire them again once funds are available.

18. **Finance and budget management challenges**: UN-Habitat enjoys no flexibility in the use of the regular budget resources, given that the staffing table is “cast in stone” once the budget has been approved. This is not compatible with the adaptability required to move resources where they are most needed and respond to the imperatives of efficiently and effectively implementing technical cooperation activities. The requirements for budget planning are often hard to reconcile with the much more fluid type of work undertaken by an XB-based organization. The lack of flexibility is also felt with the full segregation of resources by sources and types of funds (Regular Budget versus Foundation; earmarked versus non-earmarked).

**Reform efforts**

19. To address the diagnosed challenges, UN-Habitat has gone through substantive reform and reorganization over the past five years, which have consisted of:

- the adoption of a matrix management approach through which regional offices and branches jointly implement the seven thematic subprogrammes that form the work programme of the organization;
- the establishment of three divisions (Programme Division, Management and Operations Division and External Relations Division) to coordinate and support the delivery of the portfolio;
- the introduction of a project-based approach to support the growth of the portfolio;
- the development and promotion of a three-pronged approach to sustainable urbanization (i.e. urban legislation-urban planning-municipal finance);
- the introduction of the International Public Sector Accounting Standards (IPSAS); the compliance of UN-Habitat financial statements with these standards was 100% by the end of 2014; UN-Habitat has an effective set of controls in place to prevent fraud and corruption;
- A strengthened approach to risk management: corporate systems and tools are in place to support effective risk management, including through the implementation of an enterprise risk management framework introduced in 2015, a risk governance mechanism and the availability of online risk management training; and
- The introduction of Umoja and the Project Accrual and Accounting System (PAAS) to increase productivity, efficiency and transparency.

20. The reform process has led to efficiency gains even while increasing UN-Habitat’s portfolio output by providing services to Member States and cities. For example, non-staff costs in UN-Habitat’s core budget have been halved since 2010, while staff costs have been reduced by some 40%. This notwithstanding, additional substantive and structural reforms are required to deliver the programme of work in an effective and efficient manner.

21. While much has improved, UN-Habitat needs revised policies and procedures, particularly those used for its technical cooperation work, benefitting from the experience gained around the best practices of the other UN entities working at country level.

C. The strengthening of UN-Habitat

22. In the light of the diagnostic presented above, the strengthening of UN-Habitat will need to follow two parallel but mutually reinforcing tracks: (i) a Secretary-General led and UN-Habitat-managed track; and (ii) a Member States-led track.

23. Member States decided to strengthen UN-Habitat in the New Urban Agenda, and the two resolutions that followed. This was intended to significantly improve efficiency and effectiveness in UN-Habitat’s support to the implementation of the New Urban Agenda. UN-Habitat needs an institutional architecture that is fit for purpose and that allows it to deliver quickly, efficiently and effectively on the ground, to meet clients and donor needs. This should lead to a strengthened service delivery model, through a process of business transformation.

24. The business transformation of UN-Habitat should be undertaken with a view to making the programme fit for purpose. As evidenced and argued in this paper, the current business model is not adequate for field operations, as it depends on procedures developed for UN-HQ based activities, nor is it suitable for the hybrid operation linking the normative work of UN-Habitat with its work in the field on technical cooperation. Its business processes are not sufficiently effective or cost efficient in any of the major areas of work UN-Habitat is expected to engage in, and can result in a loss of work to other actors.

25. To achieve this institutional architecture and business transformation, a concerted effort is required by Member States, and the Secretary-General through UN-Habitat itself.

The UN-Habitat-led track

26. The strengthening of UN-Habitat under this track has already started. It includes a number of key ongoing initiatives, which are outlined here for context, although this paper does not capture them all: (i) moves towards more coordinated programme development; (ii) strengthening of the operating
and service delivery model; (iii) defining a more integrated programme framework in response to the New Urban Agenda; (iv) transforming service provider relationships, performance and accountability; (v) Umoja extension II; (vi) information management and analytics; (vii) results measurement and reporting; and (viii) partnerships, engagement and communication.

27. Coordinated programme development. UN-Habitat intends to work closely with regional economic commissions and the United Nations Country Teams to develop coherent programmes in support to Member States in the implementation of the New Urban Agenda and the urban dimension of the Sustainable Development Goals.

28. Strengthening of the operating model. The strengthening of the operating model builds amply on the study titled “Operations review” commissioned by UN-Habitat and carried out by Price Waterhouse Coopers in May-October 2017. Based on relevant recommendations contained in the report of the study, UN-Habitat has already started work to improve efficiency and effectiveness in several areas of its operating model, notably: (i) corporate services, (ii) portfolio management, (iii) project lifecycle, (iv) project management, (v) results measurement and reporting, and (vi) service delivery.

29. Integrated programme framework. Integrated programming should greatly improve the support of UN-Habitat to Member States by bringing together several dimensions of sustainable urbanisation as a way to address the multifaceted nature of human settlement challenges. The integrated programme framework will be based on a coherent programme outcome narrative which will be derived from the New Urban Agenda, urban aspects of the SDGs, as well as the Paris Agreement, the Sendai Framework, the humanitarian, development, peace/security nexus and other relevant frameworks.

30. Service providers. UN-Habitat is working with its main service providers (UNON, UNOPS and UNDP) to improve processes and achieve the level of efficiency needed for the agency to operate with flexibility and agility, within the limits of the existing rules and policies; and to introduce clearer accountability mechanisms to track performance and payment. In this regard, work on the development of key performance indicators is underway.

31. Umoja Extension II. Umoja is a complete re-working of the way the United Nations Secretariat manages its administration, in both business processes and Information Technology solutions using an Enterprise Resource Planning software that provides a harmonized and streamlined approach to core organizational functions. Umoja extension II includes (i) strategic planning and performance management (budget formulation, performance management and portfolio and project management); (ii) supply chain; (iii) fund raising and donor relations; (iv) management of implementing partners; (v) conference and event management; and (vi) payments to troop/police contributing countries. The implementation of these modules will greatly contribute to UN-Habitat commitment to productivity and efficiency.

32. Information management and analytics. UN-Habitat is already working to improve its data collection and analysis methodologies and systems in view of strengthening evidence-based decision making.
33. Member states have the option to set both a path to be followed with objectives to be achieved by the Secretariat, and to make decisions themselves in the General Assembly on the architecture and strengthening of UN-Habitat. The resolution negotiated in November 2017 sets a path in this regard, asking for the advice of the Committee of Permanent Representatives on both an improved governance mechanism and “the appropriateness of financial rules and regulations and of personnel, procurement and budgetary matters” in the work of UN-Habitat.

34. In UN-Habitat’s non paper in September 2017, a path to a strengthened institutional structure was proposed for the consideration of Member States. Elements included:

   a. Granting UN-Habitat composite entity status, institutionally positioning UN-Habitat between the status of Secretariat and UN funds and programmes.
   b. Full Delegation of Authority to the Executive Director, as per the practice with other UN programmes. Current delegations, by virtue of being in the Secretariat, flow through other Departments, particularly Department of Management, and are governed by mechanisms which appear focused on other priorities.
   c. Allowing field- and project-focused policies and rules that facilitate timely and cost-effective support to member states.
   d. Integrated budget, including an institutional component agreed on as a requirement by member states, who in turn would commit to financing it at the level approved.
   e. Consider providing UN-Habitat with its Regular Budget contributions through a grant modality.
   f. Enhanced oversight and accountability.

35. In the informal discussions around the resolution on the strengthening of UN-Habitat, consideration was given to how Member States could practically address the strengthening issue. One option explored was to follow the mandate given by member states to UN-Women, to extend the full delegation of authority from the Secretary-General to the Executive Director, and to require UN-Habitat to have financial regulations, rules and policies similar to those of other operational United Nations funds and programmes, while being fully consistent with the Financial Regulations and Rules of the United Nations.

36. Another decision for consideration, drawing on the UN-Women experience, could be to empower the Executive Director to appoint and administer the staff of UN-Habitat, including for its operational activities, in accordance with the Staff Regulations and Rules of the United Nations, with full delegation of authority in personnel matters, while ensuring that UN-Habitat shall be subject to the oversight bodies. This would practically allow UN-Habitat to use a field based HR modality that supports the implementation of projects.

37. If Member States made these decisions, and examined the grant modality and integrated budgeting, this would allow UN-Habitat to undertake the following:

   a. Update the current financial rules of UN-Habitat, leading to simplification, a reduction in the number of categories of funds from five to three, and develop policies to support project work
in the field. These financial rules would be required to be compatible broadly with the UN Financial Rules and Regulations.

b. Establish a project modality for project personnel, ensuring proper compensation, benefits and personnel rights, and suitably flexible for project/field work.

c. Establish a clearer results framework for staff, with a view to increasing flexibility in the use of staffing resources in support of the strategic plan.

d. Define a new procurement framework similar to that of UNDP and UNOPS, to be implemented either by UN-Habitat directly or service providers.

e. Institute a consultant and individual contractor framework aligned towards the needs of the programme.

f. Based on the above, conduct a fundamental review of all business processes, with a view of significantly reducing complexity (freed from steps and requirements of the Secretariat)

g. Establish the ‘new operating framework’ as a basis of UN-Habitat’s engagement with the Secretary-General’s proposed regional service centers and UNON, sign Service Level Agreements with agreed Key Performance Indicators.

38. Under this approach, UN-Habitat anticipates staying within the UN Secretariat’s budget framework, and to continue using the Umoja system, adjusted to meet UN-Habitat’s needs, delegated authority, and programme framework. UN-Habitat would play a strong supporting role in rolling out Umoja Extension II, working collaboratively with the Umoja coordination team.