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GOVERNING COUNCIL
BUDGETARY AND FINANCE COMMITTEE
Twenty-seventh session
June 1980

DRAFT REPORT OF THE BUDGETARY AND FINANCE COMMITTEE

Addendum

Rapporteur: Miss Mariam AL-AWADHI (Kuwait)

Attached is the draft report on agenda items:

- 7 (d) United Nations Revolving Fund for Natural Resources
Exploration
- 10 (b) Annual review of the financial situation: 1979

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Agenda item 7(d): United Nations Revolving Fund for Natural Resources Exploration

Draft report of the Budgetary and Finance Committee

1. Under agenda item 7(d), on referral from the Plenary, the Committee had before it for consideration operative paragraph 4 of a draft decision contained in document DP/GC/XXVII/CRP.17/Rev.1.
2. The Acting Assistant Administrator, Bureau for Special Activities, explained that a decision of the Governing Council was required in order to convene a Working Group of Government Experts to review and analyse the activities of the United Nations Revolving Fund for Natural Resources Exploration, as required by resolution 1979/65 of the Economic and Social Council.
3. The original estimate of the Administrator had been \$90,000; but it was explained, no budgetary provision had been made by UNDP for the convening of this Group, since it had been expected that it was to have been financed by the United Nations. The United Nations, however, had recently advised that it did not finance from its regular budget activities related to trust funds. The authorization in question, therefore, would have to be charged to the resources of the Revolving Fund. In addition, the Governing Council had since decided to add the energy sector to the activities of the Revolving Fund, which would require an expansion of the membership of the Expert Group and a corresponding increase in the related costs from \$90,000 to \$120,000, which expenses would have to be met from the Fund's general resources.

Summary of the Discussion in the Committee

4. One member inquired about the composition of the Group, its number and the criteria that had been used in arriving at the figure of \$120,000. The Acting Assistant Administrator stated that the initial estimate had been for 14 experts and that four more would have to be added. The group of 18 experts was to meet in New York and the funds required were to pay the

subsistence and travel costs of these experts, who were to be appointed by their Governments but who were to serve in their individual expert capacities. The composition of the Group had not yet been decided, but it would take into account equitable geographical distribution, and the varied expertise required in order to have a well-balanced input. The Acting Assistant Administrator said that there should be experts in solid minerals, different types of energy, and finance and management.

5. The Committee approved the recommendation contained in paragraph 4 of draft decision DP/GC/XXVII/CRP.17/Rev.1.

Draft Report of the Budgetary and Finance Committee

Agenda item 10(b): Annual Review of the Financial Situation: 1979 DP/490

1. Under agenda item 10(b) of the Council's agenda, the Committee had before it for consideration the report of the Administrator (DP/490), which provided details of the financial activities of the programme during 1979, the financial status at the end of 1979 and forecasts for 1980 and 1981. It also contained information on several other financial matters of recurring interest to the Council and identified items on which the Administrator sought the Council's guidance.
2. The Deputy Administrator, in his introduction, emphasized the satisfactory delivery achieved in 1979 in all programmes, including the Special Measures Fund for the least developed countries. He indicated that through the end of 1979, UNDP was on target with respect to both contributions and expenditures. He emphasized, however, that the level of pledges in 1980 was only 4 per cent more than in 1979 and that to achieve the target figure of \$3.4 billion in voluntary contributions for the second cycle, a very special effort on the part of both developed and developing countries would be required. He indicated that at present, it would appear that the \$3.4 billion target may not be met.
3. The Deputy Administrator also highlighted those items on which the Council's guidance was sought, including a definition of the use of the Programme Reserve in the third cycle and a proposal by the Administrator concerning amounts of assessed programme costs outstanding at the end of 1980.
4. The Deputy Administrator also clarified the situation with respect to the accumulating non-convertible currencies and the further negotiations which had been undertaken since the preparation of DP/490.

Summary of Discussion in the CommitteeIncome and Expenditure

5. Most members expressed their satisfaction with the results achieved in 1979. One member indicated that UNDP's financial management and forecasting had obviously improved as both income and expenditure were very close to what had been projected. One member requested confirmation that UNDP's project approval process had improved and that the increased delivery did not reflect a lack of care in the approval of projects. Several members expressed their continued support of the Administrator's plan for balanced growth of the programme which would utilize the balance of resources held by UNDP and facilitate the transition to the third cycle. One member requested clarification of the increase in unliquidated obligations and what it signified.

Cost sharing

6. Members were pleased to note that the level of cost sharing had remained constant and was controllable.

Special Measures Fund for the Least Developed Countries

7. Members were pleased to note the increased level of expenditure achieved during the year as requested by the Council.

Financial Forecasts 1980-1981

8. Members generally shared the concern of the Administrator as to the level of 1980 contributions. Several members stated that the future looked sombre. Several members indicated that because of variations in the level of contributions, planning was difficult and that the basis for overcoming this was through multi-year pledging. One member indicated that improved budgeting and management alone could not solve the problem, if increased resources did not become available. Several members stated, in the light of the resource picture, that UNDP must plan within available resources and, if necessary, hold down project expenditure. One member requested information on how fore-

Investments

9. One member drew attention to the fact that the gains on exchange were of a book nature and not necessarily an actual gain in resources. He concurred in the Administrator's statement that such gains may not continue in the future. Several members expressed satisfaction with the increase in the amounts placed with financial institutions for the benefit of developing countries. One member asked why UNDP had only placed funds with the World Bank and not with regional development banks.

Programme Reserve

10. After very preliminary discussion early in the session, the Chairman agreed to set the Programme Reserve aspect of Agenda Item 10(b) aside until several items with respect to natural disasters and the report of the High-level TCDC meeting had been acted upon by Plenary and/or referred to the Budgetary and Finance Committee.

11. In re-opening the item, the Assistant Administrator and Director, Bureau for Finance and Administration, stated that the Administrator's objective in submitting DP/GC/XXVII/BFC.2/Add.1 was to simplify and rephrase current guidelines, after taking into account Governing Council decisions on natural disasters and on TCDC.

Summary of discussion in the Committee

12. An observer stated that his delegation at the High-level TCDC Meeting had opposed the funding of any kind of TCDC activity from the Programme Reserve: he wished to reiterate that position in the Budgetary Committee. Another member expressed concern about part (iv) of the draft decision, namely, it did not specifically limit this authorization for financing promotional activities of technical co-operation among developing countries to the decisions of the Governing Council in this regard. In this connexion, specific reference was made to the increase from \$1.0 million to \$1.5 million in allocations from the Programme Reserve for TCDC activities, which was to

be authorized for the remainder of the second IPF cycle, 1977-1981, under the action taken by the BFC on CRP.18/Rev.1 at the present session. This problem was solved by adding the following phrase at the end of part (iv) of this draft decision: "within the specific limits set by the Governing Council." Thereafter, the draft decision was adopted, as amended.

Accumulating non-convertible currencies

13. Several members expressed concern at the amount of non-convertible currencies still held in spite of the efforts of the Administrator. One member indicated that those Governments contributing accumulating non-convertible currencies should contribute fully convertible currencies, because recipient countries had a right to receive full value for all contributions. Several members indicated that improvement had, in fact, been made. One delegate indicated that his Government was prepared to study additional ways to more efficiently use its currency. Another member indicated that the reference to contributions in readily useable currencies in UNDP's Financial Regulations was not subjective but objective. He stated that readily useable currencies, if not fully convertible, were meant to be those of recipient countries which UNDP could utilize for programme purposes. One member drew attention to the decision taken at the twenty-third session which called for the Administrator to take steps to ensure that all payments for goods and services in countries contributing accumulating currencies were made exclusively in their currencies and to make a detailed status report on the measures taken or problems encountered if any.

Collection of Receivables

14. One member inquired as to whether the high level of receivables outstanding might be due in part to the inability of recipient countries to obtain hard currency. Several members agreed with the Administrator's proposal to charge the respective country IPF with any amount of assessed programme costs which

Response of the Administration

15. The Director of Finance responded to the questions raised during the discussion. With respect to the increase in the level of unliquidated obligations, he stated that these were firm commitments of the Executing Agencies, which were primarily for equipment. The increase corresponded to the significant increase in the programme delivery of 25.5 per cent in 1979. The Director of Finance reiterated the comments of the Deputy Administrator with respect to the difficulties encountered in decreasing the amounts of accumulated non-convertible currencies and indicated that although the arrangement with one Government, to convert a portion of UNDP's holdings for readily useable non-convertible currencies, had not been completed, it was anticipated that the balance to be converted would take place in 1980. The Director of Finance also explained that each of the development banks had been approached with respect to placement of funds with them and that all specific proposals received would be considered. It was hoped that placements with these organizations would result.

16. The Deputy Administrator confirmed that sufficient resources were available to deliver the second cycle programme based on present estimates, but that it would, in the future, be necessary to tailor the size of the programme to available resources. The Deputy Administrator further indicated that with respect to the accumulated currencies, many countries refused to accept a charge to their IPF to support an increased utilization of these currencies.

Further comment after adoption of decision

17. One delegate, on behalf of a group of others, declared that they had accepted draft decision in document DP/GC/XXVII/BFC/CRP.2 in the spirit of consensus. At the same time, he pointed out that paragraph 5 of this draft

decision, which proposed even in the amended form that contributions to UNDP be made in convertible currencies, was unfounded. It discriminated against the national currencies of the Socialist countries and of a large group of developing countries and undermined the basic principle underlying UNDP activities, i.e. the principle of the voluntary nature of the donor countries' contributions to the Programme. Accordingly, the delegate stressed that had this paragraph been put to a vote a considerable number of delegations would have voted against its adoption.