REPORT OF THE BUDGETARY AND FINANCE COMMITTEE

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Annex

Summary of the Deputy Administrator's introductory statement to the Budgetary and Finance Committee 1
SUMMARY OF THE DEPUTY ADMINISTRATOR'S INTRODUCTORY STATEMENT TO THE BUDGETARY AND FINANCE COMMITTEE

1. In his opening statement to the Budgetary and Finance Committee of the twenty-ninth session of the UNDP Governing Council, the Deputy Administrator referred first to the performance of the Programme during 1981 in the context of an overview of the entire second programming cycle, 1977-1981. He highlighted the fact that income received for the main programme, consisting of voluntary contributions, voluntary programme costs and miscellaneous income, amounted to $3,397 million, which represented 98 per cent of the resource target established for the cycle. He emphasized the fact that the favourable trend in income, which had brought about a substantial increase in income from 1977 to 1979, had ceased beginning in 1980. Income in 1981 was lower than income in 1980, marking the first time in the history of UNDP that voluntary contributions to the Programme had decreased in comparison with the previous year. In expenditure terms, it was possible to build up programme delivery from a low of $294 million in 1977 to a high of $656 million in 1981. Total expenditure for the programme during the cycle amounted to $2,397 million, representing 97 per cent of the adjusted indicative planning figures (IPFs). During the second cycle, the Operational Reserve had been increased and replenished with full liquid assets.

2. The Deputy Administrator then turned more specifically to financial activities in 1981. Total income for the year amounted to $804 million, which was substantially below the forecast given to the Governing Council a year earlier. He indicated that one of the most important elements which had affected the level of contributions was the strengthening of the dollar, for this had eroded the value of many pledges in US dollar terms. He also referred to the fact that an anticipated major pledge, included in the forecast prepared for 1980, had not materialized. Therefore, total pledges for 1981 of $674 million represented a decrease of 6 per cent compared to the 1980 pledges. He referred in some detail to the impact which exchange rate fluctuations could have on UNDP resources. First, the value of contributions might change substantially between the time a pledge was made and the time it was actually paid. Second, after contributions had been received, exchange rate fluctuations could seriously affect the value of the currencies being held by UNDP. He went on to say that gains and losses on UNDP holdings during the cycle had almost canceled each other out, resulting in a net loss of $0.3 million.

3. The Deputy Administrator then provided data on programme expenditures, which had continued to grow during 1981. The $656 million expenditure represented a 9.7 per cent increase over the previous year. The forecast of the financial situation of UNDP for the next two years, he said, presented an unfavourable picture. The conclusion had been reached that, if the present resources outlook continued, it would not be possible to deliver expenditures of more than 60 per cent of the illustrative IPFs for the third cycle. He highlighted the fact that, in the face of a sharp curtailment in delivery, the ability of the agencies to continue to provide the necessary services and maintain their existing infrastructure would be seriously impaired.
The Deputy Administrator stated that the need to reduce the administrative and support costs of the Programme were evident. The study of UNDP staffing needs was intended to respond to the changing conditions of UNDP. He assured the Committee that the survey attempted to establish the staffing requirements of UNDP on the basis of the workload in individual field offices. He explained that the proposed reductions in staffing requirements and costs were reflected in the revised UNDP biennial budget for 1982-1983.

The Deputy Administrator discussed in some detail the methodology used for the study, which was the methodology previously used by the United Nations for determining extrabudgetary resources. The Deputy Administrator then emphasized that the revised biennial budget, which was based upon the results of the staffing surveys, represented a net decrease of 5 per cent compared with the level of appropriations approved by the Governing Council in 1981.
205. One member stated that his Government had undertaken an in-depth internal evaluation of UNFPA which indicated that the Fund was operating satisfactorily and was utilizing its resources in an effective way. A few members expressed concern at the growth they perceived in the UNFPA administrative budget, while others noted that most of the increases were due to inflationary factors and statutory requirements. One member pointed out that in the case of all voluntary funds, if contributions did not at least keep pace with inflation and expanding programming needs, the ratio of administrative costs - many of which were fixed - to programme costs was bound to increase. One member expressed the view that, in spite of the increased administrative budget of UNFPA, its administrative costs were still among the lowest compared with those of other United Nations organizations.

206. Many members expressed their appreciation for the Executive Director's restraint in requesting no new posts for 1983. They requested that he observe similar restraint in his 1983-1984 requests. Members indicated their approval of the three proposed reclassifications - two from P-4 to P-5 and one from P-5 to D-1 - and indicated that since ACABQ had no objections to the proposed reclassifications, they would have no objections. One member, however, expressed serious doubts about the appropriateness of approving the reclassifications at this time and suggested that the proposed reclassifications be deferred until the Council's thirtieth session, when they could be considered in conjunction with the Council's review of the results of the comprehensive staffing survey which the Executive Director had indicated he would undertake.

207. Some members said that the UNFPA field staff should be strengthened and one member indicated that most UNFPA Deputy Representatives should be located in priority countries. Another member had questions concerning the system of grading of the posts of UNFPA Deputy Representatives. Another, perceiving an overall erosion of assistance to developing countries in the Caribbean, expressed concern with the UNFPA decision to discontinue the UNFPA Deputy Representative in her country.

208. While a few members expressed preference for an annual UNFPA budget submission, noting that it would be difficult for a voluntary fund such as UNFPA to forecast income more than two years in advance, most members favoured adoption by UNFPA of a biennial budget presentation beginning with the biennium 1984-1985, in order that the budget cycle of UNFPA might conform to those of the United Nations, UNDP and other United Nations system organizations.

Response of the Administration

209. In responding to the questions and to the concerns expressed by the Committee in regard to points (d) and (e) of the recent agreement between UNDP and UNFPA with respect to the UNFPA subvention to UNDP as summarized in the UNDP Assistant Administrator's statement, the Executive Director stated that UNFPA had no desire to deviate from the principle of close collaboration with UNDP. The Executive Director pointed out that the agreement related only to headquarters' functions and that, in the field, UNFPA Deputy Representatives were located in the offices of the UNDP Resident Representative, who were also the representatives of UNFPA. The Executive Director also pointed out that the agreement had been entered into with a view to achieving greater efficiency and economy in the provision of some administrative services, such as travel. The Executive Director accepted the suggestion of a number of members that the matter be reconsidered and further studied before any changes in the arrangements for administrative support services were proposed. Any such proposals would be submitted to the Governing Council through ACABQ and points (d) and (e) of the agreement as summarized by the UNDP Assistant Administrator would be regarded as inoperative until the Council had considered the subject again.
indicated that the Fund would work closely with UNDP, jointly reviewing each of the various components of the support services provided by UNDP to UNFPA with a view to further improving the efficiency and cost-effectiveness of such services. The review would also address the policy questions involved in the matter. He said that UNFPA and UNDP would report to the Council at its next session on the results of the joint review.

210. On the matter of deployment of field staff, the Executive Director explained that the nature of population programming required that there be sufficient flexibility. In general, the assignment of field staff depended on the scope and complexity of the programmes. Since UNFPA Deputy Representatives sometimes serviced several countries, they would be assigned to those countries where communication facilities allowed them to best service all the countries under their responsibility.

In response to the member who had expressed concern regarding the proposed discontinuance of the UNFPA Deputy Representative in her country, the Executive Director explained that the question of redeployment of field staff was still under review. Until that review was completed, the UNFPA Deputy Representative would remain in his current post.

Recommendation of the Committee

211. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted part II of decision 82/20, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).
193. For the second year in succession, he was requesting no new posts. The Executive Director reported his intention, as reported to the ACABQ, to undertake in 1983 a complete review of the staffing pattern and manpower needs of UNFPA. He also indicated that the issue of regularizing the positions of UNFPA field staff, particularly in the light of difficulties experienced in the rotation of staff between field and headquarters under the present arrangements, was one that he was seriously considering and that he would submit to the Council any proposals for changes in the current system.

194. The Executive Director called the Committee's attention to his proposals for the reclassification of three professional posts, and noted that ACABQ had expressed no objections to the proposed reclassifications.

195. Turning to the annual payment made by UNFPA to UNDP for administrative support services at headquarters in the areas of finance, personnel, administrative management information, the Executive Director noted that this subvention payment had been adjusted by mutual agreement from year-to-year to take into account increasing costs due to volume of work, salary increases and inflation. He reported that $570,320 had been appropriated for 1981 and a further $170,749 was being requested as a supplementary appropriation.

196. The Executive Director stated that in late 1981 UNDP had carried out a detailed study to determine more precisely the costs of providing the services it was rendering to UNFPA. The study followed the methodology established by agreement between the United Nations and UNDP and subsequently accepted by the ACABQ at the time when a new formula for the allocation of the costs of services between the United Nations and UNDP was being determined. UNDP had reached the conclusion in its study that the cost of providing services to UNFPA for the biennium 1980-1981 was $2,257,270, compared with the amount of $1,200,769 paid and payable by UNFPA for the two-year period. For the biennium 1982-1983, UNDP estimated the cost of providing services to UNFPA at $2,981,650.

197. The Executive Director explained that at the time the UNFPA budget for 1983 and the supplementary budget for 1982 were being prepared discussions were taking place with UNDP on the amounts estimated as the costs of providing its services to UNFPA in 1982 and 1983. These discussions, he said, had not been completed when ACABQ considered the budgets of the two organizations in May of 1982. ACABQ, therefore, had decided that there was a need for further negotiations between the two organizations. As the Assistant Administrator, Bureau for Finance and Administration, UNDP, had reported to the Committee, the Executive Director noted that, based on these further discussions, a constructive agreement had been reached on the amount of subvention, the methodology for future assessment and the procedure to be followed concerning any changes in the scope of services provided.

198. On a net basis, the 1983 UNFPA budget estimates for administrative and programme support services amounted to $11,171,575, which constituted a net increase of $1,825,994 over 1982 appropriations. After taking into account the supplementary appropriation of $708,017 recommended by ACABQ, and the additional subvention agreed upon by UNDP and UNFPA, the increase in the proposed 1983 budget over the 1982 budget totalled only $451,587, or 4.2 per cent.

199. The estimated 1983 administrative and programme support costs represented 7.5 per cent of the total anticipated 1983 resources of $149 million. Including $4.8 million for the costs of the field offices, the total would be a relatively low 10.7 per cent of anticipated income.
200. A supplementary appropriation of $1,374,407 was being requested to cover reimbursement to the United Nations for payments made on behalf of UNFPA to staff members entitled to income tax reimbursement accrued over prior years, during which insufficient amounts had been appropriated, and the additional agreed-upon amounts of UNFPA subvention to UNDP for the years 1981 and 1982.

201. Turning to the question of the Fund's plans for submitting a biennial budget, the Executive Director said that he foresaw some problems in converting to a biennial budget system, particularly in regard to forecasting income. He expressed his preference that UNFPA remain on an annual budget cycle. However, if the biennial cycle was preferred, he did not anticipate any major difficulties in converting to such a system provided that there was a measure of flexibility.

Summary of the discussion in the Committee

202. Members of the Committee thanked the Executive Director for his presentation of the items before the Committee relating to UNFPA. Many members welcomed the newly reached agreement concerning the UNFPA subvention to UNDP for 1982 and 1983 for the services rendered by UNDP. Some members pointed out that the agreement underlined the continuing close working relationship of the two organizations. Several, however, expressed unease and concern with provisions (d) and (e) of the agreement as summarized by the Assistant Administrator of UNDP. Many members were particularly concerned that these provisions might represent or be interpreted as a movement away from the central technical assistance co-ordinating role of UNDP within the United Nations development system. Some members were also concerned that the provisions might result in the duplication of functions within the United Nations system. Some also questioned whether the two organizations should enter into such provisions without Governing Council approval. Many members indicated that any possible problems in the rendering of services by UNDP to UNFPA were of a management nature and should be dealt with and, if possible, resolved at the managerial level by the two organizations. With regard to the proposed transfer of travel functions from UNDP to UNFPA as of 1 January 1983, many members indicated the need for an a priori justification to the Council that such a transfer would be efficient and cost-effective and that its policy implications could be shown to be consistent with the central co-ordinating role of UNDP for technical assistance within the United Nations development system.

203. Many members supported the proposal of one member that the Executive Director, following an in-depth joint review with UNFPA of the administrative services provided to UNFPA under the subvention, report to the Council through ACABQ at its thirtieth session on the results of this review.

204. Many members expressed their approval of both the UNFPA budget estimates for administrative and programme support services for 1983 and the request for supplementary appropriations for 1982. One member suggested that for comparison purposes, figures for the preceding year should be included in the manning tables of future budget documents. Another member requested information regarding the request for supplementary appropriations for reimbursement to the United Nations for payments made to UNFPA staff members entitled to national income tax reimbursement. Several members expressed surprise at the large, abrupt increase in the amount of the subvention requested by UNDP for services rendered on behalf of UNFPA for 1982 and 1983 and requested an explanation. One member expressed his agreement with the view of ACABQ: namely, that the emphasis in the programme narrative of the budget document should be shifted from a description of organizational structure to the provision of more information, for example, on the redeployment of posts between programmes.
Response of the Administration and FAO

186. In his response, the representative of FAO reiterated that the condition of the vessels which were scheduled for refitting was sufficiently good to make such refitting worthwhile and expressed the view that these vessels could provide adequate service for a number of years following refitting.

187. The Deputy Director, Division of Finance, explained that in view of the extremely high depreciation and maintenance costs of new vessels, potential recipient countries had been consulted, as part of the further review by UNDP and FAO, as to whether they would be willing to meet such high costs. The responses received had not been encouraging. In the light of this, and in view of Governing Council decision 81/44, whereby the proposals to be formulated by the Administrator on the financing of vessel acquisition, utilization and maintenance were to be based on the assumption of full international competitive bidding, UNDP, together with FAO, had had to look into alternative ways for providing vessel services. He expressed great satisfaction at the wide support that members had given to the proposals made by the Administrator on behalf of UNDP and FAO.

Recommendation of the Committee

188. On the recommendation of the Budget and Finance Committee, the Governing Council subsequently adopted decision 82/39, the text of which appears in Annex I to the Council's report to the Economic and Social Council (E/1982/16).
For consideration of sub-items 6 (b) (v) and (vi) of the Council's agenda, the Committee had before it the following documents:

(a) Budget estimates for UNFPA administrative and programme support services for the year 1983 and supplementary appropriations for the year 1982 (DP/1982/25);

(b) Report of the Advisory Committee on Administrative and Budgetary Questions on the UNFPA budget estimates for 1983 and supplementary appropriations for 1982 (DP/1982/26);

(c) The UNFPA audit reports (DP/1982/27); and

(d) Report of the Executive Director on plans with regard to submitting biennial budget estimates (DP/1982/31).

Prior to the introductory statement of the Executive Director of UNFPA on these matters, the Assistant Administrator, Bureau for Finance and Administration, UNDP, made a brief intervention on the matter of the UNFPA subvention to UNDP. The Assistant Administrator explained that, since he had first brought the matter to the Committee's attention when introducing the UNDP budget for 1982-1983 (DP/1982/53), agreement had been reached between UNDP and UNFPA on the level of reimbursement to UNDP for administrative support services to be rendered to UNFPA during 1982 and 1983. He indicated that the main points of the agreement were the following:

(a) UNDP and UNFPA agreed on the methodology to be used;

(b) The results of a validation study would be made available in late 1982 and would form the exclusive base for the level of compensation in 1984-1985;

(c) UNDP agreed to a reduced compensation for 1982-1983 of $2,660,000 compared with an original amount of $2,981,000. The difference of $321,000 would be absorbed by UNDP through budget-tightening measures;

(d) UNFPA has expressed a desire to take over the administrative arrangements for travel as of 1 January 1983, to which UNDP had agreed, with compensation for services rendered for 1983 to be adjusted accordingly;

(e) UNDP and UNFPA agreed that if UNFPA wished to take over further services, UNFPA would give UNDP not less than one year's notice.

The Assistant Administrator indicated that UNDP saw the agreement as a sound and positive basis for future administrative co-operation between the two organizations.

In introducing the UNFPA sub-items, the Executive Director reported that the Fund continued to be financially and managerially sound. The Operational Reserve of $20 million, he said, was intact and it was his intention that UNFPA add $1 million to the Reserve in 1982, with the goal of reaching the target set by the Governing Council for the Operational Reserve of 25 per cent of estimated contributions, preferably not later than the end of 1989.

The Fund had had no cash flow problems in the first six months of 1982 and did not expect any for the remainder of the year. In this regard, the Executive Director thanked donor Governments for their response to his pleas for the early and timely payment of their pledges.
176. The representative of UNESCO stated that he hoped there would still be a possibility for larger agencies to receive sectoral support financing in the future and requested that the Council consider financing two UNESCO sectoral advisers in 1983 as well as in 1982 so that there would be sufficient time to prepare for paying these posts from UNESCO's own resources, starting in 1984.

Response of the Administration and UNIDO

177. The Assistant Administrator, replying to the questions raised in regard to SIDFAs, stated that most Governments which had rejected the invitation to contribute to the SIDFA programme had not indicated why they declined to contribute. Most of them had simply said that they did not have the resources necessary to meet the $40,000 which represented 25 per cent of the cost per year per SIDFA which they had been asked to contribute. In the view of the Administrator, allocating the funds which remained, after the SIDFAs in LDCs and contributing countries had been paid for, to countries not contributing would not be equitable, nor would there be any incentive for non-contributors to start co-financing their SIDFAs.

178. With respect to options (a) and (b), the Assistant Administrator distributed a note explaining the financial impact on the sectoral support budget of these options. It was also explained that because of the uncertain financial situation, agencies had been advised that no contracts for advisers should be approved beyond the end of 1982. Termination payments were thus expected to be minimal, even if option (b) were chosen. Consequently, the Administrator proposed that the resources ceiling should apply to the sectoral support budget line with effect in 1983.

179. With regard to the share of the cost of the SIDFA programme being met from UNIDO, its representative explained that UNIDO had increased the allocation for SIDFAs' duty travel out of its regular budget by 15 per cent; that the UNIDO JPO programme was a valuable complement to the SIDFA programme; that three countries had provided trust funds to pay for three SIDFAs; and that UNIDO missions also helped fulfil SIDFA functions.

Recommendation of the Committee

180. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted decision 82/38, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982).

181. Following the agreement reached in the Budgetary and Finance Committee to recommend the adoption of this decision, four members of the Committee stated that they wished to reserve their position with respect to operative paragraph 7. These members did not wish any additional burden stemming from an increased UNIDO contribution to the SIDFA programme to cause an increase in the regular budget of the United Nations.
IX. FISHERIES VESSELS POOL

182. For its consideration of item 7(h) of the Council’s agenda, the Committee had before it a note by the Administrator concerning the fisheries vessels pool (DP/1982/62).

183. In introducing this subject, the Deputy Director, Division of Finance, referred to the extensive review of this matter which had taken place at the twenty-eighth session of the Council. He said that the present report was the result of a further review, carried out jointly by UNDP and FAO, of the needs of the pool for vessels and of the most effective ways of satisfying those needs. He explained that new information on the potential availability of fisheries vessels in several countries, combined with the more restrictive financial climate now governing UNDP operations, had made it desirable to modify the plans for providing vessel services to proportions which the Administrator considered to be realistic in terms of recipient countries’ requirements and which were financially feasible in terms of estimated costs. The Deputy Director referred, in particular, to the fact that survey and research vessels were available in both developed and developing countries which could be suitable for the UNDP/FAO programme and that some of these vessels were under-utilized. It was the intention of UNDP and FAO to study the subject in detail in order to develop a co-operative programme with those countries for the utilization of such vessels. It had been determined that some vessels in the pool which were becoming uneconomical to maintain would be phased out in the next three to four years, while five of the better vessels would be refitted. The total cost of refitting these five would amount to some $1.8 million, part of which would be paid from the proceeds of the sale of some vessels.

184. The FAO representative who manages the fisheries vessel fleet provided more information on how the study on the establishment of the co-operative programme would be carried out. He reiterated that the combined scheme of using vessels under the planned co-operative programme and refitting some of the vessels in the pool would provide the required services to developing countries at a reasonable cost. He explained that the previously considered alternative, namely, the outright purchase of vessels, would have resulted in such high charges for maintenance and depreciation as to have made the cost to most developing countries prohibitive. Such a situation would apply even if non-convertible currencies were to be used for the purchase of vessels.

Summary of the discussion in the Committee

185. Most members expressed appreciation to UNDP and to FAO for providing the detailed information contained in document DP/1982/62 and for the additional explanation regarding future plans for the pool. They considered that the proposals submitted were an excellent alternative to the purchase of vessels and that the combination of researching the market for the purpose of entering into co-operative agreements with countries possessing vessels and of refitting some of the existing vessels presented a very attractive alternative which developing countries could afford and which therefore should be adopted. One member questioned the reasons that led UNDP to drop the plans for the purchasing of vessels with non-convertible currency and expressed the view that political considerations had led to this. He could not understand how negotiations, which had continued for three years for the purchase of vessels from countries with non-convertible currencies which had accumulated in UNDP, had suddenly been dropped in favour of another, less attractive alternative. He further stated that the refitting of old vessels was not a good alternative in his judgement and should not be encouraged.
during the coming years. Such audit reports could be of great benefit to the agencies, to UNDP and to the Governing Council.

Recommendation of the Committee

169. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted decision 82/37, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).
VIII. SECTORAL SUPPORT

170. For consideration of item 7(g) of the Council's agenda, the Committee had before it document DP/1982/61, containing a note by the Administrator on sectoral support.

171. Introducing the item, the Assistant Administrator, Bureau for Programme Policy and Evaluation, stated that the Administrator had presented the note mainly because of the financial implications of the ceiling on programme resources for the special budget line for sectoral support. If expenditures incurred against this budget line were to be contained within the same limits as the main programme, reductions would have to be made. To this end, the Administrator was presenting two options for the consideration of the Committee: (a) either maintain the same real level of sectoral support services in 1983 as in 1982 and scale down the support in 1984-1986 so that, for the cycle as a whole, the sectoral support budget line would be subject to the same pro rata reductions as those in IPFs; or (b) start applying the ceilings in 1983, so that less severe cuts would be made in 1984-1986.

172. With regard specifically to the Senior Industrial Development Field Adviser (SIDFA) programme, the Administrator proposed to the Council that non-LDC Governments drawing upon SIDFA services should be required to contribute towards meeting part of their cost, bearing in mind the consultations initiated by the Administrator in this regard, as well as the fact that the cost projections for SIDFAs in 1982-1983 presented to the twenty-eighth session of the Council had assumed such contributions.

Summary of the discussion in the Committee

173. Members welcomed the introduction by the Assistant Administrator as well as the note by the Administrator. Several members expressed their support for the proposal that countries drawing upon the services of SIDFAs should be required to contribute towards meeting the cost of the SIDFA programmes. These members emphasized that the willingness of Governments to contribute indicated the importance which they attached to the SIDFA programme. The fact that only seven Governments were willing to contribute was mentioned in this context and questions were addressed both to the secretariat and to the representative of the United Nations Industrial Development Organization (UNIDO), in order to obtain information on why many Governments had declined to contribute to the SIDFA programme.

174. Other members indicated that the SIDFA programme should continue to be financed from UNDP resources and that any Government contributions should be voluntary. These members could not accept that an obligatory charge be made to the countries drawing upon the services of SIDFAs. It should therefore be recommended that the Administrator continue to pursue the consultations on a possible Government contribution initiated by him in response to decision 80/32. Some members also felt that it was for UNIDO rather than for recipient Governments to share a higher proportion of the costs of the SIDFA programme. A few members expressed the view that the Industrial Development Fund might be used for this purpose. The UNIDO representative was called on to provide information on the measures undertaken in response to operative paragraph 5 of decision 80/39, in which the Governing Council called upon the Secretary-General to make all efforts to increase UNIDO's share of the cost of the SIDFA programme.

175. With regard to the options for financing sectoral support in 1983 mentioned in the Assistant Administrator's introduction, opinions were expressed in favour of both options. A majority of members supported option (b) whereby main programme ceilings were to be applied to the sectoral support programme in 1983 so as to try to offset the possible detrimental effects on the SIDFA programme of a sudden cut-back to be carried out in six months' time. Other members supported option (a) whereby cuts would be made starting in 1984 so that a slightly lower number of SIDFAs could be
that, in the view of UNDP, decision 80/44 referred to the reimbursement of support costs for technical co-operation activities and not for capital assistance activities; therefore, the issue of a uniform rate did not apply to UNCDF- AND UNSCO-financed activities. He emphasized that UNDP was engaging in a new study of OPE support costs with great reluctance because such a study was time-consuming and expensive. However, UNDP considered that this was an indispensable step in its efforts to reach an agreement with the agencies. He explained that the interim efforts to reach an agreement with the agencies. He explained that the interim reimbursement rates would be applied until the revised study had been completed.

Recommendation of the Committee

164. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted decision 83/36, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).
VII. AUDIT REPORTS

165. For its consideration of agenda item 7(f), the Committee had before it the note of the Administrator (DP/1982/60) transmitting the audited accounts and audit reports of the participating and executing agencies, related to funds allocated to them by UNDP as at 31 December 1980, together with his comments on the significant observations of the external auditors.

166. The Director, Division of Finance, introduced this item and provided information on the number of agencies whose external auditors had made observations of a substantive nature in respect of the year 1980. In several cases, the audit reports submitted did not include observations of a substantive nature and did not include significant comments which called for follow-up action; several other agencies, as a consequence of adopting biennial budgets, did not require the submission of audited financial statements for the year ended 31 December 1980. He also reported that, in accordance with Governing Council decision 81/41, UNDP had continued consultations with agencies which use commercial external auditors with a view to ascertaining whether their auditors could include in future reports observations of a substantive nature. During these consultations, the auditors for the most part had explained that their audits were based on generally accepted auditing procedures and that, while the inclusion of comments of a substantive nature in any audit was feasible, it would entail substantial additional expenditures.

Summary of the discussion in the Committee

167. All members of the Committee who participated in the discussion emphasized the importance of the audit reports and that the comments of the external auditors on substantive matters were most valuable in assessing the efficiency of the operational procedures of the agencies. Members also expressed appreciation for the follow-up action which the Administrator had taken in this matter and for his own comments and observations on the audit reports which had been submitted for the year 1980. Some members expressed serious concern at the nature of some of the auditors' observations which, in their view, indicated serious managerial shortcomings in the operations to which they related. While certain difficulties could be expected given the volume of UNDP-financed field operations, they felt that some of the auditors' comments reflected a lack of efficiency in carrying out some projects. Furthermore, while some of the responses provided by agencies to the audit observations appeared to be reasonable, others did not appear entirely satisfactory. Members expressed the view that UNDP as the funding organization, had an overriding responsibility to monitor operations for the purpose of ensuring the efficient use of resources. They were unanimous in their view that the importance of the substantive observations could not be overestimated and that there was a clear need to expand this approach to encompass all UNDP-financed operations of the agencies. They expressed the hope that the external audit reports and their review by UNDP and the Governing Council would contribute towards improvement in the management of the Programme. With regard to organizations using commercial external auditors, some members were of the view that additional costs would not necessarily be a deterring factor and requested the Administrator to obtain estimates of the additional costs which might be involved in this connection.

Response of the Administration

168. Responding to questions raised during the discussion, the Director, Division of Finance, reiterated that UNDP also considered the reports and observations of external auditors to be an important management tool. He stated that the existing tripartite system was helpful in ensuring effective use of resources, but that obviously there was always room for additional improvements. UNDP would make every effort, including using the existing interagency consultative machinery, to increase the use of narrative, management audit reports in respect of UNDP-financed activities.
VI. AGENCY SUPPORT COSTS

155. For its consideration of agenda item 7(e), the Committee had before it reports of the Administrator concerning support cost reimbursement arrangements for activities financed by the United Nations Capital Development Fund (UNCDF) and the United Nations Sudano-Sahelian Office (UNSO) and for UNDP's Office for Project Execution (OPE) (DP/1982/58), ex post facto reporting on agency support costs (DP/1982/59), and support cost flexibility arrangements (DP/1982/93).

156. In introducing the item, the Director, Division of Finance, first referred to the progress achieved in developing, in consultation with the agencies, an acceptable format for ex post facto reports on support costs to be provided to the Governing Council. Details of this format were contained in document DP/1982/59. He emphasized that, although the proposals did not provide the complete range and detail of information requested by the Council in its decision 80/44, it was believed that the format would provide meaningful and useful information.

157. Turning to the subject of support costs related to delivery by OPE, he referred to the conclusions contained in document DP/1982/58 and to the description of the methodology used by UNDP in formulating proposals for support costs related to OPE's delivery of technical co-operation projects, of UNSO-financed projects and of UNCDF-financed projects. After explaining the substantial difference of opinion with agencies on the applied methodology and the conclusions reached, he informed the Committee that the Administrator intended to undertake a revised study of OPE costs and that, in the interim, OPE would charge 11 per cent as support cost for technical co-operation projects, and 5 per cent for UNCDF-financed projects, while support costs for UNSO and other non-IPF funded projects would be based on ad hoc rates. With regard to projects executed by other executing agencies, the support cost rates for UNSO and UNCDF-financed activities would continue to be established on an ad hoc basis in consultation with the organizations concerned.

158. In connection with support cost flexibility arrangements, he drew attention to document DP/1982/93, which contained data on reimbursements for 1980 and 1981 and requests for reimbursement for 1982. He also drew attention to the new guidelines on the reimbursement of support cost flexibility which had been provided as an annex to document DP/1982/93.

Summary of the discussion in the Committee

159. Speaking on behalf of the United Nations, the International Labour Organisation (ILO) and the World Health Organization (WHO), the Assistant Secretary-General of the United Nations Office of Financial Services amplified the reasons for the disagreement with UNDP's conclusions which had been expressed in the course of a meeting of the Consultative Committee on Administrative Questions (Financial and Budgetary) (CCAQ) (PB) in March 1982. The agencies considered that the methodology used by UNDP, while appropriate in principle, was not designed to capture the totality of support costs incurred. Furthermore, UNDP had made assumptions on delivery which were not necessarily realistic and these assumptions had influenced the rates. He emphasized, however, that the most important issue was the proposed departure from decision 80/44, which had established an average uniform rate of support costs for all agencies. Introduction of differential rates would be a step backwards and contrary to the basis of the standard rate adopted by the Council. He congratulated UNDP for coming forward with much more comprehensive data on actual support costs incurred and welcomed the proposal to carry out a revised study, which he hoped would serve as a basis for agreement between UNDP and the agencies.
160. One member, supported by others, commended the Administrator and the agencies for reaching an agreement on the complex subject of **ex post facto** reporting. They were concerned, however, that the proposed **ex post facto** report might not be sufficiently detailed to meet all the needs of the Governing Council. He suggested that the Council authorize the submission of reports as proposed in document DP/1982/59 and, following review of the information in the reports to be provided in 1983 and 1984, the Council would then determine whether these reports adequately met its needs. Another member requested that the Administrator include his own comments on the reports submitted by agencies if he considered it necessary to do so. Several delegations expressed disappointment at the contents of paragraph 6 of document DP/1982/59, which suggested that not all agencies could identify their support costs and wondered how they could sustain their claim for higher support costs in such circumstances.

161. On the subject of the OPE support costs study, several members expressed their support for the Administrator's proposal to carry out a revised study in order to ascertain the validity of the previous findings. Some delegations suggested that UNDP should also study the support cost reimbursement systems adopted by several development banks. One member, while welcoming the lower support costs rates for OPE, recalled the original intention in setting up OPE and expressed the view that the spirit of partnership between agencies should not be lost sight of, that competition between agencies should be on equal terms and that disparity in rates could result in damaging or unhealthy competition, to the extent that OPE might expand its activities into areas more properly within the competence of other parts of the United Nations system. Another member, supported by others, reiterated that his delegation stood firmly behind decision 80/44, paragraph 2(d), which stated that where support costs were identifiable no higher rate should be reimbursed. Several delegations expressed the hope that UNDP would provide more detailed, precise and concrete information on the results of its study on support costs. They considered that the information included in document DP/1982/58 was not sufficiently detailed to support the conclusions. One delegate expressed the view that the rate of 11 per cent resulting from the OPE study of delivery of technical co-operation was unduly high.

162. Delegations expressed appreciation for the Administrator's report on support costs flexibility and the guidelines attached to it. One delegation, supported by many others, expressed serious concern that one agency had requested reimbursement under flexibility provisions, although it had stated that it was unable to identify its support costs expenditures, in particular those support costs relating to the UNDP programme. These delegations urged that only agencies which were able to provide sufficiently detailed data and documented evidence concerning the actual support costs they incurred for the UNDP programme should benefit from support cost flexibility arrangements. Some members requested assurances that UNDP was monitoring the expenditures incurred by agencies for support costs. Members expressed agreement with the proposal made by the Administration in the course of the discussion: namely, that in the future reports on support costs flexibility arrangements could be incorporated in the annual review of the financial situation, on the understanding that important issues requiring the attention of the Council would be clearly highlighted.

**Response of the Administration**

163. The Assistant Administrator, Bureau for Finance and Administration, confirmed that the review of the agencies' **ex post facto** reports in 1983 and 1984 would provide an opportunity for the Governing Council to assess their usefulness. He explained that UNDP's monitoring of agency support cost expenditures was based upon the audited accounts of the agencies as well as other financial statements. This monitoring was not done on the basis of any detailed analysis. He then explained
Recommendation of the Committee

On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted part I of decision 82/34 and decision 82/35, the texts of which appear in annex I to the Council's report to the Economic and Social Council (E/1982/16).

B. Guidelines for the procurement of equipment, supplies and services

Under item 7(d) of the Council's agenda, the Committee had before it for consideration the report of the Administrator on guidelines for the procurement of equipment, supplies and services (DP/1982/56).

In introducing this subject, the Assistant Administrator, Bureau for Finance and Administration, described the preliminary consultations held with the executing agencies as well as the views of the United Nations Office of Legal Affairs on this matter. He further informed the Committee that UNDP intended to draft guidelines which would first be applied by UNDP itself and, if successfully implemented, would then be communicated to the agencies as described in paragraph 6 of document DP/1982/56. The Assistant Administrator explained that the main problems, although hypothetical until such time as the guidelines were drafted, related to the possibility of conflict between the UNDP guidelines and the agencies' financial regulations.

Members expressed their appreciation for the efforts made by the Administrator to resolve this issue. They noted the difficulties involved in reaching an agreement with the executing agencies and requested the Administrator to continue his efforts to reach a workable solution. One member, on behalf of a group of others, emphasized the importance of developing guidelines which would be fully compatible with the relevant UNDP financial regulation.

Recommendation of the Committee

On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted part II of decision 82/34, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).

C. Actions taken to implement decision 81/28 in respect of trust funds

For its consideration of this matter, the Committee had before it the report of the Administrator (DP/1982/57), as well as paragraph 39 of document DP/1982/54, containing the report of the Advisory Committee on Administrative and Budgetary Questions.

In introducing the subject, the Deputy Director, Division of Finance, drew attention to the three main parts of the Administrator's report. The first included the text of General Assembly resolution 36/227 of 18 December 1981, authorizing the Governing Council to adopt financial regulations in respect of all funds administered by UNDP. This resolution referred in particular to the United Nations Capital Development Fund and to the United Nations Special Fund for Land-locked Developing Countries. The second part of the report included the guidelines and principles which would guide the Administrator in governing the establishment of trust funds. The third part included a list of trust funds established by the Administrator since the beginning of 1982.
Summary of the discussion in the Committee

150. Members were generally supportive of the proposed guidelines. Several requested clarifications regarding the proposed charges to recipient countries' IPFs should there be a shortfall in receipt of resources for any of the trust funds established. One member, supported by another, expressed strong objections to the wording of paragraph 6 of the proposed guidelines dealing with the acceptance of currencies, which he considered to be discriminatory. The member proposed alternative wording for this paragraph, based on the existing (old) financial regulation 6.4.

151. Another member requested clarification as to whether trust funds were to be reported on to the Council by the Administrator prior to their establishment or on an ex-post facto basis. He also inquired whether the Administrator intended to distribute the texts of agreements establishing trust funds. Further clarifications were sought regarding audit provisions, namely whether auditors designated by the donor would be allowed to perform an audit of activities financed by such trust funds.

152. One delegate stated his understanding that the provisions of the guidelines were in accordance with current UNDP Financial Regulations, which prohibited acceptance by the Administrator of tied procurements.

Response of the Administration

153. In his response, the Deputy Director explained that the provision regarding charging the IPFs would only be applicable if the contributions received from the donor failed to cover all expenditures or legal commitments which have been incurred in carrying out the trust fund projects. The experience of UNDP with trust fund payments had been good; it was hoped that it would continue to be so, but safeguards had to be instituted to ensure that UNDP resources would not be used to finance trust fund activities. He informed the Committee that the Administrator would report the details of trust fund arrangements to the Council on an ex post-facto basis. The degree of detail provided in his reports would depend on the magnitude of the individual trust funds concerned and on other relevant factors. It was not intended to circulate copies of all trust fund agreements to the members of the Council, but the texts of such agreements would be available at UNDP headquarters to any interested Government. The Assistant Administrator confirmed that the application of the guidelines would be in conformity with the current UNDP financial regulations. He further explained that the subject of the audit of trust funds had been extensively discussed with the agencies during the past year. A special inter-agency meeting had been convened to deal with this question and the views of the panel of external auditors had been obtained. The conclusion reached in these consultations was that financial audits could be performed only by the organization's internal or external auditors. Programme audits, or visits to projects, could be carried out by the donors and financial reports could be provided to them. With regard to the text of paragraph 6, UNDP intended to incorporate in the guidelines the main elements of the suggestions made by one delegation, which were intended to ensure that its provisions would not appear to be discriminatory to any one currency.

Recommendation of the Committee

154. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted part III of decision 82/34, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).
V. UNDP FINANCIAL REGULATIONS

A. Matters on which consensus was not achieved at the twenty-eighth session of the Governing Council

136. For its consideration of item 7 (d) of the Council's agenda, the Committee had before it the note by the Administrator (DP/1982/55) which provided the alternative texts of financial regulations and other issues on which consensus was not reached at the twenty-eighth session and which the Council had decided to review at its twenty-ninth session.

137. The Deputy Administrator, in introducing the item, drew the attention of the Committee to the financial regulations not yet adopted and to the policy issues involved which appeared in bracketed sub-paragraphs 8 (b) and 8 (c) of decision 81/16. He referred to the two versions of the basic policy issues which were put forward by two groups of members at the twenty-eighth session. He suggested that the Committee might wish to arrive at a clear identification of what was meant by the words "readily usable currencies". He repeated some of the main arguments advanced during the discussion of this item at the previous session and reiterated that, as far as the regulations were concerned, in the absence of a decision on the issues concerned and on the text of new financial regulations, the existing old financial regulations were still applicable.

Summary of the discussion

138. Several members stated that although the Council was dealing with the text of financial regulations presented to the Governing Council at its twenty-eighth session, the Council was, in fact, seized with an old issue which had been submitted to it for review at several previous sessions. In their view, the problem of principle arose from the fact that some donor Governments, for reasons of convenience, decided to contribute to UNDP in their own national currencies. Since they were not being sufficiently utilized, UNDP was accumulating them excessively. These members considered that these contributions were damaging in more than one way. First, UNDP was unable to use them despite numerous special efforts on its part to do so notwithstanding that the financial regulations precluded special treatment for any voluntary contributions. Second, these contributions amounted to nothing less than tied aid if UNDP were to accede to the urging of these donor Governments to use their currencies without due respect to the other financial regulations and normal procedures of the organization. These Governments also felt that the non-convertible nature of the accumulated currencies resulted in the denial to the developing nations of needed funds which could otherwise be used for their IPFs. These members expressed the view that the issue had to be settled positively and that the only realistic, feasible settlement was for the donor Governments contributing in their national non-convertible currencies to contribute to UNDP in fully usable and convertible currencies.

139. Several Governments, whose contributions to the organization were made in national non-convertible currencies, expressed the view that the financial regulations of UNDP were considered at the twenty-eighth session as a package, including those regulations dealing with the currency of contributions to UNDP. They expressed their view in favour of the adoption of all outstanding financial regulations which were at present unsettled but still in force. They suggested that the failure to use their currencies was not in any way due to the lack of suitable inputs in those contributing countries which could be used for programme purposes, but rather to the fact that the Programme was oriented towards Western economies. The organization, therefore, in spite of some efforts, was not making
a genuine attempt to fully utilize their currencies. They pointed to the fact that one currency, which was on the list of accumulating non-convertible currencies, was being deleted from the list due to its use in the course of programme activities. That was sufficient indication that these currencies could be used where sufficient efforts were made. These members emphasized their view that the principles of universality of the Programme and sovereignty of contributing Governments were being strongly challenged by attempts to adopt decisions which they considered were discriminatory. They did not expect any favours in the use of their currencies, and emphasized that in other international organizations and funds as well as in their bilateral programmes these currencies were fully utilized to complete satisfaction of recipient Governments. These delegations resolutely objected to attempts which they considered in violation of the principle of universality and the principle of the voluntary basis of contributions to UNDP.

Response of the Deputy Administrator

140. In his response, the Deputy Administrator outlined certain issues which needed to be considered in dealing with the over-all question of accumulating non-convertible currencies. In this connection, he directed the attention of the Committee to two proposals which were made in the Council's general debate. One of these proposals concerned a Government which suggested that in the course of implementing a bilateral programme, goods and services would be procured from countries which paid their contributions to UNDP in non-convertible currencies. The donor Government would obtain from UNDP the non-convertible currency for such goods and services and would reimburse UNDP in a convertible currency. Another delegate, in the plenary debate, made a proposal which, in his opinion, was in conformity with the decision taken at the twenty-third session\(^2\) that those non-convertible currencies which were available as at 31 December 1976 - and thus did not form part of UNDP resource calculations for the second IPF cycle, 1977-1981 - could be provided as an add-on within the framework of the IPFs over and above the ceiling established in the Governing Council. The Deputy Administrator explained that the first proposal could be accepted by the Administrator under his authority under financial regulation 4.2. The second proposal needed an explicit authorization from the Council as it did not fall under the provisions of any of the financial regulations.

141. The Deputy Administrator also explained that there was a clear distinction between recipient country contributions in non-convertible currencies and similar donor country contributions. The latter were, in certain cases, accumulating without sufficient opportunity to use them while accumulations under the former category were the result of such particular, mostly temporary, circumstances as temporary cessation of activities in those countries. He then said that the regulations dealing with the currencies needed to be resolved, even if some of the practical issues dealing with use of accumulating convertible currencies remained. He suggested that the options available in this regard were: (a) make no change in the regulations; (b) require that currencies of contributions be usable combined with a definition of usability; (c) require that an increasing share of contributions be paid in convertible currency.

142. Members expressed the opinion that the exchange of views had been useful in identifying the remaining issues and areas of disagreement. They agreed that, since a positive resolution of the subject was unlikely at this session, postponement of the discussion to the thirtieth session of the Governing Council was appropriate, with the understanding that the item would be discussed by the Budgetary and Finance Committee at that time during its pre-session meeting.

\(^2\) See Official Records of the Economic and Social Council, Sixty-third session
Further discussion of the Committee

130. A majority of members expressed their appreciation of the statement made by the Assistant Administrator and confirmed that, in the main, he had interpreted correctly their views. Since the level of support which was being provided differed from field office to field office and from agency to agency, significant anomalies might exist in the level of support currently being provided by individual field offices. Members agreed that the decision on this issue should not prohibit the Administrator from correcting any such anomalies. One member expressed the view that any reimbursement from agencies for the performance of additional tasks or increased workload should be financed from their extrabudgetary sources. He stated that this provision should be included in the decision and if this were not agreed to, his reservation on operative paragraph 2 should be recorded.

Recommendation of the Committee

131. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted decision 82/33, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).

D. UNSO-UNDP/UNEP joint venture (institutional support)

132. The Assistant Administrator set forth the sequence of events which had led to the extension to three additional countries of the programme of the Plan of Action to Combat Desertification. He noted that, based on an exchange of letters between the Administrator and the Executive Director of the United Nations Environment Programme (UNEP) constituting the agreement reached on the additional resources required to meet the expanded level of operations, UNDP had taken the necessary action to request increased appropriations for that joint venture for 1980-1981. The Executive Director of UNEP, however, had not included the corresponding revised estimates in the budget proposals under the Environment Fund. The Assistant Administrator further stated that the expanded level of operation was also used as the basis for the budget estimates for the joint venture for 1982-1983.

133. The Assistant Administrator told the Committee that UNDP had been informed that UNEP was not prepared to pay its 1980-1981 share of the expanded operation and further that UNEP intended to provide a level of support for 1982-1983 below that which appeared in the UNDP biennial budget estimates. He informed the Committee of the Administrator's intention (a) to secure reimbursement of the additional amount of $130,500 for 1980-1981; (b) to secure immediate payment of the contribution of UNEP to the joint venture for 1982; and (c) to negotiate a firm basis for the level of activities for the 1982-1983 biennium on the basis of the decisions of the UNDP Governing Council. The Administrator would report on this issue to the Council at its next session.

Summary of the discussion in the Committee

134. Several members expressed support for the manner in which UNSO was carrying out its mandate in the Sudano-Sahelian region, noted with concern the unclear and unresolved financial situation of the UNDP/UNEP joint venture, and expressed the view that appropriate financial means should be secured to provide UNSO with the institutional support it required to operate at the level established in 1980-1981.

1/ See General Assembly resolutions 34/187, 35/72 and 36/190, as well as decision 8/17 of the Governing Council of UNEP and decision 80/45 of the UNDP Governing Council.
as commensurate with the requirements of the 19 countries of the region, without compromising the scope and quality of its programming and project performance. While acknowledging the existing financial constraints of UNEP, one member stated that the agreements entered upon previously should be adhered to and underlined that this issue should be dealt with in full recognition of the prevailing situation in the Sudano-Sahelian region and the critical needs of the countries concerned. Members reaffirmed that the contribution of UNDP should be equal to that of UNEP according to previous Council decisions.

Recommendation of the Committee

135. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted decision 82/28, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).
services by the UNDP field network was a necessary price which must be paid. Further, they were prepared to consider the cost of such arrangements within the context of the UNDP biennial budget.

123. One member, supported by others, stated that from a strictly cost accounting standpoint, the proposal might have some merit. However, it would result in unacceptable additional costs to the regular budgets of agencies, which would ultimately have to be funded by member Governments. Another member stated that, in his opinion, the UNDP field offices should be supported by the United Nations regular budget.

124. Several members pointed out that an undesirable consequence of charging agencies for the services provided by UNDP might be to encourage agencies to open their own field offices, something which, in the final analysis, would simply not be cost-effective.

125. One member stated that he agreed with the logic of the proposal inasmuch as agencies were paid support costs and could in turn be expected to pay for the services they received from UNDP. However, while not ruling out negotiations, he expressed concern that considerable conflict could develop between UNDP and the agencies. He therefore suggested that the Joint Inspection Unit (JIU) be requested to study the subject. He further suggested that should any consultations occur, these should be held under the auspices of the Administrative Committee on Co-ordination (ACC).

126. Another member, who also expressed reservations on the subject, said that from the data provided in annex II to document DP/458, it would not appear that the services provided by UNDP were currently considerable enough to justify the imposition of charges. He stated that more information was needed and, therefore, also supported the suggestion for a JIU study of the subject. Again on the question of data, another member expressed the view that only quantitative information was available and that it would be desirable to assess the quality of the services provided.

Response of the Administration

127. The Assistant Administrator stated that the views expressed by the members of the Committee very clearly indicated that the proposal put forward in paragraph 51 of document DP/1982/52 to charge agencies for services rendered to them runs counter to the central co-ordinating role of UNDP. The field offices of UNDP should continue to provide services as before to agencies of the United Nations development system. The Government Council understood that this led to a higher level of administrative costs for UNDP as explained in document DP/1982/53. The Administrator would therefore act in accordance with the views expressed in this regard. The Assistant Administrator then stated that there were, however, a few points which needed to be clarified so that the Administrator could interpret the Governing Council's decisions accurately:

(a) First, it was the Administrator's understanding that in principle UNDP field offices should continue to provide agencies with the services rendered at present, to the extent that the staffing allowed for this and as long as it did not encroach on the proper performance of the main function of UNDP, that is, servicing the UNDP-administered programmes and funds;

(b) Second, should the volume of services demanded by agencies warrant it, the Administrator might request the necessary additional resources from the Council. It would then be up to the Council to judge whether or not these expanded services should be provided free of charge;
(c) Third, if an agency of the United Nations development system requested that a specific service be performed by a UNDP office which was not equipped to perform that service, the Administrator might make specific arrangements with the agency in question to meet the particular needs of the situation.

The Assistant Administrator gave three examples of possible situations in this latter connection:

(a) A major United Nations conference might be held in the capital of a country where UNDP is the main United Nations representative. The agency requires UNDP to provide support services to the conference beyond the means of the office. The Administrator would then offer to provide additional assistance, including the hiring of extra staff, on a reimbursable basis;

(b) An agency could request a UNDP office to provide such new, additional services as assisting with the recruitment of staff or of fellows for its regular programme, on a scale beyond that which the office is capable of handling. It would then be proper for the Administrator to offer the services of the office, once again on a reimbursable basis, subject to possible inclusion subsequently in the UNDP biennial budget;

(c) An agency might embark on a major trust fund project in a particular country with the cost of administrative services being borne by the donor concerned. UNDP could be requested to provide such local services as accounting, servicing of experts, and the like. It would then be normal for the agency to reimburse UNDP for the extra costs incurred. This has been the practice in the past and has usually been regarded as reasonable by the agencies.

128. The Assistant Administrator said that this last example related to trust funds which constituted a particular aspect of the whole issue. A basic underlying principle of past discussions in the Committee had been that UNDP funds should only be used to finance and support the Programme's own activities. The principle had been modified in the present discussion so that UNDP could now also support other activities of the United Nations development system. However, with respect to operational activities financed from sources other than UNDP funds and programmes, i.e. trust funds and cost sharing, the principle as previously defined remained valid and was embodied in the financial regulations and other decisions of the Council.

129. Regarding the cost of administrative support provided by the field office, the Assistant Administrator expressed the view that it seemed reasonable to UNDP to make no distinction between activities financed by a UNDP trust fund, an agency trust fund or cost sharing in excess of 25 per cent of the IPF. Either all three types of projects should be charged for the administrative support provided on the same and equitable basis, or none of them should be so charged. Any other position would influence the way in which funds were channeled through the United Nations system. The Administrator believed that identifiable additional costs should be charged directly or indirectly to the respective activity. This was particularly important as trust fund operations tended to fluctuate much more than the regular programme. The Administrator would assume that this rationale would be part of any understanding reached in a decision on the subject of UNDP support to other agencies of the United Nations development system.
The Assistant Administrator stated that in his view this agreement formed a sound and positive basis for the future administrative co-operation between the two organizations. (Following discussion in the Committee of the UNFPA budget, however, the Executive Director of UNFPA declared that points (d) and (e) in paragraph 112 above should be considered inoperative. The UNDP Administration concurred. See chapter 10 below).

B. Administrator's request for authority to reinstate posts

**Summary of the discussion of the Committee**

113. With regard to the Administrator's request for authority in the event of an increase of resources, to reinstate 40 per cent of the posts being relinquished the majority of members stated that they did not see the need to provide the Administrator with this authority. Many members stated that the issue of reinstatement was an academic one, as increased resources were unlikely to be forthcoming for 1983. Some members pointed out that if indications of increased resources were available following the Pledging Conference in November 1982, the Governing Council would still be able to take action on staffing requests at its session in June 1983. As any increases in programme delivery resulting from increased resources were not likely to occur until much later, this should not pose any operational problems to the Administrator. A number of members requested the Administrator to explain the basis for the 40 per cent figure.

114. Some members stated that they wished to see the proposed cuts effected and subsequently to evaluate the operational implications of these cuts in the field, before authorizing the Administrator to reinstate posts.

115. Several members indicated that they might be more inclined to accept a proposal to authorize flexibility if it could be expressed in more specific terms indicating the maximum number and the categories of posts which might be required. Other members favoured a more general authority to propose additional requirements should the Administrator deem this necessary. One member stated that the Council should provide the Administrator with a financial framework within which he would be authorized to make his deployment of resources, taking into account the relative priorities established by the Council.

116. Most members expressed the view that, even if the Administrator's request were approved, reinstatement should be restricted to posts in the field, and preferably to local staff. They did not see the need for the authority to be extended to posts at headquarters.

**Response of the Administration**

117. In response to the many reservations expressed by members on granting the Administrator authority to reinstate posts, the Assistant Administrator drew attention to paragraph 1 of decision 81/26 which prohibits the Administrator from putting forward proposals for additional resources once the biennial budget estimates have been approved by the Council. He pointed out that, unlike the United Nations Regular Budget, where the level of activity is decided by the budget, the level of UNDP administrative activity is determined by the level of voluntary...
contributions, which may fluctuate considerably. These fluctuations affected the workload of the field offices and also, to some extent, that of headquarters. The Assistant Administrator also stressed that UNDP staff have been very understanding about the need to reduce staff under the present financial constraints. The Administrator had considered reasonable their request for assurances that a rapid reinstatement of posts would be effected should the resources picture and related workload change significantly.

118. With regard to the 40 per cent level of reinstatement requested, the Assistant Administrator stated that this was a rough estimate related to increases in resources that would permit programming above the present level of 60 per cent of IPFs. In response to these members who had expressed a desire to establish specific limits for the reinstatement of posts in 1983, he stated that 5 professional posts and 25 local posts in the field, which represented approximately 1 per cent of the revised staffing structure, might be sufficient.

119. On the question of limiting the reinstatement of posts to the field, the Assistant Administrator stated that, although he agreed that the workload in the field would be more directly and quickly affected by increased resources, such increases would also affect the workload of units at headquarters. As examples, he mentioned the increased workload related to programming in the Regional Bureaux and to the placement of funds in treasury.

120. The majority of members agreed that in the light of the additional explanations of the Assistant Administrator the Administrator should be provided with the necessary flexibility to carry out responsible management of the programme. The Governing Council, however, should remain the sole authority for approving increases in the biennial budget. Members therefore agreed that the Administrator should be authorized to request additional funds in 1983 should resources permit programming for 1983 of the illustrative IPFs at the 80 per cent level or above, and that the Administrator should review the question of the operational implications for UNDP of paragraph 1 of Governing Council decision 81/26 and report thereon to the Council at its next session.

**Recommendation of the Committee**

121. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted decision 82/32, the text of which appears in annex I to the Council's report to the Economic and Social Council, (DP/1982/16).

C. Reimbursement for services provided by UNDP field offices to executing agencies

**Summary of the discussion in the Committee**

122. A majority of members expressed strong reservations on the Administrator's intention, described in paragraph 51 of document UNDP/1982/52, to embark on a series of high level negotiations with the agencies to obtain their agreement for payments for services rendered by UNDP to them in respect of non-UNDP-funded activities. Many cited the central co-ordinating role of UNDP in the United Nations development system, and stated that the proposal had to be examined in the larger context of the Consensus as well as the restructuring resolutions and appointment of most Resident Representatives as Resident Co-ordinators. Several members expressed strong support for such a co-ordinating role, and stated that the provision of
a core staff of specialists, several members stated that they agreed with the
observations in paragraph 18 of the ACABQ comments that such capacity should relate
closest to the specific needs of UNDP and not duplicate expertise already available
in the executing agencies.

103. One member hoped that the full amount of $2.5 million appropriated for
transitionary measures would not need to be utilized and requested that a report on
the use of this appropriation be presented to the Committee at the thirtieth session
of the Governing Council, as had also been requested by ACABQ in paragraph 24 of
document DP/1982/54.

104. One member stated that he was pleased at the under-expenditure of $3.2 million
realized for the biennium 1980-1981. Another member, referring to the change from
an accrual to a cash basis of accounting for Government contributions to local office
costs, inquired as to the implications of this change in terms of ensuring that
contributions towards local office costs were collected.

Response of the Administration

105. The Assistant Administrator; with regard to the concerns expressed by members
that the proposed reduction in posts was greater in the field than at headquarters,
explained that, although this was true in terms of the absolute number of posts, it
was not so when the reductions were viewed in terms of the percentage reduction
relating to each category of posts. He provided the following breakdown of the
Administrator's proposed reduction: headquarters professional posts, 9.0 per cent;
headquarters general service posts, 10 per cent; field international posts, 7.4
per cent; field local posts, 7.5 per cent.

106. The Assistant Administrator then explained that there was no direct link
between extrabudgetary posts and the reduction in budgetary posts with regard to
posts in the field. The figure of 173 extrabudgetary posts indicated in document
DP/1982/53 was only an estimate of field office support requirements related to
projected cost-sharing activities above 25 per cent of the IPF; these posts would
not materialize if the financing for them were not forthcoming. There was a direct
link, however, with respect to the headquarters extrabudgetary posts. As stated in
paragraph 24 of document DP/1982/55, four professional and seven general service
posts had been transferred from budgetary to extrabudgetary financing following the
study conducted on the support services provided by UNDP central services to other
entities.

107. In response to the query on the impact of the proposed reduction on the grade
structure of UNDP, the Assistant Administrator stated that an analysis of the
professional staffing structure of UNDP over the last ten years indicated remarkable
stability, the average grade ranging from P-4/0 to P-4/4. The current average grade
was P-4/2.

108. With regard to the two D-2 posts redeployed to headquarters, the Assistant
Administrator explained that the absence of these posts had created serious management
difficulties for the two Regional Bureaux concerned. A critical part of the tasks
of the Bureaux was for the Assistant Administrators or their deputies to undertake
extensive travel to the field for monitoring purposes as well as for discussions with
Governments. Under the previous staffing structure, either this aspect of the work
or the operation of the Bureaux at headquarters had suffered.

109. The following reconciliation of revised staffing proposals between Table 1 of
document DP/1982/52 and the grand total of Table 9 of DP/1982/53 was offered:
Add the following units not covered by the staffing reviews:

- IAPSU (Table 9, p.55) 9
- OPE (Table 9, p.56) 67
- UNRFNRE (Table 9, p.56) 14
- UNSO (Table 9, p.57) 23
- UNDP/UNEP joint venture (Table 9, p.57) 14

GRAND TOTAL Table 9 (p.58) 4255

110. With regard to the change in accounting for Government contributions to local office costs from an accrual to a cash basis, the Assistant Administrator stated that he did not expect this change, in itself, to result in improved collection. The purpose of the change was two-fold: (a) to provide more realistic income estimates and accounting treatment for the biennial budget; and (b) to put this contribution on the same basis as is used for all other contributions to UNDP.

Recommendation of the Committee

111. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted decision 82/31, the text of which appears in annex I to the Council's report to the Economic and Social Committee (E/1982/16).

Report by the Administration on the question of UNFPA reimbursement to UNDP for services rendered

112. The Assistant Administrator, referring to the issue raised in his introductory remarks concerning reimbursement by UNFPA to UNDP for services rendered, expressed his pleasure in being able to report to the Committee that UNDP and UNFPA had now reached an understanding on this issue. The main points of the agreement were as follows:

(a) UNDP and UNFPA agreed on the methodology to be used;

(b) A validation of the study made in 1981 would be done in the fall of 1982 and the results of this study would form the exclusive base for compensation in 1984-1985;

(c) UNDP agreed to a reduced compensation for 1982-1983 of $2,660,000, compared with an original amount of $2,981,000. The difference of $321,000 would be absorbed by UNDP through budget-tightening measures;

(d) UNFPA had expressed the desire to take over the administrative arrangements for travel as of 1 January 1983. UNDP agreed to this request and the compensation for services rendered for 1983 would be adjusted accordingly;

(e) UNDP and UNFPA agreed that if UNFPA wished to take over further services, UNFPA should give UNDP not less than one year's notice.
in the field 17 professional and 156 local posts might be established on an
extrabudgetary basis. Additionally, the field survey concluded that a significant
amount of work was being performed on behalf of other entities of the United Nations
system. The Administrator was therefore proposing to consult these entities with a
view to obtaining compensation for such work. With regard to headquarters, four
professional and seven general service posts had been transferred from the biennial
budget to extrabudgetary financing following a study of the support services provided
by UNDP central services to such entities as the Office of Project Execution (OPE),
the United Nations Capital Development Fund (UNCDF), the United Nations Sudano-
Sahelian Office (UNSO) and the United Nations Fund for Population Activities (UNFPA).
The study had been conducted using the same methodology, endorsed by ACABQ, as that
used by the United Nations in charging for services rendered to UNDP. The methodology
was based on detailed workload measurements in all servicing units.

91. As a result of the staffing reviews, the Administrator had proposed a total
reduction of 323 posts for UNDP core activities in the biennial budget. As these
reductions were in part due to decreased delivery, the Administrator was requesting
authority to reinstate, with the prior concurrence of ACABQ, up to 40 per cent of
the newly abolished posts, should central resources increase significantly.

92. With regard to the revised estimates, the Assistant Administrator explained
that these were calculated on the theoretical assumption that the new and lower
staffing figures had come into effect on 1 January 1982. As of that date, not only
did UNDP still have a significant number of staff on board above the reduced
complement, but also the kinds of staff in excess were those in the most costly
categories, i.e. professional staff, headquarters general service staff and local
staff in the more costly regions. When expressed in monetary terms, therefore, the
excess was significant.

93. The Assistant Administrator set forth the actions planned by the administration
to solve this problem during the course of the biennium. These included continuation
of the recruitment freeze so that excess costs in the beginning of the biennium would
be offset by savings towards its end. Over the two-year period, the total number of
staff was expected to equal, on average, the full complement of staff proposed in
document DP/1982/53. The Administrator, therefore, did not expect the staff vacancy
factor to exist in 1982-1983. One means of achieving a reduction in staff was the
termination of staff, if possible in agreement with the staff members concerned.
For this purpose, in its decision 81/27 the Governing Council had appropriated
$2.5 million, of which $0.3 million had been used during the first four months of
1982. The Administrator had requested, and ACABQ concurred, that the authority to
use these funds be extended to the entire biennium. The Administrator would be
pleased to report to ACABQ, late in 1982 as requested by that Committee, on the
progress made on staff reductions and the utilization of the $2.5 million
appropriation.

94. Turning to the cost effect of the staff reduction proposed, including the short-
term consequences of these reductions on other expenditure categories, the
Assistant Administrator stated that this entailed a savings of $10.6 million.
However, while the 1982-1983 budget as originally presented assumed a vacancy ratio
of 2.5 per cent, this vacancy ratio would not occur within the reduced staffing
complement. The assumption of a zero per cent vacancy ratio entailed an increase
in funds of $4.9 million. He also noted that various measures had been taken to
improve administrative efficiency, particularly in the areas of communications and
computer operations.

95. With regard to office space for UNDP headquarters and the possible additional
cost of some $1 million per annum if UNDP were to consolidate office space in the
UNDC complex, he informed the Committee that the Administrator had identified an alternative where the additional rental would be marginal, thus avoiding extra expenditure of $10.14 million over the 15-year period of the lease.

96. The Assistant Administrator then referred to the outstanding issue concerning the level of reimbursement by UNFPA of services rendered by UNDP and stated that he would try to find a common solution with UNFPA and report thereon to the Committee. Additionally, he requested a special separate discussion on the level of contributions from the United Nations Environment Programme (UNEP) to the UNSO-UNDP/UNEP joint venture (institutional support).

97. Finally, the Assistant Administrator expressed his pleasure regarding the comments made by ACABQ concerning the efforts of UNDP to improve the format of the budget presentation and said that he would be grateful for any further suggestions in this regard from the members of the Committee.

A. General Observations

Summary of the discussion in the Committee

98. The majority of Committee members commended the Administrator for his quick action in bringing expenditures in line with resources and for his proposals on staff reductions. Several members also stated that they were pleased with the clarity and format of the presentation of the budget. Some then expressed appreciation for the measures taken by the Administrator to reverse the trend of increasing administrative workload at headquarters and stated that such measures should continue to be taken and further efficiencies sought.

99. Many members agreed with the observations in paragraph 14 of the ACABQ report (DP/1982/54) and expressed concern that the administration could not provide a precise breakdown of the staffing reductions in terms of the number of posts identified as unnecessary due to rationalization of work and the number being reduced as a result of the anticipated decline in programme delivery.

100. A few members, while expressing appreciation for the staff reductions proposed, stated that, in their view, more reductions should be achieved. Several members expressed concern that the proposed reductions were greater in the field than at headquarters. With regard to the extrabudgetary posts indicated in the revised estimates, several members questioned whether there was a link between the creation of these posts and the proposed reduction of budgetary posts. One member asked what the impact was on the grade structure of UNDP of the proposed reduction of posts at grade levels P-3 and below. Another member requested an explanation as to why the Administrator had redeployed two D-2 posts to headquarters. Yet another member requested the Administration to provide a reconciliation of the revised staffing proposals as indicated in Table 1 of document DP/1982/52, and the grand total in Table 9 of document DP/1982/53.

101. Several members supported the Administrator's decision not to close any field offices, stating that they considered UNDP field offices a valuable asset which should be preserved. One member expressed the view that this was a policy matter which should be decided upon by the Governing Council. Another stated that the objective should be to achieve a reduction not in the number of field offices, but rather in the staffing of individual field offices. In this regard, however, some members felt that a degree of regionalization might be desirable; that is, that a single regional field office might provide services for a number of countries.

102. With reference to maintaining a technical and sectoral capacity in UNDP through
adequate housing for UNDP staff and project personnel as well as adequate office accommodation. In particular, he referred to paragraph 28 of the report, which dealt with direct purchase of houses by UNDP. He informed the Committee of recent discussions held by the Administrative Committee on Co-ordination (ACC) concerning conditions in the field and of the Administrator's view that, while caution should continue to be exercised in engaging in direct purchases, he needed greater flexibility in determining when such a course of action was required.

Summary of the discussion in the Committee

82. During the course of the discussion, members generally supported the proposals contained in the Administrator's report. Questions were raised regarding the management processes which in two cases had led to deficits in the housing pools. Some members expressed the view that the description of housing conditions in the field could lead to the conclusion that some Governments were not fulfilling their obligations to the Programme, and that the Administrator, therefore, should strongly urge such Governments to respond adequately to the needs of the Programme.

83. Most members agreed with the proposal to devote part of the Reserve for Construction Loans to Governments for office accommodation; but some were of the view that the percentage proposed in the report (25 per cent) was somewhat high, particularly since the use of the Reserve for such office accommodation had been restricted to exceptional circumstances as set out in financial regulation 12.2(b). It was suggested that the percentage should be scaled down until experience proved whether a lower proportion of the Reserve, such as might be approved by the Council for this purpose, was adequate. While members recognized that the purchase of houses by UNDP could involve certain difficulties, they agreed that under exceptional circumstances it could offer the best means of making adequate housing available to field personnel. One member requested clarification on the criteria for determining the size of each housing scheme. Other members questioned the basis of the interest rates charged on construction loans made to Governments and wondered whether the low rates charged to Governments were adequate.

Response of the Administration

84. In his reply, the Assistant Administrator, Bureau for Finance and Administration, explained that the losses in the two housing schemes had been incurred over a period of years and, considering the total number of houses administrated by UNDP, these losses represented a very small amount. He pointed out that current procedures were designed to ensure that all rents due were properly collected. He further explained that while most Governments contributed to the programme in cash and might also be providing houses and office accommodation, some Governments found themselves in an economic situation that did not permit them to respond adequately to the need to provide housing or office accommodation. The criteria for determining the size of housing schemes, he explained, were based on the anticipated size of the programme and the availability of suitable housing in each country. With regard to the level of interest charged on housing loans, he said that these rates had been established at a fixed rate in the respective loan agreements for the total period of the loan. At the time the existing loan agreements were negotiated, the rates of 3.5 per cent, and later 5 per cent, while somewhat lower than commercial rates, were considered to be reasonable for the particular purpose for which they had been granted. The rates charged have been disclosed in the audited UNDP accounts each year and were made known to the Council at its twenty-sixth session.

Recommendation of the Committee

85. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted decision 82/30, the text of which appears in annex I.
III. PROGRAMME SUPPORT AND ADMINISTRATIVE SERVICES
BUDGET 1980-1981

86. The Committee decided to consider item 7(b) of the Council's agenda in conjunction with agenda item 7(c). (See Chapter IV below.)

IV. PROGRAMME SUPPORT ADMINISTRATIVE SERVICES BUDGET, 1982-1983

87. For its consideration of items 7(b) and 7(c) of the Council's agenda, the Budgetary and Finance Committee had the following documents before it:

(a) The report of the Administrator on the 1980-1981 expenditures under the programme support and administrative services budget (DP/1982/51);

(b) The Administrator's report on the headquarters staffing and field establishment surveys (DP/1982/52);

(c) The Administrator's report on revised budget estimates for the biennium 1982-1983 (DP/1982/53);

(d) A note by the Administrator transmitting the comments of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) on the revised budget estimates for the biennium 1982-1983 (DP/1982/54).

88. In his introduction, the Assistant Administrator, Bureau for Finance and Administration, informed the Committee that, in spite of the shortfall in Government local office cost contributions, the Administrator was pleased to report a net savings of $3.2 million in respect of 1980-1981, an amount which was thus available for programming purposes. He further stated that of the $11.3 million savings on expenditure about one-half was due to currency fluctuations, while the balance resulted from specific efforts taken by the Administrator to reduce administrative costs.

89. With regard to the revised estimates for 1982-1983, the Assistant Administrator said that these were based mainly on the results of the headquarters and field office staffing surveys. These surveys, which had been conducted over a number of years, had been undertaken for several reasons: (a) to ensure that only essential tasks were performed and that these were performed in the most efficient manner; (b) to review the effects, particularly on field offices, of the redistribution of indicative planning figures (IPFs) subsequent to Governing Council's decision 80/30; and (c) to take into account the reduced delivery which was currently expected. These three aspects of the staffing review were fully integrated so that it was not possible, as observed by the ACABQ, to separate the proposed staff reductions attributable to the review of the working of UNDP from those attributable to reduced programme delivery. The Assistant Administrator stated that a basic premise set by the Administrator was that no field office should be closed. This decision had been taken for a number of reasons, including: (a) the UNDP field office served a function beyond the needs of IPF-funded activities in terms of its representation of the United Nations development system; and (b) the principle of the universality of UNDP would be impaired by a selective closing of some field offices.

90. The Assistant Administrator stated that the revised staffing proposals were designed to handle UNDP core activities; that is, the IPF programme plus cost sharing amounting up to 25 per cent of individual IPFs. The staff needed to support such additional activities as cost-sharing activities exceeding 25 per cent of individual IPFs would be financed by extrabudgetary resources. It was currently estimated that
II. ANNUAL REVIEW OF THE FINANCIAL SITUATION 1981

A. Annual review of the financial situation, 1981

69. For its consideration of item 7 (a) of the Council's agenda, the Committee had before it the report of the Administrator (DP/1982/49), which provided a comprehensive financial review of the activities financed from the UNDP Account during 1981, the financial position at the end of that year and a forecast of activities in 1982 and 1983. It also dealt with unfavourable developments in the UNDP financial situation and with the status of investments, the utilization and balances of accumulating non-convertible currencies and the status of the Operational Reserve.

70. In his introduction, the Director, Division of Finance, referred to the achievements of UNDP in financial terms during the second programming cycle, including the substantial attainment of targets with respect to resources and programme expenditure and the building up of financial reserves out of available resources. However, an unfavourable trend in pledges had begun in 1980, and in 1981 - for the first time in the history of UNDP - pledges were lower than in the previous year. This was partly due to exchange rate fluctuations, including the strengthening of the US dollar. The resource projections for 1982 and 1983 were not encouraging and the Administrator had been compelled to set a limit on programme expenditure relating to indicative planning figures (IPFs) of $550 million for each of these years. The revenue reserve of UNDP, exclusive of holdings in non-convertible currencies, was expected to go down to approximately $6 million in 1982 and to be fully exhausted in 1983. The projection of cash flows indicated a tight liquidity situation and, in this regard, the Director, emphasized that all necessary steps had been taken to keep programme expenditure within available resources. In this respect, he added that, inasmuch as it might not be able to deliver the full illustrative IPFs, UNDP faced major programming difficulties rather than a financial crisis.

Summary of the discussion in the Committee

71. Several members commended the Administrator for the measures he had taken, in the light of resource constraints, to limit programme and administrative expenditures and stated that further economies should be sought in every area of activity. Many members expressed concern over the projected depletion of the Revenue Reserve and inquired if this meant that the Operational Reserve might have to be drawn upon. One member requested that clarifications be provided as to the purpose and use of each of the financial reserves available to UNDP.

72. Referring to the table on accumulated non-convertible currencies, several members expressed their satisfaction that one currency had been used for the Programme and thus removed from the list of accumulating non-convertible currencies. One member inquired as to the reasons for the inclusion of another currency on the list. Another member, speaking on the general question of accumulated non-convertible currencies, stated that in his view the question was an artificial one and without any merit. From the example of the currency which had been removed from the list, he said, it could be seen that, if efforts were made, it was possible to utilize these currencies. He emphasized the procurement practices of the United Nations resulted in the inequitable distribution of contracts. Many countries did not even receive notices of tenders.

73. Another member, in discussing the impact on contributions of exchange rate fluctuations, requested that such impact be shown separately in future reports on the financial situation.
74. Some members requested clarifications as to the history and purpose of the Special Industrial Services (SIS) programme and as to the status of the Programme Reserve.

Response of the Administrator

75. In response to the observations of members of the Committee with respect to financial reserves, the Director, Division of Finance, stated that the reserves available to UNDP included the Operational Reserve and the Revenue Reserve, in addition to the Reserve for Construction Loans to Governments. The Programme Reserve had been renamed Special Programme Resources as from 1982 and was not a financial reserve in the same sense as the other reserves. The Operational Reserve, which was currently at a level of $200 million, had been established in order to guarantee the financial viability and integrity of UNDP. The conditions under which the Operational Reserve might be drawn upon were set out in financial regulation 12.2. The Revenue Reserve represented the excess of assets over liabilities, or the net assets, of UNDP.

76. The Director went on to say that if cash inflows and outflows were as projected, the Operational Reserve would not need to be used in 1982 and 1983. However, if payment of contributions by Governments during the year were delayed longer than had been assumed in UNDP projections, there might be a need to draw on the Operational Reserve. With reference to the Revenue Reserve, the implication of its being reduced significantly was that the income and expenditure of UNDP, on a cumulative basis, needed to be roughly in balance. The Director pointed out that it was for this reason that measures were being taken to limit IPF expenditure during 1982 and 1983 to $550 million in each year.

77. Responding to the questions raised regarding accumulated non-convertible currencies, the Director stated that one currency had been added to the list of accumulating non-convertible currencies as UNDP had been unable to utilize fully the cost-sharing funds received in local currency from the Government concerned. The Administrator was taking steps to ensure that further cost-sharing projects in local currency in that country would not be approved until the current holdings had been fully utilized. Another currency had been removed from the list as UNDP had been able to utilize the currencies fully for the programme in that country.

78. The Deputy Director, Division of Finance, gave an account of the SIS programme, including its operational modalities and explained the conditions which had led to the recommendation of the Administrator to restore the level of SIS allocations for the second cycle to $17.5 million and to carry forward to the third cycle the difference between this level and actual final expenditure.

Recommendation of the Committee

79. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted decision 82/29, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).

B. Housing and office accommodation for field personnel

80. For its further consideration of agenda item 7(a), the Committee had before it the report of the Administrator on housing and office accommodation for field personnel (DP/1982/50).

81. In introducing the subject, the Assistant Administrator, Bureau for Finance and Administration, highlighted the great difficulties which UNDP experienced in obtaining
59. Many members supported the proposal of the Administrator in paragraph 22 of DP/1982/35 to lower support costs relating to projects financed by trust funds when it was determined that the agency concerned had indicated its willingness to accept a lower rate for the same project. A few members indicated their opposition to this proposal.

(e) Management and other support services

60. Some members supported the proposal of the Administrator in paragraphs 28 and 30 but stated that it should be studied further. Some members thought providing management services to bilateral donors would interfere with the central co-ordinating role of the UNDP Resident Representatives. One member, while basically supportive, required confirmation that UNDP would not expand activities in project execution. Another member thought the arrangements might become financially too rewarding and that the regular work of UNDP might be compromised. One member stated that the role envisaged for UNDP in the proposals as a "middleman" or intermediary between third-party donors and recipient Governments was entirely inappropriate and that the independence of UNDP programmes would be lost. Several members concluded that the proposals should be examined further.

Response of the Administration

61. In his response to the questions, the Deputy Administrator pointed out that, because UNDP was an ongoing operation, it was possible to provide additional services with only marginal increments in work force. This might not be the case for other donors and funding organizations which might need to build up a field office from scratch. He added that the proposals were not aimed at providing employment to UNDP staff members and were not necessarily related to the anticipated reduction in programme delivery. In his view, the proposals would make sense at any level of resources. He reiterated that the proposals would only extend UNDP operations at the edges and that the Administrator was making every effort to ensure that the central funding role of UNDP and the country programming process were carried out.

62. With reference to the concerns expressed relating to inappropriate equipment being provided to Governments as in-kind contributions by third-party donors, the Deputy Administrator stated that the best safeguard against such a practice was to have UNDP scrutinize and advise on such contributions. In further clarifying reimbursable procurement arrangements, he stated that this was merely a service intended to facilitate transfer of aid from a donor who might not have the requisite facilities to recipients who might not have the needed capacity. The proposal had been submitted to the United Nations Office of Legal Affairs, which had confirmed that the provisions of United Nations Financial Rule 114.2 would permit these arrangements.

63. In further explaining the proposal relating to management and other services to bilateral donors, the Deputy Administrator stated that this was an attempt to facilitate the transfer of resources since, in the absence of such services, the aid might not even be forthcoming. He emphasized that both donors and recipients alike would be the beneficiaries of these services. He further pointed out that although practices differed, the administrative costs of many bilateral donors came out of their aid budgets. He also clarified that the proposal was to charge donors for these services and not the recipients.
64. In elaborating further on the proposals, the Deputy Administrator stated that the role of a "middleman" or "packager" envisaged for UNDP was an essential service, the lack of which had hampered many other traditional aid arrangements. He illustrated this by citing the example of UNSO which, he said, performed an outstanding service by bringing many donors and recipients together. He stated that the expertise and experience available in UNDP should be made more generally available.

65. The Assistant Administrator, Bureau for Finance and Administration, responding to questions as to whether the regulations relating to international competitive bidding applied to UNSO, confirmed that this was so and that without a specific waiver by the Council, they would continue to be applied.

66. In conclusion, the Deputy Administrator emphasized that the Administrator did not intend to induce any donor to divert resources from existing multilateral/bilateral programmes to UNDP. The proposals were in the nature of requests for enabling legislation which would permit UNDP to try these approaches in the future.

Recommendation of the Committee

67. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted section IV of decision 82/5, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).

68. Two members who had joined in the consensus in a spirit of compromise nevertheless stated that the requirements of international competitive bidding constituted one of the fundamental principles of UNDP, and that UNDP could not make an exception to this principle without running the risk of moving even further away from its real nature as a multilateral organization. Its strength and appeal lay in its multilateral nature. These members remained opposed in principle to the adoption of the proposed exception to international competitive bidding (operative paragraph 4 in section IV of 82/5). They joined the consensus exclusively because they felt UNDP was here responding to a special situation, which must be considered an emergency one. Another member supported the statement of these two members as reflecting his own basic attitude and understanding of how UNDP should operate. One member expressed his reservation on the preambular paragraphs in section IV of the decision because these did not recognize the principles laid down in the Consensus of 1970.
of donors to the United Nations Sudano-Sahelian Office and the United Nations Capital Development Fund had insisted on restricting the manner in which contributed funds were used in procurement and that, since these funds were also subject to the financial regulations and rules of UNDP, the Council must decide on their applicability during the present session.

49. The Deputy Administrator, in commenting on how an enhancement of trust funds might affect the central funding role of UNDP, referred to the proposal made in paragraph 19 of the report that a ceiling be set on trust funds expenditures at 50 per cent of a donor's voluntary contribution. He also referred to the practice of some agencies and Governments of agreeing to a support cost rate different from the 13 per cent one. He recommended that UNDP should also be authorized to offer a differential rate to agencies when trust funds were channeled from the same donor through UNDP.

50. Finally, on the issue of management and support services, the Deputy Administrator emphasized that UNDP would not be accepting funds from third-party donors. Rather, it would be providing services, especially in cases where a donor might not have a field establishment. The donor would be charged a fee by UNDP for these services.

Summary of the discussion of the Committee

General observations

51. Most members commended the Administrator for his proposals, which they considered imaginative and thought-provoking. Many members emphasized that the multilateral character of UNDP should be preserved and its central funding role be maintained. The proposals, they stated, should therefore be examined in terms of these important principles. Some members expressed reservations on the proposals taken in their totality as, according to them, they would change the character and direction of UNDP. Two members stated that the adoption of the Administrator's proposals in DP/1982/35 would undermine the fundamental principles of UNDP activity - its international, voluntary and universal nature - and could transform it into a type of commercial organization oriented towards co-operation with firms from market economy countries. They stressed that document DP/1982/35 was received by their delegations only at the beginning of the twenty-ninth session and was not studied by the appropriate organizations of the member countries of UNDP. They therefore spoke against the adoption of its proposals, and also against the premature establishment of an intersessional group on these questions. They further stated that there was the need for full observance of the fundamental principles of the Consensus of 1970 in defining the future role of UNDP. One member, supported by others, stated that the proposals were aimed at preserving the apparatus of UNDP as opposed to maintaining the purity of purpose of UNDP. Another member stated that the main claim of UNDP to a central funding role, which he said stemmed from its established country programming process and extensive field network, might be compromised by some of these proposals. Many members considered the proposals far-reaching and therefore in need of considerable detailed discussion before decisions were taken. They suggested that these proposals be considered at an intersessional working group and then discussed at the thirtieth session of the Council.

(a) Contributions in cash and in kind

52. Most members welcomed the increasing, recipient country contributions in kind. Some members stated that third-party contributions in kind should be approached with caution as unsuitable or inappropriate equipment might be provided to projects in this manner.
(b) Cost sharing

53. Most members agreed that the ceiling on project cost sharing by recipient Governments should be removed. However, reservations were expressed by several members, about removing the ceilings on programme cost sharing contributions by third party donors in the belief that the programmes might be distorted as a result. Most members agreed with the proposal of the Administrator to maintain the ceiling on project specific third party cost sharing. One member stated that it might be premature to remove any of the present ceilings on cost sharing, since no problem with these ceilings seemed as yet to have been encountered.

54. With regard to the proposal on interest-free loans in paragraph 14 of the report, some members expressed reservations lest this proposal take UNDP into banking operations. Other members thought that the benefits from this arrangement would be minimal and slow and that problems in implementation might be encountered. One member stated that this arrangement would turn UNDP into a commercial organization and that he was opposed to asking any country to give back assistance.

(c) Reimbursable procurement arrangements

55. Some members expressed support for the proposal in paragraph 15 of DP/1982/35 on the condition that normal UNDP procurement procedures were used. One member stated that she supported the offering of these services to the recipient Governments but not to the donors. Some members asked for further clarifications on the proposal.

(d) Trust funds

56. Many members supported the concept of channeling trust fund monies through UNDP but stated that no additionality of funds would be provided in this manner. Two members stated, however, that new funds might be available inasmuch as trust funds are usually provided from a different part of the national budget. Many members supported the proposal of the Administrator in paragraph 19 of DP/1982/35 to place a ceiling on trust fund contributions to central resources. One member stated that his Government might review its practice of contributing to multiple agency trust funds.

57. Some delegations were prepared to allow the Administrator to interpret the Financial Regulations as not containing any impediment to accepting conditions in relation to trust funds prescribing competitive bidding limited to the donor country or countries. Several members supported the principle of equitable geographic distribution in the procurement of supplies and services and expressed serious reservations on the waiver of competitive bidding for trust funds. They stated that "tied aid" was contrary to the spirit of such multilateral organizations as UNDP. While they recognized that the practices of some agencies and donors might differ from those of UNDP in this respect, they considered UNDP to be a unique organization which should not engage in this practice. Many members suggested further study of this issue.

58. With regard to the financial regulation dealing with international competitive bidding and its applicability to UNSO, UNCDF and the Financing System for Science and Technology for Development, many members stated that they were reluctant to compromise a basic principle of UNDP. However, recognizing that the operations of these funds would be unfavourably affected if the regulations were not specifically waived, most members supported waiver.
Summary of the discussion

40. The Deputy Administrator introduced the document and highlighted the fact that the amount originally indicated for the 1977-1981 IPF cycle for "Future participants etc" had been exceeded by $816,000 as a result of the achievement of independence by Antigua and Belize, following which their 1977-1981 IPFs had been automatically increased by the independence bonus established by the Governing Council, but that this deficit could be charged against the unused portion of the 1977-1981 Programme Reserve. He mentioned furthermore that because of the revised 1977-1981 IPFs for Antigua and Belize, their 1982-1986 illustrative IPFs had increased due to the "floor" rule, and new 1982-1986 illustrative IPFs for these two countries were recommended to the Governing Council. For those countries which had been given only interim illustrative 1982-1986 IPFs, it was now possible to recommend final illustrative IPFs for Equatorial Guinea and Iran. For Lebanon, UNDP was actively collaborating with the World Bank to obtain necessary statistical data. For Democratic Kampuchea, however, it had not been possible to obtain the necessary data. For these countries, it was recommended that their interim IPFs should remain in effect. The Deputy Administrator also reported that revised data from the World Bank had resulted in a recommendation for revised illustrative IPFs for the Central African Republic and for the People's Democratic Republic of Yemen.

41. In response to a question as to why the revised statistical information submitted to UNDP regarding Uganda had not resulted in any new recommendation for this country, the Deputy Administrator reminded the Committee that the base year for calculating the illustrative IPFs was 1978. The submitted data for 1978 was identical to the data already used for calculating the 1982-1986 illustrative IPF for Uganda. No change was therefore called for.

Recommendation of the Committee

42. The Committee decided to recommend approval of the recommendations contained in paragraphs 2, 4, 5, and 6 of DP/1982/21 and in DP/1982/21/Add.2 and took note of the Administrator's actions as outlined in paragraph 9. The Governing Council subsequently adopted decisions 82/16 and 82/17, the texts of which appear in annex I to the Council's report to the Economic and Social Council (E/1982/16).

IV. Policy review: additional and alternative ways of financing and providing development assistance through UNDP and the funds administered by UNDP

43. For consideration of the financial implications of item 3 of the Council's agenda, the Committee had before it the relevant report of the Administrator as contained in document DP/1982/55.
44. In introducing the item, the Deputy Administrator stressed that the proposals in the document did not point to new directions for UNDP but rather extended at the edges some of the Programme's operations. Since the needs identified in the country programming process far exceeded the resources of UNDP, it was envisaged to make available the unique capacity of UNDP field offices so that projects not financed by UNDP could be integrated in the country programming process. UNDP Resident Representatives would also help ensure that counterpart funds provided by donor and recipient Governments alike were properly integrated into a country's internal budget. In this context, the Deputy Administrator emphasized that the combination of other UNDP resources with such global funds as the United Nations Capital Development Fund (UNCDF), the United Nations Revolving Fund for Natural Resources Exploration and the Energy Account, which were under the executive and administrative authority of the Administrator, permitted UNDP to achieve greater impact.

45. The Deputy Administrator then made specific reference to the various proposals made in document DP/1982/55. With regard to contributions in kind, he noted that these constituted an integral part of UNDP-supported projects and should therefore be welcomed. He emphasized that UNDP was in a good position to ensure that contributions in kind from third-party donors were suitable to the purpose of a project and that they met the normal criteria applied to UNDP projects.

46. Regarding cost-sharing contributions, the Deputy Administrator summarized the proposals of the Administrator as they related to the three kinds of cost sharing. He stated that limits on programme cost sharing should be removed since whether provided by the recipient Government or a third-party donor, such contributions enlarged the scope of the Programme. Similarly, limits on project cost sharing by recipient Governments should be removed, since they were the highest tribute to UNDP as a valued administering agency. However, he agreed that project specific third-party cost sharing should continue to be subject to the existing limitations.

47. The Deputy Administrator clarified that the proposal in paragraph 14 of document DP/1982/35 relating to interest-free loans did not at all mean that UNDP was initiating a banking operation. He stated that reimbursement of loans by developing countries with a higher GNP would feed the funds back into programming and would be similar to such existing operations as those of the United Nations Revolving Fund. He also clarified, with regard to reimbursable procurement arrangements mentioned in paragraph 15, that no funds would pass through UNDP to buy goods or services. UNDP would merely act as a procuring agent and in this capacity could safeguard countries against inappropriate gifts of equipment.

48. Regarding the proposals on trust funds, the Deputy Administrator pointed out that UNDP, which now had the authority to accept contributions to a trust fund, had the advantage of being able to co-ordinate and integrate the use of these funds. He stated that reservations of the agencies on this subject were groundless, since neither UNDP nor the Governing Council was competent to prevent the agencies from making their own trust fund arrangements. With regard to proposals in paragraph 18, the Deputy Administrator pointed out that, in accordance with current regulations, procurement had to be conducted on an international competitive bidding basis only. However, some Governments and agencies had agreed to restrict the acquisition of goods or services to the donor country. The Deputy Administrator said that agencies were not always restricted to international competitive bidding on trust fund expenditures and asked why UNDP should be treated differently. He further stated in any case there would be national tendering under the proposed arrangements and that contract awards would not be made solely on the basis of a donor's or the Administrator's choice. The Deputy Administrator also pointed out that the majority ...
to the general resources, as well as cash and in-kind contributions to local office costs. In this connection, he called attention to Table 1 of document DP/1982/21/Add.3 which illustrated the situation for some typical country cases.

31. The Assistant Administrator stated that one of the reasons for the non-observance of the basic agreement might be that the agreement did not take into account the ability of an individual country to make the contribution as required. In view of this, the Assistant Administrator proposed for consideration of the Committee a scale of partial waivers of the contributions based on the per capita GNP of the country concerned, as shown in Schedule 1 of DP/1982/21/Add.3. With the approval of the Committee, the Administrator intended to take the necessary measures to ensure that all Governments met the proposed scale of contributions by 1 January 1984. The Administrator would report to the Council at its thirty-first session on the results of his efforts. If it appeared that some Governments still did not contribute adequately, in cash or in kind, the Administrator would then propose that any voluntary contribution paid by the Government in question be transferred to the extent necessary to local office contributions. The Assistant Administrator called attention to Table 2 of DP/1982/21/Add.2 which illustrated the effect of applying deficits in local office contributions to voluntary contributions under the proposed formula.

32. With reference to another aspect of the question relating to local office costs, namely the costs of administering cost-sharing funds, the Assistant Administrator explained the current practice which was that any interest earned on balances of cost-sharing funds held by UNDP was added to UNDP general resources and not to the fund itself. However, such was not the case with most trust funds. Many Governments had inquired why interest earnings were not credited to them, especially as UNDP expected them to finance the extra staff necessary to administer large cost-sharing programmes. In view of this, and taking into account expectations of significant increases in cost-sharing funds, the Administrator had decided that interest amounts earned would be made available to cost-sharing programmes for the purpose of financing non-core costs involved in the administration of cost-sharing funds exceeding 25 per cent of the IPF. The interest would be calculated for the first time on balances held during 1982 and credited when the final accounts for 1982 were closed, i.e. in the second quarter of 1983.

Summary of the discussion in the Committee

33. Many members welcomed the proposals of the Administrator. One member pointed out that the Standard Basic Agreement between UNDP and a Government was a legal commitment of both parties and as such should be strictly enforced. Some members stated that, even though they could agree to a schedule of waivers, the objective should be the eventual enforcement of the full provisions of the agreement. Some members considered the schedule of waivers too generous and favoured instead a more gradually rising waiver rate. Two members stated that they did not consider appropriate the waiving of any part of the basic agreement and that therefore they would reserve their position on any paragraph in a proposed decision which included such a provision. Some members expressed concern that under the new proposal there might be an adverse impact if the present contributions of a Government already exceeded the targets being set.

34. Many other members expressed serious reservations on the proposals. They considered the setting up of a waiver rate schedule contrary to the spirit of voluntary contributions. Some members stated that the schedule was too rigid. In response to these statements one member pointed out that signed agreements required full implementation; he believed that waiver rates should be subject to the Administrator's discretion. One member questioned the use of GNP per capita to set the waiver rate as he considered it an inappropriate measure to determine a country's
ability to pay. One member stated that under the basic agreement, host Government contributions for UNDP field offices were essentially voluntary and the level of such contributions should be "mutually agreed between the Parties". Another member stated that a "good faith" reading of the agreement would not lead to such an interpretation.

35. Several members indicated their agreement to the proposal of the Administrator on crediting interest earned on cost-sharing balances to the cost-sharing programmes. One member, however, stated that he believed that interest on third-party cost-sharing balances should be credited to UNDP's general resources. Another member inquired as to the relationship between the proposals on cost sharing and contributions to local office costs and suggested that the two proposals should be considered separately.

Response of the Administration

36. The Assistant Administrator, Bureau for Finance and Administration, responded to the questions of the members. He pointed out that the alternative to the application of a waiver rate schedule would be the enforcement of the full provisions of the basic agreement. He stated that the basic agreement required mandatory compliance, and in this connection, underlined the term "shall contribute" in the agreement. He clarified that the Administrator intended to make the proposal of charging deficits in contributions towards local office costs to voluntary contributions as from 1984 onwards only if his efforts at obtaining contributions towards these costs at the envisaged rates were not successful. He explained that the waiver rate schedule in DP/1982/21/Add.3 was intended only as a proposal based on the criteria of GNP per capita used in IPF calculations (decision 80/307 and was subject to such amendments as the Council may adopt. However, should the Council not provide revised guidelines, the Administrator would be guided by the proposals contained in Schedule 1 in DP/1982/21/Add.3.

37. The Assistant Administrator explained the relationship between the proposals on cost-sharing interest and contributions towards local office costs by pointing out that new definitions relating to UNDP core and non-core activities had been established which required that the costs of administering cost-sharing programmes in excess of 25 per cent of a country's IPF should be borne by the donor of the cost-sharing funds. He further stated that he believed that third-party cost sharing should not be exempt from the application of these proposals, since for these purposes there was no distinction between country and third-party cost-sharing arrangements.

Recommendation of the Committee

38. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted decision 82/18, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).

G. Illustrative indicative planning figures and Special Programme Resources

39. For further consideration of the financial aspects involved with respect to item 5 of the Council's agenda, the Committee had before it document DP/1982/21 and DP/1982/21/Add.2. The documents contained proposals for changes in certain individual country IPFs in response to operative paragraph 3(b) of decision 81/16, as well as proposals for the use of 1982-1986 Special Programme Resources.
C. UNDP Development Study Programme

18. For its consideration of the financial implications of agenda item 4 (b)(v), the Committee had before it a report of the Administrator as contained in document DP/1982/13.

19. The Deputy Administrator introduced the report and informed the Committee that the recommendation to allocate $30,000 as seed money for financing activities related to the UNDP Development Study Programme from the Special Programme Resources, under the sub-category of programme development, could be accommodated under this source of funds.

20. Some delegations supported the proposal to allocate $30,000 from the Special Programme Resources. One delegation suggested that the money could be allocated on a revolving basis until such time when a sufficient amount of voluntary contributions had been received. Most delegations, however, expressed the view that the Study Programme should be financed from voluntary contributions and no UNDP resources should be transferred to a trust fund. Therefore, these delegations felt that UNDP resources should not be used for the purpose of the Study Programme.

Recommendation of the Committee

21. Following the discussion, the summing up made by the Chairman was approved by the Committee in accordance with which the UNDP Study Programme should be financed by voluntary contributions. The Governing Council subsequently adopted decision 82/10, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).

D. Integration of women in development

22. For consideration of the financial implications of item 4 (b)(viii) of the Council's agenda, the Committee had before it the relevant report of the Administrator as contained in document DP/1982/16.

23. In introducing the item, the Deputy Administrator informed the Committee of the objectives of the studies and advised of the financial provisions made for the purpose of carrying them out. Sufficient funds were available partly under the "Consultants" item in the biennial budget of UNDP, and other resources were to be made available in project budgets.

24. Members of the Committee were supportive of the objectives of the plan. Some requested a few clarifications which the Deputy Administrator provided. In response to one delegation, the Deputy Administrator pointed out that the envisaged UNDP studies were co-ordinated with and related to the activities of the decade for women.

Recommendation of the Committee

25. Following the discussion, the Committee agreed that appropriate provisions had been made in project budgets and in the biennial budget to cover the cost of $100,000 required for the evaluation programme recommended by the Administrator in paragraph 49 of his report. The Governing Council subsequently adopted decision 82/12, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).

E. Programme of assistance to the Palestinian people

26. For consideration of the financial aspects of item 4(c)(ii) of the Council's agenda, the Committee had before it the report of the Administrator on the programme of assistance to the Palestinian people as contained in document DP/1982/18.
Summary of the discussion in the Committee

27. A large number of members expressed their full support for the Administrator's recommendations contained in paragraph 10 of his report. A question was raised by one member regarding the availability of funds under the Special Programme Resources. The Deputy Administrator informed the Committee that the Administrator had, in accordance with Governing Council decision 80/30, reduced the illustrative amount for Special Programme Resources from $83.4 million for 1982-1986 to 60 per cent thereof, or $50 million. In addition to this, an estimated amount of $8 million of unspent commitments against the 1977-1981 Programme Reserve had been carried forward and added to the amount available for the 1982-1986 Special Programme Resources as decided by the Governing Council in its decision 81/25. For planning purposes, the $50 million had been distributed over the following categories:

- Disaster relief
  - Emergency assistance $2.0 million
  - Longer-term disaster relief 22.6 "

- Decade for Transport and Communications in Africa 3.0 "

- Programme development 4.3 "

- TCDC 1.5 "

- Contingencies 16.6 "

28. The recommended $4 million for continuation and expansion of the Programme of Assistance to the Palestinian people were to be met from the $16.6 million set aside for contingencies.

Recommendation of the Committee

29. The Committee decided to recommend full approval of the Administrator's recommendation as contained in paragraph 10 of DP/1982/18. The Governing Council subsequently adopted decision 82/13, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982A6).

F. Increased host Government contributions for UNDP field offices

30. For consideration of the financial implications of item 5 of the Council's agenda, the Committee had before it documents DP/1982/21/Add.1 and DP/1982/21/Add.3 containing the Administrator's report on increased host Government contributions for UNDP Field Offices, which had been referred to the Committee by the Plenary. In his opening remarks, the Assistant Administrator, Bureau for Finance and Administration, called attention to the Standard Basic Agreement between recipient countries and UNDP which provides that the recipient countries shall contribute towards the expense of maintaining the respective UNDP field offices. In practical terms, the expenses required to be financed by the Government as per the agreement, included all costs of the office, except the costs of international staff and international travel. The Assistant Administrator stated that experience had shown that Governments fulfilled their obligations under the basic agreement in varying degrees; some Governments paid all the costs, while others none at all. However, Government contributions should be seen in their totality, including voluntary contributions...
Response of the Administration

8. In his response, the Deputy Administrator explained that the basic requirements for designating a project for government execution was the determination that the Government had the capacity to undertake such an execution. Therefore, he did not see a risk of Governments undertaking government execution only for the sake of adding the unutilized amounts of support costs to their IPFs. He confirmed that the Governing Council's decision on the rate of support cost reimbursement did not specifically relate to Governments, but added that he did not consider it logical to establish a different rate for Governments. In this connection, he explained that government execution was somewhat comparable to smaller executing agencies in terms of its size. Smaller agencies could benefit from support cost flexibility, which by implication meant that the 13 per cent support cost rate for government execution was reasonable. He also did not foresee any difficulties, technical or otherwise, in implementing the add-on to IPFs and indicated that recent UNDP missions which reviewed with Governments the experience in government execution had revealed that most countries did not particularly insist on reimbursement of administrative costs connected with the execution of projects. This, however, was on the premise that their respective IPFs would be credited with unused support costs.

9. The Deputy Administrator referred to the many decisions which the Council had adopted at past sessions requiring the Administrator to promote government execution. It was therefore incumbent on the Administrator to make reasonable proposals to encourage Governments in a position to do so to use the modality of government execution. The Administrator recognized that the sentiment of the majority of members of the Council last year was against direct compensation being made to Governments and, in fact, UNDP missions to Governments had borne this out. However, he also recognized that additional administrative costs were incurred by Governments in government execution and therefore, in the absence of some form of compensation or incentive, constituted an impediment to an expanded use of this modality. The Administrator's present proposal therefore addressed both of these concerns. The Deputy Administrator further pointed out that it was necessary to consider the proposals as an integrated package. He explained that complications would arise if the add-on rate were other than 15 per cent, since agencies acting as co-operating agencies in government executed projects would continue to receive support costs at the 13 per cent rate.

10. Responding to the concern expressed by some members that certain developing countries with a higher GNP might receive undue advantage from this proposal, the Deputy Administrator stated that, on the basis of some calculations, he estimated that the average add-on to the IPF for countries with GNP per capita of $1,500 or more, would only be a negligible amount of approximately $3,000 per annum.

Recommendation of the Committee

11. Following the Committee's consideration and approval of the relevant recommended draft decision, one delegation stated that while it did not intend to prevent a consensus, it wished that its serious reservations to the proposed decision be recorded, in particular: (a) the recommendation adopted was contrary to the principles of the IPF, adopted by the United Nations General Assembly; (b) it would co-mingle and confuse two distinct budgetary lines, namely programme budget and administrative budget; and (c) the decision proposed the use of possible savings under one type of budget provision for another type of budget provision. The delegation also considered that the assumption of savings on support costs, on which the resolution was predicated, was premature.

12. On the recommendation of the Budgetary and Finance Committee, the Governing Council subsequently adopted decision 82/8, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).
B. Pre-investment activities

13. For its consideration of the financial implications of item 4 (b)(iv) of the Council's agenda the Committee had before it a Progress Report of the Administrator on pre-investment activities as contained in document DP/1982/12/Add.1.

14. The Deputy Administrator introduced the report and described the main characteristics of the pre-investment activities for which the Governing Council's authorization was being sought for the utilization of $1 million from the Special Programme Resources during the next few years. He pointed out that in recent discussions with financial and development institutions, it was suggested that the UNDP country programming process was not always sufficiently flexible to meet contingency needs when investment opportunities arose unexpectedly. He emphasized that while the Administrator intended to continue to finance investment feasibility studies primarily out of country IPFs, the proposed facility would be available to meet unforeseen needs for the preparation of priority projects of interest to potential investors. The Administrator believed that these funds would be particularly helpful in financing feasibility studies in LDCs.

15. Most members supported the proposal to allocate $1 million from the Special Programme resources. Several members enquired how the sum of $1 million was arrived at. Some of these members felt that $1 million was too modest an amount for pre-investment feasibility schemes and that a higher amount was necessary. Other members, while fully supportive of the scheme, expressed concern that these activities, which should be temporary in nature, would become permanent. They indicated that they were willing to accept the proposal on the basis of the Deputy Administrator's assurance that allocation of funds from the $1 million would be authorized only when the IPFs of the countries concerned could not absorb the additional commitment. One member wanted to know the average cost of each such study. Another member opposed the implementation of that programme, under which UNDP funds would be used to finance feasibility studies for investments made principally by private and foreign companies. He pointed out that such a programme conflicted with the sovereign right of developing countries' governments to determine the objectives and orientation of investment policy.

16. In his reply the Deputy Administrator assured members that the use of IPFs for feasibility studies would continue to be the rule. He explained that opportunities for feasibility studies had arisen in the past during the course of the year but because the respective IPFs were fully committed, Governments had been unable to meet the required additional costs. He explained that the proposed amount of $1 million was based on the best possible estimate of requirements, taking into account that the average cost of a study was $50,000. He reiterated that the scheme was temporary in nature and that the authorization requested from the Council for $1 million was a one-time effort for the entire third IPF cycle. He also emphasized that the cost of a study would be reimbursed if it led to an investment-oriented project.

Recommendation of the Committee

17. Following the discussion and the response of the Deputy Administrator, the Committee agreed to recommend that the allocation of $1 million from the Special Programme Resources for the purpose of pre-investment activities be approved. The Governing Council subsequently adopted decision 82/9, the text of which appears in annex I to the Council's report to the Economic and Social Council (E/1982/16).
INTRODUCTION

1. The Budgetary and Finance Committee held meetings from 24 May to 18 June 1982 under the chairmanship of Mr. Mohamed Memmi (Tunisia), First Vice-President of the twenty-ninth session of the Governing Council. Mr. Finn Norman Christensen (Denmark) served as Rapporteur of the Committee.

2. The draft report of the Committee was submitted to the Governing Council in documents DP/1982/BFC/L.3 and Add.1-22, DP/1982/BFC/L.8 and Add. 1-8. At its 38th meeting, the Governing Council approved the draft report of the Committee as orally amended. The views expressed during the Council's consideration of the Committee's report are contained in document DP/1982/SR.38.

3. The report of the Governing Council on its twenty-ninth session, which includes in its annex I the recommendations of the Budgetary and Finance Committee as approved by the Council, is contained in document E/1982/16.
I. MATTERS REFERRED TO THE COMMITTEE BY THE PLENARY

A. Government execution

4. For its consideration of the financial implications of agenda item 4(b)(iii) the Committee had before it the reports of the Administrator (DP/1982/11 and DP/1982/11/Add.1) providing a descriptive and analytical account of the factors affecting progress in the use or lack of use of the modality of government execution.

5. The Deputy Administrator, in his opening remarks, indicated that it was his understanding that the Committee would discuss only the financial implications of the proposals contained in the reports. He called attention to the recommendation of the Administrator contained in paragraph 41 of document DP/1982/11, which proposed support costs remaining unutilized due to government execution be added to the respective country and intercountry indicative planning figures (IPF). He also called attention to the financial implications resulting from training of government staff, as indicated in paragraph 42 of document DP/1982/11, and to paragraph 46 of the same document, in which it was stated that there was no need in the immediate future to increase UNDP field office staff to meet the requirements resulting from government execution so long as the provisions contained in document DP/1982/11 regarding the assumption of increased responsibilities by Governments in government execution were adequately met.

Summary of the discussion

6. Many members supported the Administrator's proposal to add on to the IPF that part of the support cost which was not utilized due to government execution. Some members considered the add-on scheme a positive incentive and thought that the proposal was fair and equitable. Other members expressed the opinion that the proposal for an add-on to the IPF was not appropriate and stated that they would prefer to see the savings on support costs returned to UNDP central resources. Some members stated that the add-on proposed would be contrary to the spirit of decision 80/30 as it would upset the balance of the IPFs. One member expressed the view that the add-on proposal, rather than being an incentive, in some cases might lead countries to execute projects for which they were not entirely prepared. One member, supported by others, stated that while he agreed with the proposal to credit IPFs as an add-on with amounts of unutilized support costs, he could not accept that the base for such credit would be 13 per cent, since Governing Council decision 80/44 dealing with support costs related only to executing agencies and not to Governments. Therefore, while he was supportive of the principle of the add-on, he was of the view that the exact rate to serve as the base for reimbursement should be reviewed separately. Another member expressed the view that the amount of the add-on to IPFs would be so minimal that perhaps it was not a realistic option. On the other hand, he thought that if the respective savings on support costs or part of those savings were to be used as a central fund for government execution, their impact would be definitely favourable. Some delegations thought that the administrative and accounting complications connected with the add-on were substantial and could not be justified. One member who supported the Administrator's proposals suggested, that in order to overcome the reservations expressed, the proposals could be adopted for an experimental period of two years.

7. Some members were of the opinion that the Administrator's proposal that a single Government co-ordinating authority be designated to deal with government executed projects was reasonable and should be adopted. On the other hand, other delegations considered that this proposal was likely to create administrative difficulties and was not justified by the fact that the number of government executed projects was small.