



Fourth Session  
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### **NOTE BY THE TECHNICAL SECRETARIAT**

#### **REQUEST TO BEGIN PREPARATIONS TO MOVE THE PROGRAMME AND BUDGET OF THE OPCW TO A BIENNIAL BUDGET**

1. The Technical Secretariat (hereinafter “the Secretariat”) recalls a Note by the Director-General entitled “Report of the Advisory Panel on Future Priorities of the Organisation for the Prohibition of Chemical Weapons” (S/951/2011, dated 25 July 2011), in which it was indicated that the Organisation should consider moving to a two-year budget cycle, so as to ensure stability and predictability in programme output.
2. The Secretariat recalls further that, in a Note by the Secretariat concerning the longer-term vision of the Organisation entitled “The OPCW in 2025: Ensuring a World Free of Chemical Weapons” (S/1252/2015, dated 6 March 2015), reference was made to exploring the benefits to be derived from moving to a two-year budget cycle in support of the achievement of results and ensuring that programme and project outputs and outcomes are achieved in a predictable manner.
3. The Secretariat also recalls that the External Auditor’s report on the 2017 Financial Statements of the OPCW and of the OPCW Provident Fund (EC-89/DG.3 C-23/DG.4, dated 7 August 2018) stated that “there is scope to streamline the budget-setting process to create efficiency in financial planning, to provide greater certainty around funding priorities and to more closely align the longer term financial and strategic plans informed by the linkage to the longer term strategic programme for Organisation. A longer term financial focus may reduce the considerable effort and resources which are devoted to the annual budget process which, excluding staff reductions, is generally not subject to significant change”. The Secretariat notes that a similar comment is also included in the External Auditor’s report on the 2016 Financial Statements of the OPCW and of the OPCW Provident Fund (EC-86/DG.3 C-22/DG.5, dated 24 July 2017).
4. The Secretariat notes that biennial budgeting is widely employed across the United Nations system and brings with it many benefits, including longer-term planning and focus on programme implementation and States Parties’ requirements. Furthermore, biennial budgeting brings efficiency to the budget preparation and approval process. The Secretariat highlights that, once approved, a biennial budget is reviewed in the first year of the biennium through an update process allowing for adjustments for the second year of the biennium, should budgetary assumptions and/or priorities significantly change.



5. The Secretariat further notes that a move to biennial budgeting for the Organisation would not require an amendment to the provisions of the Chemical Weapons Convention (hereinafter “the Convention”). With a move to biennial budgeting, there would be no changes impacting States Parties in terms of their financial contributions, which would continue to be assessed in accordance with paragraph 7 of Article VIII of the Convention and due on an annual basis, rather than for the entire biennium up front.
6. The Secretariat notes that amendments to the OPCW Financial Regulations and Rules would be required to define the budget period as consisting of two consecutive calendar years and codify the use of biennial budgeting. These amendments would need to be considered by the Advisory Body on Administrative and Financial Matters (ABAF) and the Executive Council (hereinafter “the Council”) prior to final approval by the Conference of the States Parties (hereinafter “the Conference”).
7. It is the practice of international organisations employing biennial budgeting to have the first year of the biennial budget cycle start in an even year and the second year of the biennial budget in the odd year. The Secretariat notes that, in line with this practice, the 2020–2021 biennium would be the first opportunity for the Organisation to move to biennial budgeting. This would entail that the preparation of the biennial budget could start in 2019. The subsequent opportunity for the Organisation would be the 2022–2023 biennium.
8. The Secretariat is of the view that the Organisation should, with approval of the Conference, begin preparations to move the Organisation to a biennial programme and budget cycle. The Annex to this Note provides a non-paper, entitled “OPCW Strategic Financing: Transition from Annual to Biennial Programme and Budget Formulation”, which outlines in greater detail key considerations for a move to biennial budgeting for the Organisation.
9. The Secretariat requests that the Fourth Special Session of the Conference of the States Parties to Review the Operation of the Chemical Weapons Convention consider the transition from an annual to a biennial programme and budget cycle of the Organisation and recommend that the Conference, at its Twenty-Fourth Session, adopt a decision in this regard, with a view to its implementation for the 2022–2023 biennium, subject to prior consideration of this matter by the ABAF and the Council.

Annex (English only):

Non-Paper – OPCW Strategic Financing: Transition from Annual to Biennial Programme and Budget Formulation

## **Annex**

### **NON-PAPER**

#### **OPCW STRATEGIC FINANCING: TRANSITION FROM ANNUAL TO BIENNIAL PROGRAMME AND BUDGET FORMULATION**

##### **1. Annual and Biennial Budgeting**

###### **(a) Current OPCW Budgeting: 1 financial year**

The Technical Secretariat (hereinafter the “Secretariat”) currently employs annual budgeting. The Secretariat thus undergoes a Programme and Budget preparation and approval process every year for the following budget year. For example, the preparation for the 2019 budget commences in early 2018.

This process takes several months each year. It starts with the issuance of the draft Programme and Budget preparation instructions to Divisions, Branches, and Offices within the Secretariat early in the first quarter of the year; it then carries forward for months through: (a) the draft Programme and Budget formulation within the Secretariat; (b) announcement of the draft Programme and Budget proposal to the States Parties in July; (c) review by the Advisory Body on Administrative and Financial Matters (ABAF); (d) consultations with and among States Parties beginning in July through to late September; (e) followed by consideration of the draft Programme and Budget proposal by the Executive Council (hereinafter “the Council”) in October; and then (f) final consideration and approval by the Conference of States Parties (hereinafter “the Conference”) in late November/early December.

###### **(b) Biennial Budgeting is a budget for each financial year prepared for 2 years**

A biennial budgeting process involves a budget prepared and approved for a two-year period. Traditionally, in the United Nations system, a biennium begins in an even year and ends in the following odd-year of a two-year cycle. For example, a budget prepared in 2019 for the two-year period 2020-2021 would be a biennial budget.

The biennial budget would still maintain distinct calendar year periods for each year of the two-year budget, meaning that reporting on budget implementation would still be annual (as well as biennial). The Organisation’s financial statements would continue to be prepared on an annual basis with comparative figures to the prior calendar year as is the case now for the OPCW. The budgetary formulation and strategic planning and approval process, however, would be for two years - with the caveat that in the first year of the biennium (year 1) there is a process called a budget update which allows the budget for the second year of the biennium (year 2) to be adjusted with States Parties’ approval, should budgetary assumptions and/or priorities change significantly.

## 2. Recommendations given for Biennial Budgeting for the OPCW

Consideration for a move to a biennial budgeting cycle for the OPCW Programme and Budget is one of the key recommendations of the OPCW Strategic Financing Non-Paper,<sup>1</sup> which has been brought to the attention of the Organisation's External Auditor and the ABAF by the Secretariat in 2018. Biennial budgeting is also one of the key strategic financing concepts brought forward for consideration through presentations to the Open-ended Working Group on the Future Priorities of the OPCW and the Open-ended Working Group for Preparation of the Fourth Review Conference.

A number of past and recent recommendations for consideration of biennial budgeting for the OPCW have been made. These include the following:

In a Note by the Director-General entitled "Report of the Advisory Panel on Future Priorities of the Organisation for the Prohibition of Chemical Weapons",<sup>2</sup> issued in 2011, reference was made to the fact that the Organisation should consider implementing biennial budgeting as follows:

*117. .... a move to a two-year budget cycle should also be considered, so as to ensure stability and predictability in programme output.*

In a Note by the Technical Secretariat concerning the longer term vision of the Organisation entitled "The OPCW in 2025: Ensuring a World Free of Chemical Weapons",<sup>3</sup> the following reference was made to investigate the opportunity to move to biennial budgeting:

*42. In support of achieving and ensuring that programme and project outputs and outcomes are achieved in a predictable manner, the Organisation will also explore the benefits to be derived from moving to a two-year budget cycle.*

The ABAF noted in its Forty-Fourth session report:

*The ABAF highlighted the importance of the principles outlined in the Strategic Financing Paper. These principles include biennial budgeting.*

The ABAF further noted that:

*States Parties would have to decide which concepts would be brought forward for further consideration.*<sup>4</sup>

The National Audit Office (NAO) wrote in recent External Auditor's Reports:

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<sup>1</sup> OPCW Strategic Financing Non-Paper (2017).

<sup>2</sup> Note by the Director General, Report of the Advisory Panel on Future Priorities of the Organisation for the Prohibition of Chemical Weapons (S/951/2011, dated 25 July 2011).

<sup>3</sup> Note by the Technical Secretariat, The OPCW in 2025: Ensuring a World Free of Chemical Weapons (S/1252/2015), dated 6 March 2015.

<sup>4</sup> ABAF-44/1, dated 8 June 2018 and ABAF/41/1Corr.1, dated 10 July 2018.

*19. The Organisation currently follows an annual budgetary cycle. As we reported in 2015 OPCW should consider a longer term approach to its financial planning, assessing resource needs over a longer planning horizon to match the medium-long term plan. Our understanding is that, with the exception of planned staff reductions, very little changes within the budget year-on-year (especially as contributions are set in advance are clearly known). There is therefore scope to streamline the budget process if longer term planning assumptions are established with Divisions staying within these assumptions when submitting their initial budget assumptions. We believe this would create efficiency in financial planning and budgeting and provide greater financial stability to enable the Organisation to plan more consistently.<sup>5</sup>*

*1.13. Specific focus is being given to biennial budgeting and setting up a major capital investment fund. Many of these considerations are aligned to our earlier recommendations to give greater attention to longer term financial planning, and to ensure that planned resources are aligned to longer term objectives. There is scope to streamline the budget-setting process to create efficiency in financial planning, to provide greater certainty around funding priorities and to more closely align the longer term financial and strategic plans. A longer term financial focus may reduce the considerable effort and resources which are devoted to the annual budget process which, excluding staff reductions, is generally not subject to significant change.<sup>6</sup>*

### **3. Biennial Budgeting: UN System context**

Most organisations within the United Nations (UN) system employ biennial budgeting, which is based on preparing and approving a two-year budget and updating, in the first year of the biennium, the budget for the second year, should there be any significant changes required.<sup>7</sup>

The biennial budget is prepared in the year prior to the first year of the biennium, based on the Organisation's Medium-Term Plan (MTP) and other inputs to the budget formulation and assumptions going forward.

Advantages and disadvantages of annual or biennial budgeting are well documented.

(a) Opportunities presented with biennial budgeting include:<sup>8</sup>

- Less time spent on budgeting – the annual budgeting process takes a significant amount of time (for the OPCW covering most of the year), consumed by the budget formulation and approval process. Annual budgeting tends to favour a focus on short-term goals and is significantly laborious as a process for both States Parties and the Secretariat. In contrast, biennial budgeting would promote a longer-term approach to priority setting and

<sup>5</sup> External Auditor's Report on the 2016 OPCW and OPCW Provident Fund Financial Statements, Annex 3, page 140, paragraph 1.15 (EC-86/DG.3, C-22/DG.5, dated 24 July 2017).

<sup>6</sup> External Auditor's Report on the 2017 OPCW and OPCW Provident Fund Financial Statements, Annex 3, page 160, paragraph 1.13 (EC-89/DG.3, C-23/DG.4, dated 7 August 2018).

<sup>7</sup> Some UN system organisations, such as the International Civil Aviation Organization (ICAO), employ triennial budgets.

resourcing, while allowing for an overall more efficient budget formulation process.

- Increased oversight – biennial budgeting would free up time to conduct more in-depth analysis and scrutiny of both existing programmes and requests for future funding.
- Long-term strategic planning – programmes created and funded with a longer-term budgeting view are likely to be more coherent and effective than those borne by annual budgeting. Biennial budgeting would allow the Secretariat to plan programmes more strategically. It also would provide States Parties greater clarity on what the longer-term funding requirements are so they too can provide guidance and plan accordingly.
- Predictability and stability – biennial budgeting provides greater certainty and continuity for programmes from the first year of the biennium budget into the second year, rather than having to revisit the entire budgeting process over again each year. Understanding that assumptions and/or priorities in longer-term budgets may change, in the UN system the second year of the biennium involves a budget update, which is where such circumstances are addressed.

(b) Biennial budgeting can also create challenges such as:

- Less reliable forecasts – budgeting is based on a forecast plan and forecasting is not an exact science. However, to mitigate the challenges posed by biennial budgeting, international organisations which employ this approach conduct what is called a “budget update” in the first year of the biennium to adjust the budget for the second year, should budgetary assumptions and priorities change significantly.

#### **4. Biennial Budgeting: OPCW context, considerations, and analysis**

There are advantages and disadvantages to both annual and biennial budgeting, as presented above. The question for the OPCW is whether the extensive annual budgeting exercise is purposeful for the Organisation and whether biennial budgeting could provide improved results.

(a) The Convention and Biennial Budgeting – no change required

A move to biennial budgeting would not require amendments to the provisions of the Chemical Weapons Convention (the “Convention”).

The Convention does not define whether the budget of the OPCW is required to be an annual budget. Paragraph 7 of Article VIII (B) notes, in relevant part: “[...] Financial contributions of States Parties to the Preparatory Commission shall be deducted in an

appropriate way from their contributions to the regular budget. The budget of the Organization shall comprise two separate chapters, one relating to administrative and other costs, and one relating to verification costs.”

(b) Longer-term planning and focus for Programmes

Biennial budgeting will allow for the Secretariat and States Parties to plan more strategically, over a two-year horizon. Such an approach would provide a level of stability and predictability to the Programmes’ implementation and States Parties.

(c) OPCW Budgetary expenditure mix and allocations are relatively constant

In the context of the OPCW, and for most international organisations, the largest expenditure category is staff cost.<sup>9</sup> For the OPCW in 2018, for example, the non-staff element of the budget amounted to approximately 34% of the budget, while the staff cost element approximately 66% of the budget. Understanding the Organisation’s MTP and its longer-term vision, the staffing plan should allow the Organisation to plan and take into account forecasted needs and staffing changes including staff attrition for a two-year period and should be agreed as part of a biennial budget’s staffing table, thus representing the majority of the planned budget expenditure. If significant issues or changes in assumptions were to arise, they could be revisited as part of a budget update process in the first year for the second year of the biennium. The non-staff cost elements - such as travel, consultancy/contractual services/general operating expenses, supplies and materials, and furniture - can also be planned and accommodated within a budgeting process which plans for the longer-term.

(d) Efficiency of Budget formulation and approval process

The existing Programme and Budget process, from formulation to approval by the Conference, is extensive and takes almost the entire year, with extensive involvement of the Secretariat and States Parties. A biennial budgeting process would lessen this burden, especially with regard to preparing the budget for the second year of the biennium, with most of that work already being done alongside the formulation of the first year of the biennium.

(e) Invoicing/Payment of Assessed Contributions to States Parties would remain unchanged

Under biennial budgeting, there would be no change in terms of invoicing of assessed contributions by the Secretariat and payment of assessed contributions by States Parties. Even though a biennial budget would cover a two-year period, States Parties would still be invoiced for each year separately prior to the year to which the payment pertains. This means that States Parties would, as is current practice, pay their assessed contribution one year at a time. States Parties would not be expected to pay for two years of assessment at once.

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<sup>9</sup>

C-22/DEC.5, Programme and Budget 2018, dated 30 November 2017.

(f) Other similar organisations use Biennial Budgeting

Organisations, such as the International Atomic Energy Agency (IAEA) and the Preparatory Commission for the Comprehensive Nuclear-Test Ban Treaty Organization (CTBTO), employ biennial budgeting, as do organisations with relatively comparable budget levels to the OPCW, such as the United Nations World Tourism Organisation (UNWTO) and the United Nations Institute for Training and Research (UNITAR).

(g) Budgetary and Financial reporting to States Parties with Biennial Budgeting

With biennial budgeting, the Secretariat would continue to report (e.g., budgetary performance, budget transfers) to States Parties on an annual basis, based on the calendar year. The financial statements of the Organisation would continue to be annual, including the annual external audit and internal audit reports.

(h) Financial Regulations and Rules of the OPCW and Biennial Budgeting – amendments required

Under Regulation 2.1 of the OPCW Financial Regulations and Rules,<sup>10</sup> the OPCW's financial period for both budgetary and financial accounting shall be the calendar year.

The OPCW currently prepares its budget on an annual basis. The authority for this is given in Article 3, Regulation 3.1 of the Financial Regulations and Rules where it states:

*The Director-General shall prepare a draft programme and budget (hereinafter “the budget”) for each financial period.*

A move to biennial budgeting would require an amendment to Regulation 2.1, and potentially to other Financial Regulations and Rules and relevant Administrative Directives, in order to define the budget period as consisting of two consecutive calendar years and to codify the use of biennial budgeting. The approval of amendments to the Financial Regulations is within the remit of the Conference, whereas amendments to the Financial Rules are approved by the Council. In addition, pursuant to Regulation 15.1 subparagraph (h), one of the functions of the ABAF is to “examine and report on financial regulations, rules and amendments thereto, as submitted by the Director-General”.

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Financial Regulations and Rules of the OPCW (Director General's Bulletin OPCW-S/DGB/27, dated 10 January 2018).