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GOVERNING COUNCIL
BUDGETARY AND FINANCE COMMITTEE
Twenty-seventh session
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DRAFT REPORT OF THE BUDGETARY AND FINANCE COMMITTEE

Rapporteur: Miss Mariam El-AWADHI (Kuwait)

Attached is the draft report on agenda items:

10(c): Operational Reserve

(k): Report of the Working Group on Support Costs

Draft Report of the Budgetary and Finance Committee

Agenda item 10(c): Operational Reserve

1. Under item 10(c) of the Council's agenda, the Committee had before it for consideration the Administrator's proposal contained in documents DP/469, and DP/469/Add.1, which included additional information requested by the Committee. Introducing this item, the Assistant Administrator stressed the need for an adequate level of liquid resources in the Operational Reserve balanced against the concern that a substantial level of funds not be diverted from programming. Accordingly, funds for liquidation of the Programme were not recommended as an element to be covered by the Operational Reserve.

Summary of the initial discussion in the Committee

2. The Committee expressed appreciation for the Administrator's comprehensive proposal on the criteria for the Operational Reserve, which had been requested by the Committee, as well as the additional recommendations on the purposes of the Reserve, the modalities for utilization and the reporting thereon. Most members thought that the timing of the proposal was appropriate, because discussions were simultaneously being held on preparations for the third cycle.
3. Most members agreed with the Administrator's proposals. Several members, however, thought that it would be more appropriate to base the level of the Operational Reserve on anticipated expenditures, rather than on rather than on anticipated voluntary contributions.
4. One member, while agreeing with the first four elements proposed to be covered by the Operational Reserve, stated that his Government did not agree that the fifth element, "(e), such other requirements as may be decided by the Governing Council," should be included in the criteria. Several members requested the Administrator to provide additional calculations which would indicate the level of the reserve at different percentage rates applied both to anticipated contributions and to expenditures. This information was furnished in DP/469/Add.1.

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Observations of the Administration in the Committee

5. The Assistant Administrator, responding to the queries of members, pointed out the level of uncertainty in which UNDP operated. He stated that at the end of April 1980, three major donors had not officially pledged for the year so that the level of resources for 1980 was still uncertain. In addition, because Governments either delayed payments of pledges or paid pledges in instalments, as at the end of April, income was substantially less than anticipated, while disbursement was slightly higher. He stated further that by the end of April 1980, some \$60 million of the Operational Reserve would have had to be used, if UNDP had had only the Operational Reserve as a buffer at the end of 1979. Under those circumstances, the balance in the Operational Reserve as at 30 April would have been able to cover less than two months disbursement.

6. (At this point the Chairman suspended the discussion on the Operational Reserve pending further developments by the Working Group on IPFs and by the Plenary on the third cycle IPFs).

Summary of the resumed discussion in the Committee

7. After the discussions on the IPFs for the third cycle had reached a more advanced stage, the Committee returned to agenda item 10(c). A member reiterated the points which he had made earlier on relating the level of the Operational Reserve to the general level of contributions or disbursements. He stated that if the volume of contributions increased substantially, an operational reserve established at the level of 25 per cent would be too high. The member made a specific proposal that the level of the operational reserve for the years 1982-1986 be set out in draft paragraph 4 of DP/GC/XXVII/BFC/CRP.3 (before issuance of Corr.1) at \$200 million, \$250 million, \$260 million, \$290 million and \$330 million, respectively, and that these figures might be qualified by the following phrase: "or 25 per cent of contributions for each year whichever is the smaller". He stated that this would make more money available for programme purposes, while providing an Operational Reserve of a sufficient level to cover the needs of the Programme. If the contribution levels continued to increase, the level would be adequate; and if contributions were to decrease, the amounts specified would provide the necessary safeguard. This proposal, while attracting some support, was considered as providing an inadequate reserve level by a number of other contributors, who stated that levels of 25 per cent or higher were maintained by many financial institutions in their countries. Twenty-five per cent was considered by these members as the minimum desirable percentage.

8. In response to a question, the Assistant Administrator and Director, Bureau for Finance and Administration, indicated that the dollar figures above previously suggested by the member were based upon 20 per cent of estimated contribution levels for the third cycle. In making a plea for the higher rate of 25 per cent, he reiterated the experience through the end of April 1980, when some \$60 million had been drawn down from the Operational Reserve to compensate for delayed receipt of contributions and increased programme expenditures. In the opinion of the Assistant Administrator, although the figure of 25 per cent of contributions was rather conservative, when coupled with the flexibility proposed in CRP.3/Corr.1, which related the amount of the Reserve to either contributions or expenditures, the risk factor would be minimized. The adoption of a 20 per cent level would pose problems, and accordingly, he requested members to consider the percentage carefully.

9. After an exchange of views, the text of paragraph 4 of GRP.3/Corr.1 was agreed to, but subject to an additional paragraph stating that the level of the Operational Reserve would again be reviewed at the twenty-ninth session.

10. Supported by others, the member who had proposed 20 per cent as the appropriate level for the operational reserve stated that accepting the higher level had been in the interest of reaching consensus. He wished to have duly reflected in the report the fact that there had been considerable support for the lower level. The member referred to DP/469/Add.1 which, he stated, at the level of 25 per cent, would always be above the specific levels he had proposed for the years 1982-1986. The member continued to hold the view that the levels which he had proposed provided an adequate level for the operational needs of the Programme, given all of the uncertainties in respect of both projected contributions and expenditure for 1982-1986.

Draft Report of the Budgetary and Finance Committee

Agenda item 10(k): Report of the Working Group on Support Costs

Under item 10(k) of the Council's agenda, the Committee had before it the report of the Intergovernmental Working Group on Support Costs (DP/WGOC/32) and the decision of that Group contained in DP/WGOC/32/Add.1. The Budgetary and Finance Committee decided to recommend that the Governing Council adopt this report and decision without further amendment or change.
