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BUDGETARY AND FINANCE COMMITTEE

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DRAFT REPORT OF THE BUDGETARY AND FINANCE COMMITTEE

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CHAPTER II

ANNUAL REVIEW OF THE FINANCIAL SITUATION 1981

1. 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.
2. In his introduction, the Director, Division of Finance, referred to the achievements in financial terms of UNDP 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, Division of Finance, 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

3. 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.

4. 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.

5. Another member, in discussing the impact of exchange rate changes on contributions, requested that such impact be shown separately in future reports on the financial situation.

6. 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 Administration

7. 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.

8. 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 more 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 on 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.

9. 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.

10. 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.

11. The Committee recommends that:

The Governing Council,

Having reviewed the report of the Administrator on the review of the financial situation in 1981 (DP/1982/49) and taking into account the observations and comment made by members.

Noting with concern the projected decline in programme delivery in 1982 due to the lack of sufficient resources to sustain the envisaged growth of the programme for the third cycle,

1. Call upon Governments to increase their contributions to the programme, taking into consideration the need for a more equitable distribution of contributions;

2. Endorse the steps taken by the Administrator to ensure that the level of programme delivery is consistent with existing and projected resource availability;

3. Express deep concern at the lagging pace of payment of contributions and strongly reiterate its call to Governments to pay their contributions to UNDP as early as possible this year;

4. Call upon Governments to pay without delay, during 1982, all amounts past due to the Programme;

5. Decide to restore the level of the Special Industrial Services for 1977-1981 to \$17.5 million and authorize that the difference between this level and the fund expenditure for the second cycle be carried forward and added to the third cycle allocation for Special Industrial Services.
