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GOVERNING COUNCIL
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REPORT OF THE BUDGETARY AND FINANCE COMMITTEE

Rapporteur: Mr. Finn Norman Christensen (Denmark)

Chapter V

UNDP FINANCIAL REGULATIONS

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

1. 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 of the Governing Council and which the Council had decided to review at its twenty-ninth session.

2. 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 paragraph 8 (b) 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, in the absence of a decision on the issues concerned and on the text of new financial regulations, that as far as the regulations were concerned, the existing old financial regulations were still applicable.

Summary of the discussion

3. 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 efforts. 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 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.

4. 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 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 that the principles of universality of the Programme and sovereignty of contributing Governments were being strongly challenged by attempts to adopt decisions which were discriminatory. They did not expect any favours in the use of their currencies, and emphasized that in their bilateral programmes these currencies were fully utilized to the complete satisfaction of recipient Governments.

Response of the Deputy Administrator

5. 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 contribution 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, proposed 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 to IPFs for expenditures in the contributing countries. He 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.

6. 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 of contributions 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.

7. 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.