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REPORT OF THE BUDGETARY AND FINANCE COMMITTEE

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Annex

Summary of the Associate Administrator's introductory statement to the Budgetary and Finance Committee

INTRODUCTION

1. The Budgetary and Finance Committee held 32 meetings from 4 June through 29 June 1984 under the chairmanship of Mr. Jacques G. Van Hellenberg Hubar (the Netherlands). Mr. Miguel Angel Ortega-Nalda (Mexico) served as Rapporteur of the Committee.

2. At its first meeting, the Committee approved the provisional agenda and organization of work contained in annexes I and II respectively to document DP/1984/BFC/L.1. The Committee agreed to keep its schedule of work flexible depending on the availability of documentation.

3. The report of the Committee was submitted to the Governing Council in the following documents:

DP/1984/BFC/L.2 and Corr.1 and L.2/Annex;
DP/1984/BFC/L.2/Add.1-3 and Add.3/Annex;
DP/1984/BFC/L.2/Add.4 and Corr.1;
DP/1984/BFC/L.2/Add.5-8 and Add.8/Annex;
DP/1984/BFC/L.2/Add.9-12 and Add.12/Annex;
DP/1984/BFC/L.2/Add.13;
DP/1984/BFC/L.2/Add.14 and Add.14/Annex;
DP/1984/BFC/L.2/Add.15 and Add.15/Annex;
DP/1984/BFC/L.2/Add.16 and Add.16/Annex;
DP/1984/BFC/L.2/Add.17 and Add.17/Annex;
DP/1984/BFC/L.2/Add.18 and Add.18/Annex;
DP/1984/BFC/L.2/Add.19 and 20 and Add.20/Annex;
DP/1984/BFC/L.2/Add.21-24 and Add.24/Annex; and
DP/1984/BFC/L.3 and Add.1.

4. At its 33rd meeting, the Governing Council approved the report of the Committee. The views expressed during the Council's consideration of the Committee's report are contained in summary record DP/1984/SR.33.

5. The report to the Economic and Social Council on the thirty-first session of the UNDP Governing Council (E/1984/20) includes in its annex I the recommendations of the Budgetary and Finance Committee as adopted by the Council.

I. MATTERS REFERRED TO THE COMMITTEE BY THE PLENARY

A. Action taken in response to General Assembly resolution 37/228

6. For its consideration of the financial aspects of one of the subjects under item 10(b) of the Council's agenda, the Committee had before it a report by the Administrator contained in document DP/1984/65. The Associate Administrator introduced the report and referred to an administrative oversight on the part of UNDP which had precluded it from responding promptly to the request by the Secretary-General to take the lead role in dealing with General Assembly resolution 37/228, Role of qualified national personnel in the social and economic development of developing countries, of 20 December 1982. Nevertheless, following a detailed analysis of the action required under the provisions of the resolution, it had been determined that the scope of activities was so broad that significant action could not be undertaken without additional resources. In that connection, the Associate Administrator reported that the Second Committee of the General Assembly had not been advised of the financial implications at the time it had adopted the resolution. It was now for the Council to decide whether to authorize the expenditure of the estimated \$100,000 required to implement resolution 37/228, or to refer the matter back to the General Assembly for further consideration and clarification.

Summary of the discussion in the Committee

7. Several members of the Committee registered varying degrees of surprise and confusion with respect to the situation as outlined by the Associate Administrator. They stated that they were not clear as to the role of UNDP. While recognizing that resolution 37/228 would have to be implemented, they expressed uncertainty as to how and by whom. It was suggested that clarification be sought from the General Assembly itself in that respect, as well as with regard to the actual financial implications involved.

8. Other members stated that the estimated \$100,000 required to carry out the relevant activities embodied in resolution 37/228 should be allocated from Special Programme Resources since great importance was attached to the analysis of the collective experience of countries in the area of human resources development and international co-operation in training qualified personnel of developing countries. One member stressed the importance of the development of human resources, especially in the context of TCDC, and drew the Administrator's attention to that fact. Another member, moreover, stated that if the required financial resources were not allocated, the issue should revert to the General Assembly for consideration of the financial implications.

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Response of the Administration

9. Responding to the discussion, the Associate Administrator emphasized that the Administrator was under the authority of the Secretary-General and that the task of implementing the resolution had been assigned to him by the Secretary-General. In the present instance, however, it was apparent that the Second Committee had not considered the financial implications attendant upon the implementation of resolution 37/228 and that, possibly, the Second Committee had taken action on what might have been considered as somewhat less than the best advice. The Associate Administrator also referred to the report of the Administrator (DP/1982/9) prepared in response to General Assembly resolution 35/80 of 5 December 1980 on the same subject as resolution 37/228. In that report, the Administrator had recommended that the various United Nations specialized agencies should respond to questions relating to the training of qualified personnel in the areas of their respective sectoral competence.

10. The Associate Administrator concluded by acknowledging that UNDP had inadvertently contributed to the delay in implementing resolution 37/228 and that the Programme would not shirk any responsibility assigned to it by the Council, the General Assembly or the Secretary-General. His major concern at present was that action be undertaken in the most efficacious and cost-effective way possible.

Recommendation of the Committee

11. Following its consideration of this question, the Budgetary and Finance Committee recommended that the Council adopt the following decision:

The Governing Council,

Having considered the report of the Administrator contained in document DP/1984/65 concerning General Assembly resolution 37/228,

Noting that the Secretary-General of the United Nations has designated UNDP as the lead agency for the implementation of resolution 37/228,

Noting further that the Administrator is not able to implement the resolution without financial implications affecting programme volume,

Considering that UNDP is unable to implement the resolution from its available resources,

Requests the Administrator to inform the Secretary-General of the United Nations accordingly.

12. The Governing Council subsequently adopted decision 84/43.

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B. Preparations for the fourth programming cycle

13. The Committee had before it for consideration paragraph 17 of the report of the Administrator on preparations for the fourth programming cycle (DP/1984/27) which had been referred to it by the Plenary.

14. In his introductory statement, the Associate Administrator explained the background for the proposed increased level and broadened scope for the Operational Reserve in the fourth programming cycle. The root of the problem was to be found in the fact that the uncertainties and variations in the availability of resources had forced UNDP to resort to short-term changes in programme levels which had created difficulties and diseconomies in the programming at the field level. While the Intersessional Committee of the Whole had addressed the problem it had not been able to reach an agreement on ways of solving the problem. The present proposal regarding the Operational Reserve would facilitate more stable levels of programming by having a second level of the Operational Reserve available to maintain planned programme levels in the event of shortfalls, with adjustments being effected later in a more orderly, planned fashion. The current Operational Reserve was insufficient in size and too constrained in its scope to fulfil that function. The Associate Administrator reminded the Committee that, when established in 1972, the Operational Reserve amounted to more than 50 per cent of the expenditures for that year and that the purpose of the current Operational Reserve had been interpreted as precluding its use to cover, on a planned basis, a deficit in programmable resources, but constituted a liquidity reserve for unanticipated situations. He also emphasized that the proposal would not affect third-cycle resources, but involved setting aside some \$75 million to \$100 million at the beginning of the fourth cycle from the resources of that cycle. That amount could, if not used, be restored to project funds during the last years of the cycle so as to have no net impact for the cycle as a whole.

Summary of the discussion in the Committee

15. In the following discussion several members indicated that they had an open mind on the proposal. However, several questions were raised regarding the idea of restoring the funds by the end of the cycle as it would only lead to a need to re-establish the reserve again in the following cycle. Equally, it was questioned whether the guidelines for the Operational Reserve as contained in Governing Council decision 80/50 did not already permit the use of the Operational Reserve for the proposed purposes. The constraints on the use of the Operational Reserve were self-imposed by UNDP and did not follow from the text of the decision.

16. Other members supported the Administrator's interpretation of the guidelines for the Operational Reserve and emphasized that the Operational

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Reserve should be seen as an ultimate reserve essentially to cover unexpected contingencies. It would therefore be better to establish the proposed reserve as a separate line with a different and clearly stated purpose in the overall planning for the fourth cycle.

17. Several members pointed out that, while sympathetic to the idea contained in the proposal, it should be examined in the context of overall resources to be available for the fourth cycle and suggested that the Administrator should put forward a more detailed proposal to the thirty-second session of the Governing Council in the context of overall proposals for the fourth cycle. One member asked for clarification as to whether it was the intention to set aside resources contributed in the third cycle for utilization in the fourth cycle. Some members questioned whether there was a real need to provide for such a reserve in light of the flexibility the system had shown in reducing IPF expenditures in the recent past.

Response of the Administration

18. In response to the questions raised, the Associate Administrator re-emphasized the need for a reserve of the proposed kind to avoid "fits and starts" in the Programme as it now operated on a "pay-as-you-go" basis with no funds to smoothen out programme levels over the years. Equally, he had noted the ambiguity and differing interpretations regarding the use of the current Operational Reserve and indicated that the Administrator would put forward a report to the next session of the Council to clarify the issue and to make detailed proposals. The Associate Administrator reaffirmed to the Committee that the proposal before it related solely to the fourth cycle and that no resources of the third cycle were to be used for the proposed new level of the Reserve.

19. Following the discussion on this subject, the Budgetary and Finance Committee recommended that the following draft decision be adopted by the Council at its thirty-first session:

The Governing Council,

Having reviewed the Administrator's proposal contained in paragraph 17 of document DP/1984/27,

Requests the Administrator to submit to the Council at its thirty-second session a detailed report elaborating his suggestions contained in paragraph 17 of document DP/1984/27 taking fully into account the views expressed thereon during the debate.

20. The Governing Council subsequently adopted decision 84/20 which, in operative paragraph 4, reflects the recommendation of the Committee.

C. Additional allocation from Special Programme Resources
for the promotion of action-oriented TCDC activities

21. For its consideration of the financial and administrative aspects of one of the issues under item 8(d) of the Council's agenda, the Committee had before it a report of the Administrator, Activities and staffing of the Special Unit for TCDC: additional allocation from Special Programme Resources (SPR) for the promotion of action-oriented TCDC activities (DP/1984/46/Add.1). Introducing the subject, the Associate Administrator referred to Governing Council decision 83/15 by which the Council, at its thirtieth session, had approved an allocation of \$600,000 for specific action-oriented and promotional TCDC activities for the 1984-1985 biennium. This decision had been taken in the light of a recommendation of the High-level Committee for the Review of Technical Co-operation among Developing Countries which called for the allocation of \$1 million for such activities. The Governing Council, at the same time it had approved the allocation of \$600,000, had also left open the consideration of a possible increase following the mid-term review of the third programming cycle, 1982-1986, which was to take place at the present session.

22. Describing the continuing evolution of action-oriented TCDC activities, the Associate Administrator stated that resources already programmed for those activities totalled some \$778,000, made possible by augmenting the \$600,000 approved last year with \$200,000 in savings from prior year allocations. He emphasized the catalytic role played by UNDP with respect to promoting TCDC activities and pointed out that for 61 requests approved at an estimated cost to UNDP of \$674,000, the co-operating Governments were contributing some \$2.24 million, a ratio of well more than 1 to 3.

23. The Associate Administrator reviewed the status of SPR and said that a balance of \$11.2 million remained from the \$20.4 million earmarked for various contingencies including TCDC. Taking into account the availability of funds, he regarded as prudent the further allocation of \$800,000 for the remainder of the third cycle in order to continue the momentum already generated in the area of action-oriented promotional activities for TCDC.

Summary of the discussion in the Committee

24. Several members stressed the basic importance of TCDC and the relevant work being carried out by the Special Unit for TCDC and stressed the important catalytic effect that the SPR allocated for that purpose had proved to have had; they referred to the encouraging cost-sharing character of the activities being undertaken. One member reported on the results of a recent conference in Beijing on TCDC where 33 project requests had been agreed upon with the main financial support coming from the developing countries. He regarded the additional allocation of \$800,000 as very modest.

25. Other members, however, questioned the prudence of committing the entire \$600,000 allocation within the first six months of the 1984-1985 biennium, and expressed concern that the request for an additional \$800,000 would be only the first of several during the remainder of the third cycle. They also expressed reservations about the use of SPR for the purpose of promoting action-oriented TCDC activities, stating that national IPFs and/or the resources available from the liquidated United Nations Emergency Operation Trust Fund (UNEOTF) might be more suitable sources of financing.

26. One member wanted to know the difference between promotional activities and other TCDC activities. Another member requested an explanation of the criteria employed for the use of SPR. He and another member also asked for details regarding the nature of the activities being carried out.

Response of the Administration

27. Replying to questions raised by members of the Committee, the Associate Administrator stated that, as a matter of principle, if needs existed and were identified in excess of the resources provided, UNDP would commit funds to meet those needs as quickly as possible. With regard to whether further allocations would be requested, he said that if a programme were successful and needs existed, UNDP would indeed request additional funds. It was the Council's prerogative to either approve or deny such requests. Explaining the difference between promotional activities and actual technical co-operation undertakings, the Associate Administrator gave examples of how the funds from the \$600,000 allocation had been used for, inter alia, the travel of consultants and/or experts from one developing country to another.

28. With respect to other sources of funding for TCDC activities, the Associate Administrator referred to the reduction to 55 per cent of the illustrative IPFs which had provoked a major reduction in the amount available for the TCDC programme from that source. Funds from SPR provided a small amount of additionality. Regarding the \$5.8 million in UNEOTF, he said that it was largely weighted in favour of promoting economic co-operation among developing countries rather than TCDC and was not within the Administrator's discretion to spend. The General Assembly resolution provided that it was for the developing countries themselves to decide on the priorities for the commitment of those funds and, in that connection, relevant negotiations with the Group of 77 were under way.

29. The Associate Administrator stated that SPR had been allocated for support of the United Nations Transport and Communications Decade in Africa, for assistance to the Palestinian people, pre-investment activities and TCDC. He emphasized that the basic issue for the Committee to decide was whether the allocation for TCDC from those SPR funds should be increased.

Further discussion in the Committee

30. Most members expressed the view that whatever doubts they had had about the proposal had been assuaged. Several, however, stated that such expenditures should be regularized and not dependent on SPR allocations. They requested that a relevant recommendation be submitted to the Council at its thirty-second session. Another member maintained that the country IPFs should be the main source of funds for TCDC activities. Other members expressed their support for the current arrangements and recalled that, according to General Assembly resolution 38/201, it was for the developing countries to decide on the use to be given to the resources available from the liquidation of UNEOTF with respect to ECDC and TCDC.

Further response by the Administration

31. The Associate Administrator emphasized that the Committee had already expressed support for action-oriented promotional activities for TCDC activities and expressed the hope that the lack of a small amount of foreign exchange should not be allowed to prevent the full flowering of the TCDC concept. He urged that in view of UNDP's basic policy of promoting self-reliance the momentum generated by recent TCDC activities not be permitted to falter.

Recommendation of the Committee

32. Following its consideration of this question, the Committee recommended that the Council adopt the following decision:

The Governing Council,

Having considered the report of the Administrator on an additional allocation from Special Programme Resources for action-oriented promotional activities for TCDC (DP/1984/46/Add.1),

(a) Approves the recommendation of the Administrator for an additional \$800,000 to be allocated from Special Programme Resources for 1984-1986 to ensure continuation of action-oriented promotional activities for TCDC;

(b) Requests the Administrator to provide to the Council at its thirty-second session a detailed report on the use of the funds made available in 1983 and 1984 from Special Programme Resources for this purpose.

33. The Governing Council subsequently adopted decision 84/25.

D. Country and intercountry programmes and projects:
use of United Nations volunteers to assist the
most severely affected African countries in the
implementation of emergency assistance programmes

34. For consideration of the financial implications of one of the questions under item 5(b) of the Council's agenda, the Committee had before it the report of the Administrator (DP/1984/22/Add.1) dealing with the use of United Nations volunteers to assist the most severely affected African countries in the implementation of emergency assistance programmes.

35. In introducing the item, the Administrator emphasized that the proposal before the Committee was being presented within the context of the Secretary-General's concern to mobilize the efforts of the international community to alleviate through the implementation of emergency assistance programmes, the acute and massive suffering that was currently afflicting many countries of Africa. Such assistance was required to meet severe food shortages, inadequate water supplies, poor medical supplies and weak infrastructure. He had himself visited a number of the drought-affected Sahelian countries and had been struck by the shortages of technical and logistical manpower to augment the efforts that Governments were making to maximize the benefits from the material assistance being provided generously by the international community. Since the United Nations development system already had a proven instrument in the United Nations Volunteers programme that could obtain qualified manpower through its global recruitment network and channel it to requesting countries on a rapid, flexible and low-cost basis, he was proposing as an exceptional measure a modest allocation of \$1.5 million from Special Programme Resources to support the assignment of some 10 UNVs (1,000 work/months) over the remainder of the third programming cycle, 1982-1986, in such fields as food transport and distribution, basic health care and nutrition, safe water supplies, forestry and desert control and veterinary services. The Administrator then outlined an action plan to be carried out immediately should the proposal be approved. Guidelines for utilizing the fund would be drawn up and Governments invited to formulate their requests for pressing technical and logistic manpower requirements. Simultaneously UNV would establish a special roster of individuals qualified in the fields likely to be involved who were available on short notice. Fielding of the first teams of volunteers would proceed once requests were processed in accordance with the guidelines. Finally, the Administrator invited donor countries to participate through contributions in cash and kind to complement the unique, timely and flexible mechanism being proposed and thereby extend the reach of activities to be carried out under that initiative.

Summary of the discussion in the Committee

36. Members expressed their appreciation to the Administrator for his eloquent analysis of the situation confronting the most severely affected African countries in terms of their skilled manpower gap. Many noted with satisfaction the considerable efforts being made by UNDP in its co-ordinating capacity within the appeal of the Secretary-General. There was unanimous agreement on the need to take remedial action on an immediate basis to augment the human resources of those countries to help ensure that the utilization of material assistance from other sources was maximized. A few members pointed out that the absence of technical skills in their countries had now become chronic. Several members confirmed the impact United Nations volunteers had already had in development programmes in their countries, citing the volunteers' adaptability to local circumstances and their low cost compared with other personnel inputs. That had resulted in considerable savings to IPFs. One member, however, queried the cost of UNVs as compared with the cost of volunteers from its own bilateral volunteer programme. One member was gratified to see that UNV had the flexibility to undertake the operation proposed. Another member noted that an increasing number of UNVs were being drawn from the region which he regarded as an expression of TCDC. Another suggested that consideration be given to using resources allocated to TCDC activities from the liquidation of the United Nations Emergency Operation Trust Fund (UNEOTF).

37. A few members queried whether the proposal would involve the channelling of additional resources to UNV and also requested clarification as to the modalities for drawing up the guidelines and arrangements for monitoring the proposed activities. One member indicated that he would oppose any proposal which would give additional resources to UNV itself. Many members emphasized the exceptional nature of the proposal and the correctness of supporting it with funds from Special Programme Resources which was intended for use, inter alia, in natural disaster situations. A large number of members urged that the Committee adopt a pragmatic approach to the technicalities of the funding issue to permit early implementation of the measure and, as one member put it, not miss the target through hesitation. Some members explained that, according to General Assembly resolution 38/201, the resources allocated to TCDC activities from the liquidation of UNEOTF were to be used according to the priorities established by the developing countries and that it was not in the discretion of the Administrator to determine the use of such resources.

Response of the Administration

38. In his response, the Assistant Administrator, Bureau for Finance and Administration, clarified the point that the additional funds did not represent a subsidy to UNV since they would not benefit the UNV Special Voluntary Fund nor UNV's administrative budget. The intention was to finance UNVs out of a regional project in the same way as those normally financed from national

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project budgets. UNVs were provided to projects by UNV just as any other physical input to a UNDP-supported project. He pointed out that Special Programme Resources could be used for a number of specific purposes one of which was natural catastrophies and there were clear rules and procedures for the utilization of such funds. Regarding monitoring and evaluation, normal UNDP procedures would apply with the participation of the UNDP Resident Representative, the United Nations specialized agency concerned and the Government as appropriate. He also indicated that the Administrator did not have, at the present time, any other proposals with financial implications within the context of the Secretary-General's appeal to put before the Committee although the Administrator was reviewing what further measures could be taken by UNDP in that context. On the question of allocating TCDC funds for the proposed activities, the Assistant Administrator reminded the Committee that that was not a decision that the Administrator could take since it was an initiative of the Group of 77. The formulation of the project would be undertaken in consultation between the Regional Bureau for Africa and UNV with the recipient countries being consulted for individual project activities within the framework of the regional project. The guidelines would be prepared by UNV jointly with the Regional Bureau for Africa. UNV was not a substantive agency but an executing agency for delivery and the project being proposed would fall within the total programme for Africa and be co-ordinated locally. The Executive Co-ordinator (UNV) clarified the costs of UNVs, emphasizing that the amount being proposed was based on a pro forma cost applied by UNV across the board. The individual country pro forma costs were established based on information provided by the UNDP field offices. He pointed out, furthermore, that no overhead charges were made by UNV and there were no additional hidden costs. The cost of UNVs was broken down into external and in-country costs. The external costs were paid from the Special Voluntary Fund in the case of UNVs from developing countries and by bilateral co-operating organizations in the case of UNVs from industrialized countries. In-country costs were largely funded from national IPFs. However, such costs were increasingly being met from multi-bilateral funding sources, from Government cost-sharing and from the user United Nations agencies themselves.

Recommendation of the Committee

39. Following its consideration of this matter, the Budgetary and Finance Committee recommended that the Council adopt the following decision:

The Governing Council,

Having considered the Administrator's report contained in document DP/1984/22/Add.1,

Cognizant of the natural disaster caused by prolonged drought that is besetting the African region,

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Recalling that the Administrator is authorized by Governing Council decision 80/48 to approve special projects to finance emergency assistance and to assist in the rehabilitation and reconstruction of stricken areas,

(a) Approves, on the understanding that this should not be regarded as a precedent, an allocation of \$1,500,000 from Special Programme Resources for a regional project in sub-Saharan Africa to counter the effects of the natural disaster in the region by providing United Nations volunteers to the affected region;

(b) Takes note that the project document will be elaborated by the Administrator in collaboration with the Governments of the developing countries concerned;

(c) Takes note of the Administrator's assurance that fully structured assignments will be worked out with recipient Governments prior to sending United Nations volunteers to their field positions.

40. The Governing Council subsequently adopted decision 84/19.

E. Mid-term review of the third programming cycle, 1982-1986

41. The Committee had before it a memorandum from the Chairman of the Drafting Group requesting the view of the Committee on operative paragraph 10 of a draft decision contained in document DP/1984/WP.1/Add.6 on the mid-term review of the third programming cycle.

42. In his introduction the Director of the Planning and Co-ordination Office emphasized that the proposed guidelines for selective borrowing from the fourth programming cycle essentially were similar to those in effect for the borrowing from the third to the second programming cycle, although the limits had been reduced to take into account the tighter financial situation. He also underscored that the basic purpose for borrowing was to ensure a smooth transition between the cycles. He also pointed out that there would be no financial implications for the third cycle as all borrowing would have to be offset by expected under-spending in programmes other than those allowed to borrow. It was also pointed out that the proposal had been generally supported when the item had been debated in the Plenary.

Summary of the discussion in the Committee

43. Several members referred to their statements made in the Plenary supporting the proposals. However, they added that it was important that the authority be exercised with caution and only after careful review of each country's situation. Regarding the proposal to consider the global and

interregional programmes jointly for the purpose of borrowing, the question was raised whether that was not, in effect, a post facto effort to find adequate resources for the global programme. Questions were also raised as to whether there was any link between country and intercountry borrowing for a region and how the Administrator planned to apply criterion (c) given that fourth-cycle IPFs would not be known until sometime in 1985. In addition, a question was raised as to whether, if there were no expected underexpenditure in a region, there could be any borrowing for a country in that region which would otherwise qualify.

Response of the Administration

44. In his response, the Director of the Planning and Co-ordination Office assured the Committee that borrowing would only be authorized after careful review on a case-by-case basis. Equally, the borrowing would be implemented in two to three rounds during 1984 through 1986 to take into account both the evolving resource situation and the progress in calculating new IPFs for the fourth cycle. Regarding borrowing for the global programme, it was pointed out that the current session of the Governing Council had for its consideration several high-priority global projects which could not be financed without the proposed enlarged borrowing authority. The Committee was also reminded of the proposal to increase the global IPF for the fourth cycle and a need to prepare for those programme levels, if approved. Regarding borrowing in a region with no underspending, it was correct that in such a case there could be no borrowing in that region so as to preserve the distribution of funds between regions. However, such a situation was unlikely to occur.

Conclusions of the Committee

45. Following the discussion on this subject, the Budgetary and Finance Committee agreed that the Chairman should communicate the following views to the Chairman of the Drafting Group: the Committee was satisfied (a) that the proposed guidelines for borrowing from the fourth programming cycle did not require any additional financial resources during the third programming cycle; and (b) that the proposed guidelines were reasonable, especially having taken into account the assurances of the Administration that they would be approved selectively and after careful review on a case-by-case basis.

46. The Governing Council subsequently adopted decision 84/16 following its consideration of the recommendation of the Drafting Group.

F. Programmes in energy development

47. The Committee had for its consideration the report of the Administrator on programmes in energy development contained in document DP/1984/37. The Director of the Energy Office introduced the item by stating that the Intergovernmental Committee on the Development and Utilization of New and Renewable Sources of Energy, in its report on its recently concluded second session, had recommended that the Governing Council "... review the current interim arrangements for the Energy Account, with a view to ensuring the continuation of the operations of the Account on a more stable basis and to strengthen its activities in order to make it better able to respond to the needs of developing countries in the field of new and renewable sources of energy."

48. The Director reminded delegates that the Administrator had been authorized by the Governing Council at its twenty-seventh session in June 1980, in decision 80/27, to establish the Energy Account on an interim basis without prejudice to future arrangements which could result from the United Nations Conference on New and Renewable Sources of Energy which was held in Nairobi in 1981.

49. The Secretary-General in his report to the second session of the Intergovernmental Committee, after reviewing the various options for funding of energy programmes and projects, had expressed the view that the Energy Account, because of its performance, represented the best mechanism for the mobilization of additional financial resources for the development of new and renewable sources of energy, and that the Account should be strengthened and given additional voluntary resources for supporting actions and pre-investment activities in that field. As stated in its resolution, the Intergovernmental committee concurred and paragraph 5 of document DP/1984/37 set out the decision.

50. The Director concluded by stating that the Budgetary and Finance Committee was being requested to make a recommendation on the strengthening of the Energy Account and on its being established on a permanent basis.

Summary of the discussion in the Committee

51. Many members expressed disappointment at the amount of information contained in the report. Several members considered that the full text containing the recommendations of the Intergovernmental Committee on the Development and Utilization of New and Renewable Sources of Energy should have been included in the report. One member, supported by another, considered that the report contained proposals that appeared to go beyond the proposals made by the recent Conference. One member pointed out that the Conference had not recommended any conversion of the Energy Account into a fund.

52. Many delegates requested further information and clarification on a number of proposals contained in the document. Members sought clarification on the meaning and implication of transforming the interim arrangement into a stable funding arrangement and on how the proposals outlined in paragraph 10 of the document would actually contribute to the objectives stated, in particular that of mobilizing increased resources for the Energy Account. Members requested information on the specific changes that were envisaged as a result of the proposals. Many members expressed opposition to any proposal that would encourage proliferation of funds and stated that they considered that the Energy Account should remain as an account and should not be transformed into a fund. A number of delegates stated that if there were no substantive implications in the proposals before them, the Administrator should proceed under existing arrangements and that no special authority was needed from the Committee.

53. One member sought clarification regarding paragraphs 11 and 12 of the document and specifically on whether the Administrator was recommending any course of action with respect to contributions conditional on procurement in the donor country. Another member asked for details on the staffing of the Account and its financing.

54. Several members noted the importance of the energy sector and expressed appreciation for a number of the activities being undertaken by the Account.

Response of the Administration

55. The Director of the Energy Office stated that the Account had initially been established on an interim basis and that it had appeared that the Council had the option of either letting this interim arrangement lapse or of putting it on a more stable basis. He noted that some potential donors had expressed reluctance to contribute to an interim arrangement and that a more stable funding arrangement had been intended to encourage such donors to make contributions at the time of the annual Pledging Conference. The Director emphasized the success of the programmes in mobilizing additional resources. Regarding the documentation, he noted that the report of the Intergovernmental Committee on the Development and Utilization of New and Renewable Sources of Energy had not yet been published by the United Nations. He stated that the Administrator was not recommending the transformation of the Account into a fund and that the Administrator was not making any proposals for increased staffing for the Energy Unit.

56. The Assistant Administrator, Bureau for Finance and Administration, stated in regard to paragraph 12 that the Administrator was not making any recommendations on the matter of tied procurement and that the words "and 11" in the second sentence of paragraph 12 were a misprint and should be deleted. With respect to staffing, he stated that there were two established posts in the biennial budget and one extrabudgetary post. Furthermore, one secretary was presently being financed from temporary assistance funds.

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Recommendation of the Committee

57. Following its consideration of this subject, the Committee recommended that the Council adopt the following decision:

The Governing Council,

Having considered the report of the Administrator on programmes in energy development contained in document DP/1984/37,

Taking note of the recommendations of the Intergovernmental Committee on the Development and Utilization of New and Renewable Sources of Energy concerning the UNDP Energy Account,

Noting that the Administrator will continue to promote increased participation of the relevant United Nations organizations in the implementation of programmes and projects in the field of energy,

Recalling the central funding and co-ordinating role of UNDP,

(a) Authorizes the Administrator to continue with an Energy Account within UNDP, as established by decision 80/27, as long as it receives adequate funding support from donors;

(b) Calls on all Governments, which are in a position to do so, to contribute on an increasing basis to the Energy Account;

(c) Requests the Administrator to ensure that the activities financed from the Energy Account are harmonized with the regular activities of UNDP;

(d) Further requests the Administrator to report in a more comprehensive fashion to the Governing Council at its thirty-second session on the results achieved in the activities financed from the Energy Account.

58. The Governing Council subsequently adopted decision 84/30.

II. UNITED NATIONS FUND FOR POPULATION ACTIVITIES

59. For consideration of sub-item 6(e) of the Council's agenda, the Committee had before it the following documents:

(a) Report of the Executive Director on the inclusion of the UNFPA Deputy Representatives and limited core staff into the regular manning table (DP/1984/38 and Corr.1);

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(b) Audited accounts of participating and executing agencies (DP/1984/39);

(c) Report of the Advisory Committee on Administrative and Budgetary Questions (DP/1984/40);

(d) Amendments to UNFPA Financial Regulations (DP/1984/72).

60. In introducing the sub-item, the Executive Director reported that the income of UNFPA in 1983 of \$134.7 million showed an increase of about 3 per cent over 1982, and expressed the hope that the income projections for 1984, estimated at an increase over 1983 of 5.5 per cent to \$142 million, would be achieved. He noted that no statutory budget increases had to date been made, and UNFPA was not submitting a supplementary budget for the biennium 1984-1985.

61. The Executive Director, noting that UNFPA had experienced no cash flow problems since it had become operational, expressed his gratitude to the Fund's donors for their continued support and timely payment of contributions. He indicated that UNFPA had added \$2 million to the Fund's operational reserve in 1983, as planned, bringing the reserve to \$23 million.

62. The Executive Director was submitting to the Council at its request a comprehensive report to enable it to discuss in depth the advantages and disadvantages of a phased inclusion of the UNFPA Deputy Representatives and Senior Advisers on Population (DRSAPs) and limited core staff into the regular manning table, with a view to initiating and encouraging rotation between headquarters and field professional staff. The costs associated with the establishment of the posts and offices of the UNFPA Field Co-ordinators, as they were originally called, had been met, not from UNFPA's administrative and programme support services budget, but through the establishment of individual "country projects" financed from UNFPA's programme funds. ACABQ, he said, had in earlier years recommended on several occasions that the field staff be included in the regular UNFPA staffing table and administrative budget. At that time, UNFPA felt that greater flexibility was required for its field operations during a period when the Fund's resource base was expanding rapidly and more latitude was needed in regard to the establishment of new field offices. In view of recent changes in the situation, in terms of the more moderate growth of the UNFPA programme as well as in the nature of the responsibilities of the UNFPA Deputy Representatives, UNFPA believed it was now an appropriate time for an agreement in principle on field operations in order to respond to the Council's request that UNFPA submit to it at its next session a report on UNFPA's basic manpower requirements. Noting that ACABQ in its report before the Committee (DP/1984/40) had changed its position from earlier years, citing a less favourable income trend and less flexibility with regard to changes in the field offices' structure, the Executive Director said that UNFPA did not share the Advisory Committee's concern. Noting also that the UNFPA proposal was for a phased inclusion of posts in countries with

established programmes of a certain volume, he indicated that approval of the proposal would entail hardly any additional cost to the organization, and that to continue the present system would mean continued inequitable treatment of staff, both within UNFPA and between UNFPA and UNDP.

63. UNFPA was also proposing an amendment to the UNFPA Financial Regulations arising from a recommendation of the United Nations Board of Auditors. The amendment was designed to ensure consistency of the UNFPA Financial Regulations with those of UNDP.

Summary of the discussion in the Committee

64. While a number of members voiced support both for the principle of equitable treatment of staff and for the rotation of headquarters and field staff, many members expressed concern regarding UNFPA's plans for the implementation of the inclusion of UNFPA field staff in the regular manning table. Many members said that the report (DP/1984/38 and Corr.1) left a number of questions unanswered, and that additional information would be required before a decision on the matter could be taken.

65. Several members, for example, requested additional information on the costs that would be involved in the conversion, as well as on the number of posts that would be affected. Some members expressed the belief that the criteria proposed in the report for determining whether a given post should be transferred to the regular manning table were too vague. One member questioned how the developing countries with the greatest population requirements were to be determined, while other members suggested that Governing Council-approved programmes and projects and a country's status in the UNFPA system of priority countries for population assistance be included in the criteria.

66. Some members requested further information on the phasing of the conversion, on the number of posts that would be involved and how the auxiliary support staff would be dealt with. Some members requested information on the plans for rotation of staff, including the rate of rotation and the number of headquarters and field staff to be involved. One member expressed concern that auxiliary support staff were to be involved in the conversion, while another questioned why it was proposed that the conversion of professional support staff be delayed until after the conversion of the UNFPA Deputy Representatives. Some members questioned whether the 200 series field staff posts would or should be converted to the equivalent 100 series post level. Some members indicated the importance of differentiating between the post and the incumbent, while one member requested information on how the grade level of the deputy representatives was determined. One member noted that conversion of the deputy representatives would result in large proportionate increases in the higher ranking posts in the UNFPA manning table. Some members requested information on how the conversion of posts

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would be reflected in the UNFPA career development system. One member indicated that it would be useful to have additional information on the magnitude of the activities of each field office as well as on the length of service of those filling the UNFPA deputy representatives' posts. Some members expressed concern that UNFPA's administrative flexibility could be hampered by the conversion of field posts to the regular manning table.

67. Several members stated that UNFPA field staff should be treated on an equal basis with the field staff of UNDP. One member noted the disadvantages to UNFPA field staff of the present system and stated that the quality of personnel was of major importance to the cost-effectiveness of programmes.

68. Several members said that the conversion of posts was not an urgent matter, and that a decision on the issue should be deferred in order that it could be considered along with the UNFPA biennial budget for 1986-1987 and the report on UNFPA manpower requirements, which were to be submitted to the Council at its thirty-second session. Some members said that UNFPA manpower requirements should be determined before the matter of implementation of the conversion of field posts was decided.

69. At the invitation of the Chairman of the Committee, the UNDP Assistant Administrator, Bureau for Finance and Administration, briefly outlined the UNDP arrangement for including its field staff in the UNDP biennial budget presentation. He furthermore noted that two somewhat distinct issues were involved in the consideration of the UNFPA proposals: one concerned budgetary techniques; the other concerned personnel policies relating to job security and contractual status of staff.

70. Many members requested that a detailed proposal for the implementation of the conversion be submitted to the Council at its next session. Some members requested that such a report should present options regarding implementation for the Council's consideration.

71. In regard to the audited accounts of UNFPA's executing agencies, some members noted an earlier discussion in the Committee with respect to the UNDP audit reports. Some members expressed the view that more expanded, effectiveness-oriented narrative audit reports would be useful to the Council and suggested that such audit reports concerning UNFPA be provided to the Council at future sessions. Some members requested that executing agencies be encouraged to provide such audit reports. Some members questioned why the document seemed to indicate UNFPA to be its own largest executing agency.

72. Some members questioned the high level of unallocated agency balances indicated in the document.

Response of the Administration

73. In response to the various questions and concerns raised in the Committee with respect to the inclusion in the regular Manning table of UNFPA deputy representatives and limited core staff, the Deputy Executive Director indicated that UNFPA was seeking advice from the Council on the principle of the inclusion and was not asking the Council at the present time to endorse a new personnel policy or to adopt a new budget. He stated that additional administrative costs arising in the conversion from staff rules regarding agreed termination would be negligible. While administrative costs might appear higher with the inclusion of the UNFPA Deputy Representatives in the administrative budget, he pointed out that the UNFPA administrative budget documents had for some years provided information on what the administrative cost would be if costs of the offices of the UNFPA Deputy Representatives were included in the administrative budget.

74. Recalling that the Governing Council had always encouraged close co-operation between UNFPA and UNDP on administrative and operational matters, the Deputy Executive Director noted that the UNFPA field staff was an integral part of the UNDP Resident Representative's office. As UNDP and UNFPA had both a joint staff union and personnel policy, UNFPA field staff should share the same conditions of service as the UNDP field staff. With regard to the timing of the Committee's approval of the inclusion of UNFPA field staff in the regular Manning table, he stated that the format of the 1986-1987 biennial budget presentation to be submitted to the Council next year depended on the Council's response to the Executive Director's proposal.

75. The Deputy Executive Director agreed with comments in the Committee that a greater proportion of staff with field experience was beneficial to the organization's effectiveness, and that greater rotation of headquarters and field staff should be encouraged. The present system, however, greatly hindered such rotation.

76. With regard to the number of posts to be converted, the Deputy Executive Director said that between one-third and two-thirds of the field posts presently established would likely be proposed as permanent posts. Regarding the impact of conversion on administrative flexibility, he stated that UNFPA's financial performance had been sound and that the prospects for the future were good, especially in view of the favourable income projections for 1984 and the expected stimulating impact of the International Conference on Population. Therefore, UNFPA's current programme level and field staffing requirements were not expected to diminish in the foreseeable future.

77. The Deputy Executive Director stated that the UNFPA proposal to phase in the inclusion of field posts in the regular Manning table reflected a cautious approach by the Fund and was subsidiary to the principle of inclusion itself. Furthermore, he said that the posts to be transferred should include the auxiliary support staff.

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78. In response to the questions raised concerning the audited accounts of the executing agencies, the Deputy Executive Director noted that the table on the status of funds of UNFPA as an executing agency was somewhat misleading, as it actually reflected funds allocated by UNFPA for direct government-executed projects. He also explained that the unallocated agency balances shown in the document were as of 31 December 1982 and thus did not reflect the current situation. He agreed that effectiveness-oriented audits were desirable although he noted that obtaining such audits from the executing agencies presented some difficulties as each of the agencies involved had its own procedures regarding audits. He indicated UNFPA's willingness to arrange that copies of the annual audit of UNFPA by the Panel of External Auditors as submitted to the Fifth Committee of the General Assembly be made available to delegations in limited quantities at future sessions of the Council. Furthermore, the annual audit report of UNFPA would in future appear among the documents listed in the Council's annotated agenda under the item relating to UNFPA financial and budgetary matters.

Recommendation of the Committee

79. Following its consideration of this item, the Committee recommended that the Council adopt the following decision:

The Governing Council,

I.

Having considered the report of the Executive Director on the inclusion of the UNFPA Deputy Representatives and limited core staff into the regular manning table (DP/1984/38 and Corr.1) and the comments thereon expressed by the Advisory Committee on Administrative and Budgetary Questions (DP/1984/40) and the proposed amendments to UNFPA Financial Regulations (DP/1984/72),

(a) Requests the Executive Director in preparing the UNFPA biennial budget for 1986-1987 to include all international and local staff serving in headquarters and in field offices, without prejudice to a final decision by the Council at its thirty-second session on the appropriate format;

(b) Decides that the Council, when considering the UNFPA biennial budget for 1986-1987, shall also consider if and to what extent field posts should be applied in determining those DRSAP posts to be proposed for inclusion in the regular manning table, taking into account the recommendation of the Advisory Committee on Administrative and Budgetary Questions thereon;

(c) Notes the intention of the Executive Director to prepare a detailed implementation plan and revised manning table to be included in the document which he has been requested to prepare on UNFPA's basic manpower requirements for consideration by the Council at its thirty-second session;

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(d) Approves the amendment to Regulation 16.3 of the UNFPA Financial Regulations, relating to the submission of annual accounts to the United Nations Board of Auditors;

(e) Notes the amendments to the annex to the Financial Regulations of the United Nations, approved by the General Assembly in its decision 38/408, concerning additional terms of reference governing the audit of the United Nations, and notes that these will consequently be reflected in the Information Annex to the UNFPA Financial Regulations;

(f) Requests the Executive Director to revise the UNFPA Financial Regulations incorporating the above amendments thereto.

II.

Having considered document DP/1984/39 containing the audited accounts of the executing agencies for the year 1982,

Noting that the audited accounts of UNFPA's executing agencies for 1982, and those for prior years, have not been accompanied by narrative audit reports,

Considering that actions taken as a result of past decisions of the Council in connection with the audit reports of executing agencies of UNDP would be equally appropriate in the case of UNFPA,

(a) Emphasizes the importance which the Council attaches to receiving narrative audit reports which disclose the results of audits that are sufficiently wide in scope as to cover those areas which the Council has identified in its previous decisions, including in particular the audit of the effectiveness of financial management;

(b) Requests the Executive Director to bring this decision, and the views expressed by the Committee in the course of its discussion of this matter, to the attention of the Panel of External Auditors and of the administrations of the executing agencies, and to report to the Council on their reaction;

(c) Further requests the Executive Director to provide annually an oral report to the Budgetary and Finance Committee in regard to UNFPA's annual audit as submitted to the Fifth Committee of the General Assembly and UNFPA's response to such audit.

80. The Governing Council subsequently adopted decision 84/21 which, in sections VI and VII, reflects the recommendation of the Committee.

III. OTHER FUNDS AND PROGRAMMES

A. Activities and staffing of the Special Unit for TCDC

81. For consideration of item 8(d), Activities and staffing of the Special Unit for TCDC, of the Council's agenda, the Committee had before it the report of the Administrator (DP/1984/46) submitted in response to operative paragraphs 2 and 3 of section II of decision 83/21, dealing with the functions and staffing of the Special Unit for TCDC.

82. In introducing the item, the Assistant Administrator, Bureau for Finance and Administration, emphasized that the Council's decision had called upon the Administrator to increase, to the extent possible, the staff resources of the Special Unit, due consideration to have been given to the necessity to contain administrative costs. He described the methodology followed by UNDP in its review of that matter which included a comprehensive analysis of the Special Unit's functions. He emphasized a point made in the report submitted to the Council, namely that each set of activities undertaken by the Unit did not represent a fixed quantum of work which required a precise number of staff to carry out. Instead, the level of activity was subject to availability of staff resources, provided a certain minimum number of staff were available to carry out essential functions.

83. He then reviewed the changes in the level of staffing of the Unit since its establishment in 1975, as well as the various options considered by the Administrator in his recent review in an attempt to respond to the concerns of the High-level Committee on Technical Co-operation among Developing Countries with regard to the Unit's staffing. He informed the Committee that following his comprehensive review, and taking into account every factor relevant to the issue, the Administrator, on balance, was unable to recommend increases in the staffing level of the Unit. In the view of the Administrator, the further enhancement of the Unit's activities would be pursued along the same successful lines followed hitherto, namely that of working closely through regional bureaux and field offices as well as in the enhancement of the focal points for TCDC in developing countries.

Summary of the discussion in the Committee

84. Members expressed their appreciation to the Administrator for the comprehensive and clear report submitted for their review. All expressed their continued support of TCDC activities and their keen interest in further enhancing them. Many members considered the contents of the Administrator's report to be balanced and based on a practical and responsible approach. Several of those members expressed the view that the enhancement of TCDC activities within the bounds of available resources was the most practical way

for handling the issue and expressed their support of the Administrator's views and ideas on the matter as reflected in the report. They referred to the open presentation of the issue by the Administrator and stated that the staffing of any single unit, including that of TCDC, had to be viewed within the larger context of general staffing and administrative costs in UNDP. A member emphasized that TCDC was a matter primarily for developing countries to handle themselves, a principle which he thought was generally accepted. He further emphasized that the decisions of the High-level Committee, including those on staffing, were an expression of that group's views; in that context the Governing Council had requested the Administrator to review the feasibility or otherwise of responding to those requests. Another member pointed to the discussion at the High-level Committee on the issue of staffing and stated that that Committee's decision on the subject was not unanimous. That member stated that clearly almost every unit in UNDP could benefit from additional staffing resources but those resources were limited.

85. While many members understood the interest of several Governments in securing additional staff for the Special Unit, they accepted the validity of the Administrator's considerations and the soundness of his conclusion not to recommend an increase in the staff of the Special Unit for TCDC, which they therefore endorsed.

86. Other members expressed disappointment at the Administrator's inability to propose a restoration of the staffing of the Unit to its original strength and highlighted the great importance and potential contribution of TCDC to developing countries' self-reliance. They could not endorse the Administrator's conclusions and questioned whether a critical level of staff resources was indeed available in the Unit to perform the essential functions. These members compared the staffing of the TCDC Unit with that of other units in UNDP, and stressed that the TCDC unit should be reinforced. Furthermore, while the priorities of staff strength might depend on various judgemental factors, in the case of TCDC the high priority and importance attached to the issue were clearly highlighted by Governments, in particular at the High-level Committee. In their view, the question before the Budgetary and Finance Committee was not whether there was a need for additional staff - that principle had already been agreed upon by the High-level Committee - but how best to meet those needs and to determine positively its relative priority. Some of those members considered that the absence of a positive response could endanger the results achieved by TCDC activities. Another member stated that while he saw the logic in the Administrator's report, he considered that the test of bridging the gap between developing countries was beyond that simple logic. Several of those members urged the Administrator to review again the situation and resolve the question of the staffing of the Special Unit.

Response of the Administration

87. In his response, the Assistant Administrator stated that in the view of UNDP any discussion on TCDC should have as its starting point not just the recognition of TCDC's great importance, but rather how best to support it. UNDP's involvement in TCDC activities could not be measured simply in the number of staff. Furthermore, in the view of UNDP, TCDC did not mean staff sitting at headquarters but rather assisting field offices and Governments in the design of projects, in the enhancement of economic and technical relations between Governments and such similar activities. He provided a list of headquarters units which, in the judgement of UNDP, needed strengthening and further emphasized that such was the case with many field offices particularly in the least developed countries. In referring to the High-level Committee decisions, he emphasized that that Committee was not constrained by budgetary considerations, whereas UNDP and the Governing Council had to deal with budgetary factors as essential elements. As UNDP considered that the minimum critical level of staff resources was in fact available in the Special Unit for TCDC, the Administrator had to reach the conclusions reflected in his report to the Council.

Recommendation of the Committee

88. Following its consideration of this subject, the Committee recommended that the Council adopt the following decision:

The Governing Council,

Having considered the report of the Administrator contained in document DP/1984/46,

Cognizant of the importance all countries attach to TCDC activities,

Recognizing the importance and pertinence of the High-level Committee on the Review of Technical Co-operation among Developing Countries' recommendations on the need to strengthen the staffing of the Special Unit,

Noting the current financial constraints of UNDP,

Also noting the Administrator's conclusion not to recommend additional staff to the unit at this stage,

Requests the Administrator to keep the issue of staffing of the Special Unit for TCDC under review, in particular in conjunction with the preparation of the 1986-1987 biennial budget.

89. The Governing Council subsequently adopted decision 84/24.

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B. Progress report on the TCDC Information Referral System (INRES)

90. For its consideration of one of the questions under item 8(d) of the Council's agenda, the Committee had before it a progress report of the Administrator on the TCDC Information Referral System (INRES) (DP/1984/48). In his introductory statement, the Associate Administrator pointed out that while the system had been slow in starting up due to the complex nature of the task of data-gathering, recent progress had been more significant. He further referred to the second issue dealt with in the progress report: the re-orientation of INRES to the requirements of the Multi-Sectoral Information Network (MSIN) envisaged by the TCDC meeting held in Tunis in October 1982. In that connection, the Associate Administrator stated that the Group of 77 was currently engaged in planning and pre-feasibility considerations of MSIN and that UNDP was not yet involved. In the meantime, UNDP had reviewed the scope and coverage of a number of other information networks, many also supported by UNDP, and had found some overlap in the coverage of those systems. The Administrator had therefore directed the Central Evaluation Office to undertake an evaluation of all global and regional information systems supported by UNDP.

Summary of the discussion in the Committee

91. In the following discussion, several members commended UNDP for the frankness of the report. It was pointed out that overlap in project coverage was not unknown in other organizations but it was more unusual that anything was done about it. UNDP was particularly commended for its efforts to try to eliminate those overlaps.

Recommendation of the Committee

92. The Committee recommended that the following decision be adopted by the Council:

The Governing Council

Takes note with appreciation of the report of the Administrator (DP/1984/48) on the progress of the TCDC Information Referral System (INRES).

93. The Governing Council subsequently adopted decision 84/26.

C. UNSO: alternative ways and means of financing the
UNSO-UNDP/UNEP joint venture beyond the 1984-1985 biennium

94. For its consideration of item 8(f)(iii) of the Council's agenda, the Committee had before it document DP/1984/51 and Corr. 1 and 2 dealing with alternative ways and means for financing the UNSO-UNDP/UNEP joint venture beyond the 1984-1985 biennium.

95. The Director of UNSO, in introducing the subject, briefly outlined the circumstances which led to the establishment of the UNDP/UNEP joint venture in 1978 following General Assembly resolution 32/170 and Governing Council decision 25/10. He stated that the number of countries served by UNSO under its desertification control mandate had risen from 15 to 21, with 2 countries, Ghana and Togo, having been added to the list by decision 12/10 of the UNEP Governing Council held in May 1984. During the preparation of the report now before the Committee, various possibilities for financing the joint venture beyond the present biennium had been examined by the Administrator, in close consultation with the Executive Director of UNEP. For the reasons elaborated in the document it was concluded that none of the options, apart from the one applied currently, represented a viable means of supporting the joint venture. The Administrator was therefore recommending to the Council that the current system of financing the joint venture should continue to apply. That called for the programme support budget to be funded from the regional IPFs for the African and the Arab States regions on a pro-rata basis. The Administrator indicated that, accordingly, 86 per cent of UNDP's share would be financed from the regional IPF for Africa while the balance of 14 per cent would be financed from the regional IPF for the Arab States. That ratio was based on the number of countries served by UNSO that were covered by the regional bureaux for Africa and the Arab States. As regards the institutional support budget, it was proposed that it continue to be funded from the administrative budget on the basis that the elements comprising the institutional support budget were similar to those of UNDP's own administrative budget. The Director of UNSO drew the Committee's attention to the fact that, as a result of financial constraints experienced by UNEP from 1982 onwards, three approved posts on UNSO's manning table had had to be reduced. He further informed the Committee that, while UNSO was thus far managing to operate under that limitation by the redistribution of responsibilities among its existing staff, it was obvious that that situation, particularly in view of the dimensions of the problems of desertification in Africa and the addition of Ghana and Togo to UNSO's mandate, could not be maintained on a long-term basis, and that additional resources were required.

96. The Director of UNSO stated that the Administrator had recently been informed by the Executive Director of UNEP that, as a result of UNEP's financial constraints, the level of resources likely to be made available to the joint venture for 1986-1987 would be equal or similar to that provided for

1984-1985. That would constitute a net reduction in real terms. In that connection, the Director informed the Committee that the Administrator had taken note of UNEP's intention and had informed the Executive Director of UNDP's intention to provide a similar amount for 1986-1987, subject to the Council's decision on financing the joint venture beyond the current biennium.

97. In conclusion, the Director of UNSO expressed the hope that, taking into account the need to increase efforts in combating desertification which continued to intensify in Africa, additional resources would be made available to the joint venture of UNEP and UNDP and that it would be possible for the Committee to endorse the recommendations of the Administrator contained in the report.

Summary of the discussion in the Committee

98. Members expressed their appreciation to the Director for his introduction of the report and for highlighting the problems of desertification and drought in Africa. Several members emphasized the continuing and increasingly critical situation experienced by the countries of Africa in their efforts in combating desertification. One member noted that UNSO was the only institutional mechanism existing in the United Nations system for combating desertification and drought in Africa, and that, in view of the deteriorating situation, the Economic and Social Council had decided to highlight the problem in 1984. Several members expressed support for the efforts of UNSO and recommended that additional resources be made available to the joint venture. Several members supported and recommended approval of the conclusions of the report. A few members expressed concern for the financial viability of the joint venture in view of the absence of any information regarding the future plans of UNEP. One member underscored the importance of technical assistance to the region and stated that as the report before the Committee did not demonstrate any other viable possibility, the present system of financing should continue. Several members stated that, while their Governments continued to support the countries in the Sudano-Sahelian region, they were obliged to pose a few questions to the Administrator. In particular, why were the programme and institutional support budgets of the joint venture practically at the same level? What was meant by programme support and the statement in paragraph 12 of document DP/1984/51? As UNEP's share of the joint venture was financed from the Fund for the Environment, which was a voluntary fund, while UNDP's contribution was financed from regional IPFs, did that mean that the Committee might find itself in a similar position as in 1983 when UNDP had to finance a deficit in the joint venture? What would be the effect of a decrease in UNEP's contribution? What had happened since 1983 when the Council authorized an over-expenditure in the regional IPFs for Africa for financing UNDP's share of the programme support budget?

Response of the Administration

99. In responding to the questions raised, the Director of UNSO stated that, as was reflected in paragraph 109 of the 1983 report of the Budgetary and Finance Committee (DP/1983/73), the level of the institutional support budget was carefully reviewed and reflected the costs associated in administering the entirety of UNSO's desertification control mandate. The institutional support budget of the joint venture was used for financing, in part, the administrative costs of UNSO's headquarters staff and the entire costs of the UNSO regional office in Ouagadougou, which was responsible for covering all the 21 countries in the Sudano-Sahelian region. The amounts shown in the report now before the Committee for the institutional support budget, therefore, reflected the decision of the Governing Council. As regards the programme support budget, the resources made available under that heading were used mainly for financing missions for project identification, formulation and development in the Sudano-Sahelian region and were basically "seed" money essential for generating additional funding required for combating desertification. With respect to future levels of financing of UNEP's share of the joint venture, the Director of UNSO informed members that at the recently concluded session of UNEP's Governing Council, there had been widespread support expressed for UNSO's efforts at combating desertification in the region. In light of that and the addition of Ghana and Togo to UNSO's mandate, the Director of UNSO had discussions with the UNEP Executive Director regarding the possibility of additional resources being made available to the joint venture. While no formal decision had yet been made, the Director of UNSO expressed his confidence that UNEP would increase its contribution to the joint venture. With respect to the past deficits which several members had referred to, the Director assured the Committee that the matter had been satisfactorily resolved and that the shares of UNDP and UNEP were now in balance.

100. The Assistant Administrator, Bureau for Finance and Administration, responded to the question of the over-expenditure in the Africa region IPF used for financing UNDP's share of the programme support budget and explained that that was the result of borrowing in the second cycle from the third cycle. He stated that a report (DP/1984/20) was before the Council requesting it to give the Administrator the authority to borrow from the fourth cycle on the understanding that that borrowing was well within the amount expected to be allocated for the fourth cycle. The problem would therefore be resolved in the fourth cycle. Responding to the question of the impact of UNEP's reducing its share of support to the joint venture, the Assistant Administrator stated that, since the Governing Council had decided that UNDP's share of the joint venture should be exactly equal to that of UNEP, that would mean a corresponding reduction of UNDP's contribution to the joint venture. He further stated that, while it was cumbersome to have resources of the joint venture dependent on autonomous decisions of two separate governing bodies, that was the reality that UNSO faced and was left with little choice in the matter. On

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the question of why UNDP's contribution to the institutional support budget was funded from the administrative budget, the Assistant Administrator said that that had historically been the case and that the Administration saw no reason to question the use of that source for such funding. Responding to the question raised by one member, the Assistant Administrator explained that the Director of UNSO reported directly to the Administrator and UNSO was thus considered part of the Office of the Administrator.

Recommendation of the Committee

101. Following its discussion, the Budgetary and Finance Committee recommended that the following decision be adopted by the Governing Council at its thirty-first session:

The Governing Council,

Recalling its decisions 80/45, 81/4, 82/26, 82/28 and 83/25 concerning the implementation of the Plan of Action to Combat Desertification in the Sudano-Sahelian region,

Conscious of the need for the speedy implementation in the Sudano-Sahelian region of the Plan of Action to Combat Desertification, particularly in view of the current situation affecting these countries,

Recognizing the crucial role of the United Nations Sudano-Sahelian Office in implementing the Plan of Action in the Sudano-Sahelian region,

Further recognizing the need to channel assistance to the Sudano-Sahelian countries on an increasing and assured basis to enable them to combat desertification effectively,

Having considered the report of the Administrator (DP/1984/51 and Corr. 1 and 2 on the alternative ways and means of financing the UNSO-UNDP/UNEP joint venture beyond the 1984-1985 biennium,

(a) Notes with satisfaction the provisions that have been made by the Administrator of UNDP to ensure that the costs of UNDP's participation in the UNSO-UNDP/UNEP joint venture for 1984-1985 are fully secured despite the tight resource situation of the regional IPF;

(b) Notes that the Administrator of UNDP, in consultation with the Executive Director of UNEP, has examined in detail the alternative sources of financing the UNSO-UNDP/UNEP joint venture beyond the 1984-1985 biennium;

(c) Endorses the Administrator's recommendation that, pending the identification and availability of alternative sources of funding, the UNSO-UNDP/UNEP joint venture continue to be funded from the regional indicative planning figures for Africa and for the Arab States, and from the administrative budget of UNDP;

(d) Requests the Administrator of UNDP to continue to co-operate with the Executive Director of UNEP and to ensure that additional resources are made available in the future under the UNSO-UNDP/UNEP joint venture, to the countries of the Sudano-Sahelian region in their efforts to combat desertification.

102. The Governing Council subsequently adopted decision 84/29.

IV. PROGRAMME IMPLEMENTATION

A. Assistance to Namibia

103. For consideration of item 4(c) of the Council's agenda, the Committee had before it a report of the Administrator (DP/1984/14/Add.1) which described the progress made in response to Governing Council decision 83/10 on the question of support costs in respect of projects financed from the United Nations Fund for Namibia.

104. In introducing this item, the Associate Administrator referred to the extensive consultations which had been held with all the parties concerned. He explained the two issues involved and informed the Committee of the current status of each.

105. With regard to the total waiver of support costs, he stated that, while the Administrator undertook to consult the executing agencies on the issue, he had already advised the Council in 1983 that that was a matter for determination primarily by the agencies. The progress report provided an explanation of the agencies' position on it, and they, for the most part, had not found it possible to respond positively to the request. In that connection, the Associate Administrator drew attention to the letter he had received from the United Nations Commissioner for Namibia, following the completion of the consultative process with executing agencies, in which the Commissioner expressed his appreciation for the UNDP efforts and stated that, in view of General Assembly resolutions on the subject, he reserved the right to pursue the matter of a full waiver of support costs through direct negotiations with each individual agency. The Associate Administrator expressed the view that the Governing Council and UNDP had completed their action on the matter and that, following adoption of the present report, no additional consideration of the issue was needed by the Council.

106. As to the question of treating project costs as expenditure against government cash counterpart contributions (GCCC), the Associate Administrator apprised the Committee of the formulation, adopted after due consultations with the United Nations Office of Legal Affairs and with executing agencies, which would allow certain costs incurred in neighbouring countries acting as host to Namibia projects to be treated as GCCC.

Summary of the discussion in the Committee

107. Members expressed their appreciation to the Administrator and his staff for the prompt action taken on the issues involved. They noted with satisfaction the positive reaction of executing agencies to treat certain project expenditures as GCCC as described in DP/1984/14/Add.1. Most members endorsed the Administrator's conclusions and his recommendations on the subject. One member, speaking on behalf of a group of countries, stated that he supported the concept of a waiver, since the United Nations Fund for Namibia was a special case and thus would not create a precedent in respect of other funds. Several members expressed the hope that the issue of complete waiver of support costs would be resolved in the near future in the discussions between the Commissioner and the executing agencies. Another member expressed his delegation's appreciation to those executing agencies which had agreed to grant a full waiver of support costs in respect of projects financed from the United Nations Fund for Namibia. One member enquired as to the potential effect on UNDP of the application of the recommendations.

Response of the Administration

108. The Associate Administrator, in reply to one question, explained that there would be no financial impact on UNDP resulting from the application of the measures listed in the report. That was due to the fact that, for those Trust Fund projects, support costs were paid by the Fund for Namibia and not by UNDP. To the extent that the UNDP Office for Projects Execution would be implementing projects financed from the Trust Fund, it would be in the same position as executing agencies: that is, earning 3.5 per cent on project inputs considered as GCCC. He stressed that in respect of projects financed from the IPF for Namibia, regular support costs would continue to be paid to executing agencies.

Recommendation of the Committee

109. Following the discussion on this subject, the Budgetary and Finance Committee recommended that the following draft decision be adopted by the Council at its thirty-first session:

The Governing Council

(a) Takes note of document DP/1984/14/Add.1 dealing with reimbursement of support costs for project activities financed from the United Nations Fund for Namibia and of the views expressed by members of the Council in the course of its discussions thereon;

(b) Expresses its appreciation to the Administrator and to the executing agencies for action taken to treat part of the costs of projects, where appropriate, as expenditure against government cash counterpart contributions (GCCC) and approves this modality;

(c) Takes further note of agencies' views on the possibility of granting total waiver of support costs in respect of projects financed by the United Nations Fund for Namibia and the views of the United Nations Commissioner for Namibia on the subject;

(d) Notes that the United Nations Commissioner for Namibia intends to continue discussions with the executing agencies implementing such projects with the view to obtaining full waiver of such support costs.

110. The Governing Council subsequently adopted decision 84/12.

B. Government contributions to local office costs

111. For consideration of one of the subjects under item 4(b) of the Council's agenda, the Committee had before it a report of the Administrator contained in document DP/1984/12 and Corr. 1 and 2 and Add. 1.

112. The Assistant Administrator, Bureau for Finance and Administration, introduced the subject. He described the substantial negotiations and efforts made to obtain host government contributions at least to the minimum level established by a payment formula promulgated by the Administrator based on Governing Council decision 82/18. He then provided statistics on the results obtained and informed the Committee that, whereas the original estimated income for the biennium 1984-1985 had been set at \$30 million, an amount lower by itself than the target, current projections for income from that source stood at \$23.5 million which represented \$6.5 million less than the original estimates and \$13 million less than the target.

113. The Assistant Administrator recognized the need to continue negotiations with host Governments on their contributions, but drew attention to the Administrator's report which proposed a set of actions to be taken in respect of those cases where contributions had not reached the minimum level required. He then referred to the issue of interest on cost-sharing balances covered in the document and stated that the application of a system of positive interest on credit balances made it necessary to charge negative interest in cases of debit balances.

Summary of the discussion in the Committee

114. Members expressed their appreciation for the clear and lucid report and introduction to a subject matter which involved many complex issues. Many delegates expressed their view that the commitment of Governments to pay local office costs due from them were somewhat disappointing in that many countries had neither responded nor gave their agreement to meet the minimum target established. They considered that it was important for developing countries to pay their fair share of local office costs. One member questioned whether

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the unwillingness to pay resulted from disagreement between the UNDP Administration and the countries concerned regarding the amounts due. Many members expressed their hope that those countries that as yet had not pledged the minimum amount due would do so soon. Those members endorsed in general the recommendations of the Administrator contained in the document, while some had specific questions or comments relating to certain elements of the recommendations. Some requested clarification on how the proposed accounting linkage between the various government contributions would operate. Several other delegates thought that not only was the methodology proposed by the Administration proper, but that the methodology of presentation should apply to all countries so that a complete picture of inflows and outflows for each country would become available. In that connection, one member, supported by others, stressed that such information would provide a picture as to which countries had or were close to achieving a net donor status. Several members stressed the importance of the legal opinion presented in the document which, in their view, gave strength to the proposals made by the Administrator.

115. Other members expressed reservations concerning statements made in the Administrator's report and said that they could not support several of the conclusions reached and recommendations made. Those members agreed in general that the local office costs had to be shared by recipient Governments; however the legal opinion did not support a legally binding requirement on the Governments to bear a specific percentage of such costs. Those amounts needed to be negotiated and agreed upon between UNDP and each recipient Government; those members did not support the proposal to charge LPFs. Some of them also stated that certain definitions incorporated in the document, particularly in the waiver formula, had to be revised as the existing nomenclature assumed legal and other positions which were not sustainable.

116. With regard to the handling of interest on cost-sharing balances, some members expressed favourable views on the Administrator's proposals to provide credit balances with positive interest and to charge negative interest on debit balances. Other members, however, opposed the Administrator's proposal considering they did not comply with the objectives of UNDP. Some members inquired what utilization would be made with the interest earned while others inquired as to what had been done until now with interest earned. A member, while supportive of the principle of calculation of interest, wondered what was the cost-benefit ratio of such an action and whether it could be justified for UNDP on economic grounds.

Response of the Administration

117. In his response, the Assistant Administrator acknowledged that progress achieved in getting positive responses had not been sufficient, but stated that progress was being made continuously and it was encouraging to note that some of the less rich Governments had agreed to meet the target. In that connection, confirmation had been received during the discussion that Venezuela would contribute its share of 75 per cent of local office costs;

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further, the observer of Cuba indicated that his country had decided to increase its contribution both in cash and in kind from 35 per cent to 52 per cent of the local office costs. The Assistant Administrator then explained that no debts were recorded in the UNDP accounts under that heading as contributions were recorded as income when received. As to the legal status of Governments' obligations, he explained that following the Council's twenty-ninth session in 1982, UNDP had raised the issue with the United Nations Office of Legal Affairs which confirmed that basic agreements were binding and required Governments to meet certain costs which he detailed. He then described the meaning and methodology of the accounting linkage which the Administrator proposed to introduce between voluntary contributions, voluntary programme costs and contributions towards local office costs.

Further discussion in the Committee

118. Several members pointed to some inaccuracies in the tables attached to the report; other delegates sought to clarify and provide updated or corrected information on government contributions to local office costs with which they were familiar. A member stated that while she agreed with the principle of sharing the costs of the field offices, joint reviews had to be undertaken with UNDP in order to determine how to reduce costs. Another member stated that neither the proposed idea, nor the methodology for creating an accounting linkage between contributions was clear. Furthermore, the arrangements proposed for sharing local office costs were not flexible or justified. Another member supporting similar views stated that a legal obligation for specific amounts due from a Government could be established only following negotiations and agreement with the recipient Government. The Standard Basic Assistance Agreement did not state or provide for specific amounts as a government obligation.

119. With regard to interest on cost-sharing, a member suggested that interest earned should be credited to the country or to the project.

Further response of the Administration

120. The Assistant Administrator stated that as far as UNDP was concerned the opinion of the United Nations Office of Legal Affairs represented the highest legal authority for interpretation of agreements and that opinion was clear. As to the comments of some representatives on cost savings in field offices, he stated that the administration would be pleased to co-operate with Governments in achieving, where possible, increased cost efficiency at the field level. At the same time he cautioned that UNDP might not necessarily agree with the effectiveness of each cost-cutting measure.

Recommendation of the Committee

121. Following its discussion, the Budgetary and Finance Committee recommended that the Council adopt the following decision:

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The Governing Council

(a) Takes note of document DP/1984/12 containing a progress report on host Government contributions towards local office costs and a summary of legal opinion on host Government obligations in this respect;

(b) Expresses appreciation to Governments that have met their commitments as mutually agreed in accordance with the Standard Basic Assistance Agreement or similar agreements or those that have agreed to increase their contributions to local office costs;

(c) Reconfirms that following decision 82/18 the Administrator may waive in part host Government contributions to local office costs to be made by them as mutually agreed in accordance with their commitments under the Standard Basic Assistance Agreement or similar agreements;

(d) Calls on Governments which have not done so to increase their contribution at least to the level of their commitments as mutually agreed in accordance with the Standard Basic Assistance Agreement or similar agreements;

(e) Requests the Administrator to pursue vigorously negotiations with Governments that have not yet reached the levels indicated in (d) above for contributions to local office costs with the aim of concluding such negotiations before the end of 1984;

(f) Requests the Administrator to ensure that resident representatives have appropriate consultations with the host Governments before they submit their biennial budget requests;

(g) Requests the Administrator to provide the Council with information concerning the net flow of contributions to and payments from the UNDP system in respect of each participating Government;

(h) Authorizes, in connection with (g) above, the Administrator to establish from 1 January 1985 an accounting linkage of voluntary contributions, contributions to voluntary programme costs and contributions to local office costs, in such a manner that contributions are first accounted for against the local office costs;

(i) Requests the Administrator to report on progress achieved on these matters to the Governing Council at its thirty-second session.

122. The Governing Council subsequently adopted decision 84/9.

V. FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

A. Annual review of the financial situation, 1983

123. For consideration of item 9(a) of the Council's agenda, the Committee had before it the report of the Administrator (DP/1984/53) which provided a comprehensive financial review of the activities financed from the UNDP account during 1983, the financial position of UNDP at the end of 1983 and a forecast of activities for 1984 and 1985. In connection with the request of the International Telecommunication Union (ITU) for additional support cost reimbursement, the Committee was provided informally with a copy of ITU's letter to the Administrator, dated 18 May 1984, and a copy of resolution No. 916 adopted by the ITU Administrative Council on this subject.

124. In introducing this item, the Director of Finance highlighted the main financial data contained in the document. While actual income received was close to the amount forecast to the Council in 1983, programme expenditures were below the forecast with a shortfall of \$67 million in IPF expenditures alone. The shortfall was attributed to several factors, among them the strength of the United States dollar which had had a moderating effect on programme expenditure, because delivery in real terms had cost less in dollar terms than the amount budgeted for. He also explained that, in view of the 1982 decision taken by the Administrator to reduce IPF expenditure targets to 55 per cent of the illustrative IPFs, the Administrator had set certain annual limitations on programme expenditures to provide for a smooth transition to the lower level of programming, in line with projected resource availability. The Director explained that the recent decline in expenditure would still permit the achievement of the reduced targets for the cycle as a whole. He went on to say that the net effect of these 1983 reductions in expenditure was to produce a surplus of income over expenditure of some \$87 million compared with a projected deficit of \$29 million. The financial data for the year showed that the net assets of UNDP as represented by the Revenue Reserve, went up from a negative balance of \$6 million at the end of 1982 to a positive balance of \$60 million at the end of 1983.

125. The Director of Finance then provided information on the projected income and expenditure for 1984 and 1985 which, while not representing any dramatic change compared with 1983, showed signs of some modest growth and were, perhaps, an indication of some change in last year's trend. If the projected data on income and expenditure materialized, it would result in a Revenue Reserve of \$87 million at the end of 1985. The Director of Finance also highlighted the fact that the payment of contributions by Governments in 1983 was encouraging, as most of them had paid their pledges earlier in the year. He expressed the Administrator's appreciation to those Governments for their payments and to the Council for its repeated appeals in past years for prompt payment of contributions.

126. He briefly touched upon a number of other subjects covered in the report including the request made by the International Telecommunication Union (ITU) for additional support cost reimbursement. He described the consultations which had taken place between UNDP and ITU, including the clarifications sought by UNDP, and referred to the discussion held in the ITU Administrative Council in April, as well as to resolution No. 916 of that Council which invited the UNDP Governing Council to consider its decision on support costs bearing in mind the particular situation of ITU.

Summary of the discussion in the Committee

127. Members expressed their appreciation for the clear and comprehensive documentation submitted to the Council under this agenda item. They noted with satisfaction the distinctly improved financial situation of UNDP at the end of 1983, even though it was due largely to a decrease in actual programme expenditure in comparison with projections rather than an increase in income. While some members regarded such a decrease as a natural and acceptable phenomenon, in view of UNDP's financial situation - which required financial prudence at all times - others considered the decline too steep and unsound. One member, supported by others, remarked that the reduction had been introduced with a sense of urgency and great concern and had resulted in measures which were too drastic causing damage to the whole process of UNDP-supported programmes from programme planning to programme implementation. Other members wondered whether there had been major bottlenecks in the project approval process which had contributed to the severe decline in implementation. Members, in general, expressed the hope and expectation that programme delivery would pick up momentum, compatible with levels of projected delivery and resource availability. In that connection, several members enquired as to the basis for the income projections which had been made.

128. Members were pleased to note the increase in the level of cost-sharing activities and some noted that it was a sign of confidence in the Programme. One member questioned the basis on which optimistic forecasts were made in respect of cost-sharing income and expenditure, whereas the main programme income and expenditure forecasts appeared stationary. Another member noted that it was self-evident that Governments participating in cost-sharing activities should meet the cost to UNDP of the additional workload resulting from such activities. Members noted with particular satisfaction the timely payment of contributions and expressed the hope that that pattern would continue. One member, speaking on behalf of a group of countries, stated that those countries would continue to provide a payment schedule to UNDP and expressed the hope that other Governments would do the same. Most members expressed disappointment that the level of accumulating non-convertible currencies had remained almost stable. Some of them further noted that the marginal decline of these holdings did not result from greater utilization of these currencies but rather from the decline in their value in dollar terms. One member stated that his Government's current contributions in

non-convertible currencies since 1976 were, according to the Administrator, being fully utilized and that therefore there was no real problem in utilizing those currencies. He further stated that his Government paid half of the accumulated currencies to the United Nations Special Fund in 1959-1965 and not to UNDP.

129. In commenting on other issues covered by the report, one member noted that there appeared to be a substantial decline in the rate of return on funds placed by UNDP and enquired as to the reasons. Several members noted the high administrative cost of the programme which, in their view, was not justified. When the UNDP administrative cost was combined with agency support costs, the rate seemed particularly high. In that connection, some members noted that the Governing Council in its decision 80/44 set 12 per cent of total programme costs as an initial policy objective for UNDP's administrative budget. Others remarked that there was no justification to reimburse agencies above the standard support cost rate as there was no justification for UNDP to meet the full support costs incurred by agencies. One member noted the variety of non-core activities undertaken by UNDP and expressed reservations in that respect, stating that the proliferation of so many arrangements did not necessarily represent a healthy trend for UNDP. In his view, non-core activities should remain at all times the exception and should be marginal compared to core activities.

Response of the Administration

130. The Assistant Administrator, Bureau for Finance and Administration, and the Director of Finance responded to the specific questions and observations made by members. With regard to the return on funds placed by UNDP, it was explained that apart from the fact that rates of return in 1983 were generally lower than in 1982, the holdings of UNDP funds in certain specific donor country currencies traditionally resulted in a lower rate of return. He further explained that losses on exchange, while substantial, were mainly book losses resulting from losses incurred on UNDP holdings of certain donor country currencies which UNDP did not exchange for other currencies when there was a reasonable expectation of their being utilized within a relatively short time. Sometimes contributions to the Programme were paid shortly before a devaluation and UNDP was not able to sell the currency before the devaluation. As to the projections made on the resource side, they were based partly on historical trends and partly on the best estimates that UNDP was able to make in the light of currently available information. None could be considered as certain, but they appeared to UNDP's administration to be reasonable.

Further discussion in the Committee

131. A delegate made a proposal whereby a certain part of his country's accumulating non-convertible currency would be made available to LDCs, at their request, over and above the 55 per cent of the illustrative IPF but well

within that figure. That delegate stated that the amount equivalent to \$7 million was accumulated prior to the establishment of UNDP and could be used for the proposed purpose, which would constitute a great help to LDCs which were particularly affected by the reductions in IPF expenditure.

132. The Associate Administrator clarified certain of the issues concerned and stated that, following consultations with the United Nations Office of Legal Affairs, it had been determined that at the time of the amalgamation of the funds which made up UNDP all available resources were subsumed in UNDP with no distribution between funds. Therefore, those funds under consideration were subject to all Financial Regulations and Rules applicable to funds in the UNDP Account. The Associate Administrator said that a practice similar to that now proposed by a member had been used by the Administration in 1976 but had been prohibited by the Governing Council in 1977. He further stated that if the Council were to agree to the proposal made by a Government, the respective funds would have to be removed from the UNDP account into a special trust fund.

133. In the discussion, several delegates expressed the view that the adoption of the proposal would amount to the establishment of another tied trust fund. After informal consultations, the delegate who made the initial proposal for the utilization of his country's contribution to UNDP revised his proposal to reflect an authorization to the Administrator to find ways to utilize his country's accumulated non-convertible contribution in favour of LDCs. The Committee agreed on the text of a decision on that matter as reflected in the recommendation on this item.

ITU request for additional support cost reimbursement

134. The Deputy Secretary-General of ITU described in further detail his organization's request for an additional reimbursement of support costs. He explained that the deficit problem in the Technical Co-operation Special Account of his organization had become chronic due to the following factors: (a) the location of the organization's headquarters resulted in a relatively high cost; (b) currency fluctuations over the last decade had been mostly unfavourable with regard to support costs received in United States dollars; (c) the absence of a technical co-operation programme financed by the regular budget; and (d) the success of the organization in programme delivery had taken it above the flexibility provisions applicable to smaller organizations. He highlighted the decline in programme delivery in recent years which had contributed adversely to the deficit.

135. In their review of this matter, members expressed some understanding of ITU's difficulty. Most members, however, expressed the view that it was not UNDP's role to meet the totality of an organization's support costs requirements and that therefore the ITU request could not be supported. Some members expressed the view that the general issue of support costs did not need to be reopened at the present stage and that the support cost provisions

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contained in decisions 80/44 and 81/40 were detailed and comprehensive and should not be renegotiated. One member, on behalf of a group of delegations, stated that total support cost reimbursement to ITU in percentage terms was less than for other executing agencies and requested clarification as to whether ITU had been reimbursed at a lower rate than other executing agencies. In reply, the Assistant Administrator stated that ITU had been reimbursed in the same way as had other executing agencies. Several members felt that even if an exception in favour of the ITU's request were to be considered, the effect of creating a precedent of that kind would be detrimental to the whole issue of support cost. Therefore, while understanding ITU's problem, members did not consider it possible to respond favourably to this request.

Recommendation of the Committee

136. Following the discussion of these subjects, the Budgetary and Finance Committee recommended that the following decision be adopted by the Governing Council at its thirty-first session:

The Governing Council,

Having reviewed the report of the Administrator on the review of the financial situation in 1983 (DP/1983/53), including the request made by the International Telecommunication Union for an additional support cost reimbursement,

Taking into account the observations and comments made by its members thereon,

(a) Takes note of the steps being taken by the Administrator to ensure that the level of programme delivery is consistent with existing and projected resource availability;

(b) Encourages the Administrator to continue to make available for projects and programmes in developing countries the maximum possible level of resources in conformity with the financial viability of the Programme;

(c) Expresses satisfaction at the prompt payment of pledges by many donors and urges all Governments to continue making such payments as early in the year as possible;

(d) Urges all Governments in a position to do so to increase their voluntary contributions to the Programme on a more predictable, continuous and assured basis;

(e) Requests the Administrator to investigate various possible alternatives to utilize accumulated non-convertible roubles and report thereon to the thirty-second session of the Governing Council;

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(f) Decides that support cost reimbursement to executing agencies, including the International Telecommunication Union, should continue to be made in accordance with the provisions of Governing Council decisions 80/44 and 81/40.

137. The Governing Council subsequently adopted decision 84/31.

B. Revised budget estimates for the biennium 1984-1985

138. For its consideration of item 9(b) of the Council's agenda, the Committee had before it a report of the Administrator on revised budget estimates for the biennium 1984-1985 contained in document DP/1984/54.

139. The Assistant Administrator, Bureau for Finance and Administration, introduced the item by stating that the Administrator was proposing revised estimates of \$332.6 million gross, \$262.3 million net, for the 1984-1985 biennium. That represented a reduction of \$24 million gross, \$17 million net, in the original estimates. The reduction was attributable primarily to currency movements which accounted for a reduction of \$14 million, and the impact of inflation which resulted in an additional decrease of \$12 million. These savings were partially offset by mandatory cost increases, totalling approximately \$2 million. The income picture also reflected a reduction - primarily due to a revised estimate of governmental local office cost contributions under UNDP core activities - from \$30 million to \$23.5 million. The Assistant Administrator then referred to the proposals for technical changes in future budget presentations, in particular the proposal for net costing of international and New York General Service staff.

140. Turning to the proposal for a contingency provision for the biennial budget, the Assistant Administrator stated that that mechanism would allow UNDP to meet unavoidable changes in costs resulting from dramatic currency movements, changes in inflation rates, or decisions of the General Assembly which occurred subsequent to the final session of the Council within a biennium. Its use would be limited to 3 per cent of the gross appropriations for the biennium, and would be subject to the prior concurrence of ACABQ. He pointed out that several agencies had similar provisions.

141. Concerning the job classification exercise, decisions of the International Civil Service Commission with respect to General Service posts were expected in July, and would be put before the General Assembly at its thirty-ninth session. The Administrator considered it essential that the new grade structure and salary survey be introduced simultaneously with that of the United Nations. He therefore proposed that the Council allow UNDP to implement the new grading and salary structures simultaneously with the United Nations, since there would be no opportunity to present a final proposal to the Governing Council before June 1985. Any such action would, of course, be

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subject to the prior concurrence of ACABQ, and would be reported to the Council at its thirty-second session. The classification exercise for posts at the Professional level was not yet complete, but it was expected that the financial impact would be minimal. The Administrator would report on the classification of Professional posts to the Governing Council at its thirty-second session in 1985 and would also, at that time, propose an effective date for implementation.

142. With regard to OPE support cost earnings, it was reported that \$700,000 had been carried forward from the previous biennium to 1984-1985. That was well within the limit of \$1.3 million set by the Governing Council.

143. Finally, the Assistant Administrator reported that ACABQ, in its report contained in DP/1984/56, took note of the issues and had no objection to the revised budget estimates or proposed changes in the budget presentation. The Committee recommended acceptance of the Administrator's proposals for a contingency provision and for the implementation of the General Service job classification and salary scale.

Summary of the discussion in the Committee

144. Many members expressed satisfaction at the reduction in the proposed revised budget estimates for the 1984-1985 biennium. Members noted that the reduction was due primarily to currency movements and to the impact of inflation. Several members stressed the importance of continuing to do everything possible to keep administrative costs at the lowest possible level. A member stated that every effort should be made to accommodate cost increases from within existing resources. Other members noted that the administrative budget should not necessarily be reduced at any cost. In that regard, a member stated that greater effort should be made to explain the reasons for UNDP's administrative costs. Several members expressed disappointment at the budgetary shortfall in the level of government contributions to cover local office costs.

145. Many members agreed to the Administrator's proposal to implement the new grading and salary structures for New York General Service staff simultaneously with the United Nations, subject to the prior concurrence of ACABQ. Several members asked whether any further information was available on the financial implications of the proposal. There was also general agreement with the Administrator's proposals for technical changes in future budget presentations, in particular the proposal for net costing of international and New York General Service staff. A member considered that it would be desirable to have further discussions on the presentation of the 1986-1987 biennial budget. One member asked whether net costing for salaries was the current practice among members of the Consultative Committee on Administrative Questions. Another member asked whether the proposals regarding training would have any impact on the structure or decision-making machinery of the Training Section.

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146. Many members expressed their understanding and support for the proposal for a contingency provision in the biennial budget. However, one member requested more time to consider the proposal and requested that the matter be reconsidered at the thirty-second session of the Council. Several members asked for further information regarding the calculation of 3 per cent for the contingency provision. Other members required further clarifications on the anticipated need for the contingency provision. Several members asked what precedents existed in the United Nations system with respect to contingency provisions. A member requested clarification on precisely what kind of resolutions of the United Nations General Assembly which impacted on UNDP's budget would be accommodated within the contingency provision. Another member sought clarification as to whether the United Nations General Assembly had the power to appropriate UNDP funds which were under the authority of the Governing Council. It was his understanding that the Council would, in effect, be giving the Administrator the authority to exceed appropriations as a consequence of certain United Nations General Assembly resolutions that had an impact on administrative costs in UNDP's biennial budget. One member asked whether the contingency provision would be a recurring budgetary feature.

Response of the Administration

147. The Assistant Administrator pointed out that the reduced budget estimates presented were due to factors strictly beyond the control of the Administrator. He suggested that, while the Administrator did not deserve any credit for the result, neither should he be considered responsible in those cases where these same factors caused cost increases beyond those previously envisaged. He noted that the possibilities for UNDP of absorbing significant cost increases were minimal, and that was the reason for the proposal for a contingency provision.

148. The Assistant Administrator stated that the dominant factor likely to impact the biennial budget was currency fluctuations. He proceeded to explain the calculation that gave rise to the 3 per cent ceiling. The Administrator took as a basis the possibility of a 15 per cent currency fluctuation against the United States dollar. Since that would affect only two-thirds of UNDP administrative expenditures, a 10 per cent figure became appropriate. The 10 per cent figure had to be calculated against an eight-month period rather than the full two-year biennial period. The resulting 3.3 per cent figure had been rounded off at 3 per cent. The Assistant Administrator explained that eight months were required since time was needed to establish whether fluctuations were of a short-term or of a sustained nature. He noted that he had offered the same explanations to ACABQ.

149. Regarding the future of the contingency provision, the Assistant Administrator informed the Committee that the provision would be proposed for incorporation into UNDP's Financial Regulations at the thirty-second session of the Governing Council. He noted that the contingency provision would not, a priori, have any impact on programming levels in that the contingency was

not a reserve in the sense of the Operational Reserve but rather an authority to exceed appropriations if necessary. The Assistant Administrator stated that, with regard to the use of contingency provision in respect of General Assembly resolutions, it had been the intention of the Administrator for that to apply only to administrative cost factors. It was not to be used for any volume increases and it was agreed that the decision should be worded to reflect that.

150. Regarding the financial impact of the job classification exercise for General Service staff in New York, no further information was available at the present time since the ICSC had not yet taken any decisions in that regard. The Assistant Administrator stressed the importance of being able to introduce any changes in line with the ICSC decision at the same time as the United Nations. Concerning the presentation of the budget, he stated that the proposed presentation of training costs would not affect the structure or decision-making in the Training Section. Regarding the proposal to move to net costing, the Assistant Administrator stated that, since UNDP did not participate in the Tax Equalization Fund of the United Nations, any reimbursement of taxes by UNDP to its staff represented a direct cost to the organization. In that sense, staff assessment had no real significance for UNDP and a gross budgeting of staff costs served no practical purpose.

151. The Director, Division of Finance, stated that agency practices with regard to contingency provisions varied depending on their individual circumstances: in some cases significant contingency provisions existed, in other cases the appropriating bodies met up to four times a year.

Recommendation of the Committee

152. Following its consideration of this subject, the Committee recommended that the Council adopt the following decision:

The Governing Council,

Having considered the 1984-1985 revised biennial budget estimates of the United Nations Development Programme as contained in document DP/1984/54,

(a) Takes note with appreciation of the report of the Advisory Committee on Administrative and Budgetary Questions (DP/1984/56);

(b) Approves appropriations in an amount of \$332,615,200 (gross) to be allocated from the resources indicated below to finance the 1984-1985 biennial budget and resolves that the income estimates in an amount of \$70,296,900 shall be used to offset the gross appropriations, resulting in net appropriations of \$262,318,300 as indicated below;

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1984-1985 biennial budget
(Thousands of US dollars)

<u>Resources of UNDP</u>	<u>Gross appropriations</u>	<u>Estimated income</u>	<u>Net appropriations</u>
(i) UNDP core activities	294 628.8	51 164.2	243 464.6
(ii) OPE	13 303.6	13 303.6 ^{a/}	-
(iii) IAPSU	2 171.2	2 171.2 ^{b/}	-
(iv) UNV	6 389.0	1 037.9	5 351.1
(v) UNSO-UNDP/UNEP joint venture (institutional support)	2 190.1	1 203.5 ^{c/}	986.6
(vi) TCDC/INRES	636.2	41.7	594.5
(vii) CGIAR	900.0	-	900.0
Total UNDP	<u>320 218.9</u>	<u>68 922.1</u>	<u>251 296.8</u>
<u>Resources of the United Nations Capital Development Fund (UNCDF)</u>			
(i) UNCDF	5 580.0	650.8	4 929.2
<u>Resources of the United Nations Revolving Fund for Natural Resources Exploration (UNRFNRE)</u>			
(i) UNRFNRE	3 007.4	323.5	2 683.9
<u>Resources of the United Nations Sudano-Sahelian Office (UNSO)</u>			
(i) UNSO	<u>3 808.9</u>	<u>400.5</u>	<u>3 408.4</u>
Total appropriations	<u>332 615.2</u>	<u>70 296.9</u>	<u>262 318.3</u>

a/ Estimated support cost reimbursements to OPE of \$7.8 million in respect of UNDP-funded and other technical co-operation activities; \$3 million in respect of UNCDF-funded activities and \$1.3 million in respect of UNSO-funded activities. \$1.2 million relates to staff assessment.

b/ Including reimbursement of \$1.9 million for IAPSU from the agency support cost provision within the general resources of UNDP. The balance of income of \$0.3 million relates to staff assessment.

c/ Including UNEP half-share of the cost of the joint venture (institutional support).

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(c) Approves the Administrator's proposals for changes in the presentation of the 1986-1987 biennial budget estimates as follows:

- (i) Budgeting of all staff costs on a net basis;
- (ii) Deletion of the provision for training from the common staff cost category and the presentation of the related estimates under the organizational unit of the Division of Personnel;
- (iii) Deletion of information designated as "distributed costs" and presentation of the related estimates only under the appropriate organizational unit;

(d) Approves a contingency provision not to exceed a total amount in dollars equal to 3 per cent of approved gross appropriations. The authority to use this contingency provision shall be limited to unforeseen requirements arising in the second year of a biennium due to currency movements, inflation or decisions of the General Assembly in that year affecting administrative cost factors in the biennial budget, and shall be subject to the prior concurrence of the Advisory Committee on Administrative and Budgetary Questions;

(e) Requests the Administrator to report on the use of this authority to the next regular session of the Governing Council;

(f) Decides that the effective data for implementation of the results of job classification and new salary scale for UNDP general service staff at headquarters shall be the same as that applied by the Secretary-General for United Nations Headquarters General Service staff;

(g) Authorizes the Administrator to implement the results of this job classification and the new salary scale with the prior concurrence of the Advisory Committee on Administrative and Budgetary Questions, and requests the Administrator to report thereon to the thirty-second session of the Council;

(h) Requests the Administrator to include, as part of the information provided to the Council at its thirty-second session, a separate consolidated table showing estimated gross expenditures by major category of expenditure and source of funds for all UNDP activities;

(i) Takes note of the carry-forward of \$700,000 of 1982-1983 OPE support cost earnings for use in 1984-1985.

153. The Governing Council subsequently adopted decision 84/32.

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C. Extrabudgetary resources

154. For its consideration of agenda item 9(c), the Committee had before it a report of the Administrator contained in document DP/1984/55. The Assistant Administrator, Bureau for Finance and Administration, introduced the subject by referring to the origins of the document under discussion.

155. At the thirtieth session of the Governing Council, a rather long exchange had taken place in the Budgetary and Finance Committee, in particular with one delegate, on the definition and nature of extrabudgetary resources. As a result of that exchange, decision 83/31 had requested the Administrator to review the definition, origin and use of administrative expenditures presently labelled as extrabudgetary resources with a view to determining how such resources should be presented in the budget for the biennium 1986-1987. The document before the Committee had attempted to be responsive to the spirit of last year's discussion and decision by presenting a broad review of the concept of extrabudgetary resources.

156. The Assistant Administrator noted that the Advisory Committee on Administrative and Budgetary Questions (ACABQ) regarded the paper as information for the Council; since it did not contain any new information, ACABQ did not consider it necessary to comment on it.

157. The Assistant Administrator then briefly described the contents of the document: the opening pages related the origin of the concept of extrabudgetary resources to the development of a multiplicity of funds and programmes under the authority of the Administrator. The concepts of core and non-core resources and those of budgetary and extrabudgetary resources were explained, as well as how those concepts enabled the Administrator to maintain his accountability for the distinct and identifiable funds and programmes entrusted to him. The paper then described the four basic categories of support services that related to extrabudgetary resources. The third chapter of the paper moved on to describe in detail the historical development of the four basic categories of UNDP extrabudgetary resources. The paper concluded by describing the use and control of these resources. Regarding the use of these funds, annexes 1 - 4 to the document gave a detailed account of the uses for which extrabudgetary resources were required. With respect to the control of extrabudgetary resources, the same administrative procedures and stringent criteria were applied as those relating to the establishment of budgetary resources. Full justification based on estimated workload was required before any extrabudgetary resources were established. In addition, the authorization to use the resources was conditional on the extrabudgetary income having been made available.

158. Regarding the presentation of the budget for the 1986-1987 biennium, the Administrator was proposing one technical change which was described in paragraph 38 of the document. Otherwise, the Administrator, bearing in mind

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the comments that ACABQ had made in 1983, proposed to present the same format as for the 1984-1985 biennium.

Summary of the discussion in the Committee

159. Many members expressed appreciation for the report and for the Assistant Administrator's oral presentation. Members commented that the paper had been useful in explaining the concept of extrabudgetary resources.

160. One member considered the term extrabudgetary to be an anomaly in the context of UNDP where there was no assessed budget and all resources came from voluntary contributions. In that sense she considered that there was a clear distinction to be made between procedures in the United Nations and UNDP. She went on to state that her delegation did not like the development of the concept of extrabudgetary resources in UNDP. She considered that the budget should show the relations between core and non-core either by budgeting on a gross basis, that is, charging the full expenditure amount to the core and then budgeting the reimbursement as an expenditure item for the non-core activity and as an income item for UNDP, or the budget could be on a net basis such that expenditures were distributed to the proper activities from the beginning. The member felt that a comparison between bienniums of the ratio between administrative man-months and man-months in the field would give a clear impression of the direction in which UNDP was headed. She stated, with respect to paragraph 12 of the document, that her delegation saw a major problem as administrative budgets should not be reduced by shifting expenditures to the programme budget. The member concluded by stating that it was her preference to abolish totally the term "extrabudgetary". The general views of that member were supported by several other members. Another member stated that his delegation was of the view that interest earned on cost-sharing balances provided by a recipient Government should be applied to the cost-sharing programme in consultation with the recipient Government.

161. Several other members expressed satisfaction with the presentation of extrabudgetary resources in the document and supported the Administrator's proposal to continue to provide the same format in the presentation of the 1986-1987 budget as for the 1984-1985 budget. One member, supported by others, considered that the paper explained that the rationale for the concept of extrabudgetary resources of UNDP lay in the proliferation of separate funds which the Administrator was responsible for administering. He stated that the core programme must be differentiated from those funds and that the Administrator must be held accountable for the costs incurred by each fund. One delegate stated that the definition or labelling of the resources in question was not the important factor and that the use of the concept of extrabudgetary resources in UNDP was based on an analogous concept in the United Nations. Several members expressed a desire for a clearer control mechanism on how those resources were used.

Response of the Administration

162. The Assistant Administrator reiterated the underlying rationale for the concept of extrabudgetary resources presented in the document. He stated that the concept was intended in part to show where costs originated and that it was the corollary of proper cost accounting. He stated that he could envisage possibly calling these resources "special resources" rather than "extrabudgetary resources", but reminded the Committee that the 1983 budget presentation had been commended by ACABQ and that he would feel it highly desirable to consult with ACABQ before making such a change. Regarding the control of those resources, the Assistant Administrator pointed out that it was impossible for the Administrator to predict all requests for the provision of services. For example, cost-sharing or agency activities could be undertaken, placing an administrative burden on the field office, for which UNDP would have to seek reimbursement for the additional work load involved. It would not be possible for the Administration to consult with the Governing Council each time prior to providing such services.

Recommendation of the Committee

163. Following its consideration of this subject, the Committee recommended that the Council adopt the following decision:

The Governing Council

(a) Takes note with appreciation of the report of the Administrator on the concept of extrabudgetary resources contained in DP/1984/55;

(b) Requests the Administrator to provide to the Governing Council at its thirty-second session a concise and comprehensive report on the structure, financing and interrelation of all funds administered by the Administrator.

164. The Governing Council subsequently adopted decision 84/33.

D. Trust Funds

1. Trust funds established by the Administrator, 1983

165. For its consideration of item 9(d) of the Council's agenda, the Committee had before it a report of the Administrator contained in document DP/1984/69.

166. The Assistant Administrator, Bureau for Finance and Administration, introduced the report by stating that the document followed the same basic format in which the reports had been prepared in previous years, namely a

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narrative description of each fund established during the year together with an annex presenting the significant features of each trust fund in tabular form. He described briefly the nature of the trust funds established on behalf of UNDP itself, on behalf of UNCDF and on behalf of UNFSSD. The Assistant Administrator informed the Committee that, in keeping with UNDP financial regulation 5.1, the document had been submitted for review to ACABQ which had noted, without further comment, the information contained in UNDP's report.

167. The Associate Administrator, in line with a commitment he had made in 1983 to the Committee regarding the USSR/UNDP Trust Fund established in 1982 for training in the USSR of specialists from developing countries, introduced annex II to document DP/1984/69 which contained detailed information on that trust fund. He stated that the Fund was used exclusively for training in the USSR of specialists from developing countries in areas of activities for which it had been determined that particularly suitable facilities were available in the USSR. The Fund was not used for the procurement of equipment or any other services for which international bidding procedures would normally apply. The Associate Administrator stated that all the convertible currency needs of the projects financed from the Fund had come from the Fund itself. Each training project had been formulated by the United Nations agency concerned and had been appraised by UNDP in accordance with UNDP's normal procedures. The Associate Administrator concluded by expressing satisfaction that the Trust Fund had provided significant assistance to training in the USSR of specialists from developing countries in several important fields of national development.

Summary of the discussion in the Committee

168. Members first considered the USSR/UNDP Trust Fund for training in the USSR. A number of members expressed the view that the contribution to the Trust Fund represented a tied contribution on the basis that it could only be used for the purpose of services from the donor country. Several members further stated that while it appeared that the Committee was confronted with a problem of definition, they considered contributions in non-convertible currencies as self-tying by nature. One delegate asked clarification as to whether all administrative costs incurred by UNDP in the management of the Trust Fund were covered by the convertible portion of the contribution to the Trust Fund. Another delegate stated that the Trust Fund in question represented a contribution that was supply-side dominated and that in that regard the provision of technical assistance should be dominated by the demand and need for assistance and not by the supply and availability of certain assistance. The delegate sought further information on future plans envisaged for the Trust Fund and on the specific criteria that were applied in identifying and choosing training programmes. Members agreed that, while they were reviewing the issue as a matter of principle, the Administrator had not gone beyond the letter of the relevant Financial Regulations and Rules.

169. One member, supported by others, stated that the subject had been discussed at length the previous year and his delegation's position had been stated in detail at that time and the fact that the Trust Fund was not an example of tied procurement was confirmed by the Associate Administrator in 1983. He said that the demand for training was high and that his country's Fund did not have sufficient means to meet that demand; therefore, he went on, the Trust Fund was not supply-side dominated but responded to many requests for assistance. In that sense, it was the demand that was creating the need. He stated that the purpose of the Trust Fund was to assist the developing countries and to help them to train personnel. It was also needed for implementation of TCDC.

170. Members then considered the rest of the report of the Administrator. One member considered that it would be helpful to include in the document in future years a column containing total project amounts. Several other members required clarification concerning the United Nations Emergency Operation Trust Fund (UNEOTF). One member requested information regarding the criteria for selecting beneficiary countries and another asked about the arrangements being made concerning support cost reimbursement.

Response of the Administration

171. The Associate Administrator responded to questions concerning the USSR/UNDP Trust Fund. He referred to the extensive debate at the Council's thirtieth session and to decision 83/33 which took note of the Administrator's previous report (DP/1983/49) and which required him to provide each year, detailed information on the trust funds established by him. Furthermore, he referred to the Administrator's Guidelines on the Establishment of Trust Funds, specifically circulated to members last year, in which it was stated that the Administrator could accept trust funds in a currency that was not fully convertible provided the Administrator determined that the currency could be used for the purposes of the trust fund. The Associate Administrator stated that the training programmes had been designed by the executing agencies in response to actual needs. The needs were greater than those being met from IPF resources. He considered that a resource was therefore being made available to meet needs that otherwise could not have been met. The Associate Administrator reiterated that the contributions to the USSR/UNDP Trust Fund could not be shown as a contribution to UNDP's general resources. Regarding administrative costs, he stated that all legitimate convertible currency costs had been met from the Trust Fund and to the extent that any additional identifiable costs existed at headquarters, they also would be charged to the Fund. Regarding the future of the Fund, the Associate Administrator considered that, beyond present commitments, a decision in that respect lay in the first place in the hands of the donor concerned and of the Committee.

172. The Assistant Administrator responded to questions raised on the rest of the report. He stated that the administration would attempt, if logistically

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possible, to include a total project amount column in the report next year. Regarding the UNEOTF, he stated that the eligibility criteria had been established in the Second Committee of the General Assembly before the transfer of funds and that full consultations had taken place with the Office of the Director General for Development and International Economic Co-operation. Regarding support cost reimbursement, that had also been the subject of discussion at the General Assembly and other discussions had subsequently taken place between UNDP and the agencies.

Recommendation of the Committee

173. Following its consideration of this subject, the Committee recommended that the Council adopt the following decision:

The Governing Council,

Having considered the report of the Administrator on trust funds established by him in 1983 (DP/1984/69), as well as the information provided orally by the Associate Administrator and the Assistant Administrator, Bureau for Finance and Administration,

Bearing in mind the views expressed thereon,

(a) Takes note of the report of the Administrator (DP/1984/69);

(b) Requests the Administrator to provide the Governing Council each year with comprehensive and detailed information on the trust funds established by him, as well as on the individual projects financed from such trust funds.

Further discussion in the Committee

174. In further discussion, a number of members, representing practically all major donors, considered that the Administrator should not accept any more accumulating non-convertible currencies into the Trust Fund for training in the USSR. They unanimously stated that that Trust Fund did not correspond to the true nature of multilateralism and that while it might not have violated the letter of the Financial Regulations, it clearly was not in the spirit of those Regulations.

175. One member, on behalf of others, stated that all legal formalities had been observed in the establishment of the Trust Fund and the matter had been reviewed by ACABQ and approved by the Administrator. He suggested that as long as the current Regulations were in effect, it was an entirely legitimate trust fund. During consideration of the draft report, he also expressed reservations on the use of the term "major donors". Another member, however, referred to the use of the term in several official UNDP documents.

176. The Governing Council subsequently adopted decision 84/34.

2. Trust funds conditioned on procurement from a donor country

177. For its consideration of one of the questions under item 9(d) of the Council's agenda, the Committee had before it a report of the Administrator contained in DP/1984/58 and Add.1. The Assistant Administrator, Bureau for Finance and Administration, stated that the Administrator was firmly committed to the central funding role of UNDP and believed that every effort had to be made to increase contributions to UNDP's central resources, which could then be made available to recipient countries through the IPF system. The Administrator would not recommend any action which in his judgement would endanger that central funding role or the prospects for growth in UNDP's core resources.

178. In practical terms, however, the Administrator recognized that the level of contributions to central resources that could realistically be expected was not unlimited. At the same time he was conscious of the enormous gap which existed between that level and the pressing needs of developing countries, in particular of the need for the many special resources that were required by recipient countries. That need for special resources had found institutional expression in a number of individual funds with specific and limited mandates. UNCDF, UNSO and UNFSSTD were three such funds. The role of UNCDF was to provide much needed capital assistance to smaller-scale projects, first and foremost in the least developed countries. UNSO had been given the specific mandate to assist the countries of the Sudano-Sahelian region which suffered from protracted drought and advancing desertification. It was important to note that mobilization of resources to the Sudano-Sahelian region was in itself a critical part of UNSO's mandate and that such mobilization had traditionally been effected in close collaboration with bilateral funding. For its part, UNFSSTD had from its very inception been conceived with financing arrangements predicated on the separate character of core and non-core resources.

179. In the light of the experience gained to date, the Administrator considered that contributions conditioned on procurement in the donor country provided an important element in enabling those three funds to fulfil their respective mandates.

180. In the spirit of the discussions in the Committee in 1983, the Administrator had adopted ground rules which, in his judgement, ensured that the mobilization of resources for those funds under their mandates would not have a negative effect on resource mobilization efforts for central resources. The Administrator attached importance to the fact that a significant percentage of the total resources mobilized under the tied-procurement mandate were not in fact tied to the purchase of services and

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equipment in the donor country. In the case of UNSO particularly, only just over 50 per cent of the total resources mobilized would actually be used to purchase services and equipment in the donor country.

181. Though it was still too early to be able to evaluate projects in a meaningful way, experience so far indicated that these were priority projects that were highly valued by the recipient countries. In that regard, the Assistant Administrator quoted from a letter from President Diouf of Senegal, emphasizing the importance he attached to those projects. Projects had resulted in all cases from a normal process of consultation between UNDP and the recipient Government. No distortions had been imposed on the process of project selection and appraisal as a result of the modality that had been used. In all cases, the projects had already been formulated and for some time had been in search of the necessary financing. The Administrator believed that that modality had enabled a source of financing to be found and the projects to materialize.

182. For such reasons, the Administrator recommended an extension of the mandate for two further years. The Administrator believed that by respecting the ground rules which had been established it had been possible to increase resources in a pragmatic way for the programmes served by those three specific funds without in any way endangering the principles that protected and guided UNDP's central funding role.

Summary of the discussion in the Committee

183. The Committee had a lengthy discussion on a wide variety of aspects of the report and of the recommendation of the Administrator. All members put special emphasis on the importance of respecting the basic principles of multilateralism. All members also expressed special concern for the needs of the least developed countries, in particular those afflicted by drought and desertification. Members considered that the arrangements established for UNFSSTD by the United Nations General Assembly distinguished UNFSSTD from the other two funds.

184. A number of members considered that the experiment that had ended on 30 April should not be renewed. They attached the greatest importance to what they saw as a basic principle of multilateralism and raised many issues of principle. One member considered that tied procurement amounted to a non-tariff barrier and stated that his Government was against all forms of protectionism. He also saw tied procurement as conducive to supply-side development financing. In that regard, another member stressed the importance of looking at outputs and considered that not all inputs would necessarily contribute to good results. A member saw a danger in that gifts were difficult to refuse and it might emerge that real, often long-term, costs were associated with a gift that would lead to negative consequences for the recipient of that gift. He believed that the projects financed under the experiment were good ones, but considered that if that were the case, those

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projects could have been financed anyway. He stressed that the issue at stake was not whether Governments were for or against certain projects, but rather that it was a technical one concerning the mode of financing.

185. Several members considered that it was not possible to prove additionality of resources through those trust funds, and were of the opinion that additionality was doubtful. A member stated that his country had refused to finance a project when it became aware that a tied-procurement contribution was being made by another donor to the same project. Another member questioned why UNCDF had experienced an increase in its liquidity and wondered whether disbursements related to core resources. He stated that for his country it was very important to defend contributions to UNCDF's general resources. Several members emphasized that nothing should be done that would endanger the level of UNCDF's core resources. Several members considered that tied-procurement funds would not be to the benefit of recipient countries in the long run as they would erode the central resources of UNDP. The proliferation of funds would weaken UNDP and the appropriate response to meet pressing needs was to strengthen the central resources of UNDP.

186. Several members expressed serious concern at the precedent that acceptance of the Administrator's recommendations would establish. They saw UNDP as the market leader in technical assistance and did not want to give a signal to others that tied procurement was an acceptable practice. One member stressed that a probable result of the arrangements proposed was that the cost of technical assistance would most likely rise. Another member asked whether projects had ever been amended to fit donor requirements and whether on any occasions tied-procurement funds had been refused. He further asked whether, for example, UNDP would accept tied-procurement funds for a project in a country where no after-sales service organization was available for the items procured.

187. One member, supported by others, stated that the whole scheme could not be considered an experiment because it was unclear what questions the scheme was designed to answer. She wondered what information would become available that would enable the same questions to be more fully answered in two years. Another member considered that the Administrator, in his report, should have also presented the arguments against a continuation of the experiment. Several members urged the Administrator to consider all other possible alternatives to the one presented in the document. In that regard, a member asked the Administrator to consider ways of using alternative forms of financing, such as parallel financing, and specifically the authority granted to him under decision 83/5 to provide management services to recipients of bilateral aid.

188. A number of delegates stated that the system of ceilings applied as a consequence of decision 83/32 appeared not to have been satisfactory, and that a re-examination of the system of ceilings would have to be made.

189. Many members, while emphasizing the importance they attached to the principle of multilateralism, considered that - given the gravity of the situation facing the least developed countries, in particular those afflicted by drought and desertification, and given the specific nature of the mandates of the funds in question - the Administrator's recommendation was appropriate. Those members stressed the background to the mandate given to the Administrator and in that respect one member stated that the needs of the countries in question were even greater at present than in 1982. Many members considered that it would be inappropriate to take any action that could possibly have a negative impact on the activities of the funds in question in those countries most in need. They attached particular importance to the crisis facing the countries concerned and to the fact that the projects were considered priority projects by these countries.

190. Several members from recipient countries described some of the projects concerned and reiterated the importance attached by their Governments to those projects. A member stated that the mandate granted to the Administrator had enabled UNSO to make a vital contribution to the pressing needs of his country and region. Several members considered that procurement-tying had made it possible for the funds to make important contributions to the development activities of the least developed countries in Africa at a time of scarce resources. One member referred to the recently published Plan of Action drawn up by CILSS in collaboration with UNDP/UNSO. In his view, only if the necessary non-procurement-tied resources were available to put such a plan of action into operation would it be appropriate to turn down the Administrator's recommendation. Many members reiterated the point made in the report that the process followed in the acceptance of tied-procurement funds was the same as with other funds; they considered that no distortions had occurred as a result of the procurement-tying and stated that the projects had been identified by the recipient countries themselves.

191. Many members stated that the mandate given to the Administrator should, under no circumstances, be considered a precedent, but an exceptional measure taken to help deal with a particular crisis. Several members emphasized the very particular mandates of UNCDF and UNSO. UNCDF was mandated to provide capital assistance while UNSO, also largely capital-oriented, was specifically mandated to mobilize resources for the Sudano-Sahelian region. They considered that the experience of those funds could not be used as a precedent for normal technical assistance activities. Several members stressed the experimental nature of the experience and considered that not enough time had been allowed to be able to assess the experience accurately. They felt that more time was needed before definite conclusions were drawn.

192. Some members stated that the resources in question, while important for the countries concerned, were marginal to assistance levels in general and could not be considered to constitute a danger to the principles of multilateralism or a significant force towards protectionism. Those members felt that a practical approach was necessary that took into account the needs

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of specific projects. Several members believed that the resources mobilized did represent additionality of resources. Two members from donor countries stated that the tied-procurement modality enabled their countries to provide supplementary resources. Several members, while supporting the Administrator's recommendation, stated that a further two years should be sufficient time to reach a final conclusion on the validity of the experiment. Another member stated that the utilization of trust funds, which at present was very limited, constituted a bridge between the multilateral system of the United Nations and bilateral aid programmes. He considered the recommendation proposed by the Administrator a clear and generous effort to utilize additional resources that otherwise would have been channelled to bilateral programmes.

Response of the Administration

193. The Assistant Administrator emphasized the importance of the specific nature of the mandates held by the funds in question. The three funds had mandates that were quite distinct from UNDP's role as a central funding mechanism for technical assistance.

194. The Assistant Administrator emphasized the importance attached by the recipient countries to the projects and noted that it had not been UNDP's experience that financing could have been made available through other sources. Regarding the programming of UNCDF resources, he stated that there was no difference in the way UNCDF implemented projects and disbursed funds financed from core and tied-procurement resources. With respect to the danger of distortions being imposed on the recipient countries and the risk of supply-side development financing, he stated that the projects were already identified by the recipients and required the necessary financing. Projects had not been amended to suit donors and no distortions had taken place. All of the same procedures and criteria were applied in the case of projects financed from general resources and tied-procurement resources. In the case of an offer that was inappropriate, such as the provision of equipment to a country where no maintenance for that equipment was available, the Administrator would be of the opinion that such equipment should not be purchased. The Assistant Administrator stated that it had not as yet been necessary to refuse contributions that were procurement-tied on the grounds that the proposed contracts were unacceptable. With respect to the recommendation put forward by the Administrator, the Assistant Administrator stated that the Administrator was not in a position at that time to draw definite conclusions, either positive or negative, from the experiment. It was partly for that reason that the Administrator had recommended a further two-year extension.

195. The Director of UNSO reiterated the significance of the specific nature of UNSO's mandate and of its own distinct modus operandi. For example, UNSO operated outside of the IPF structure and an integral part of its role was to attract project funds. He noted that projects were elaborated first at a country level according to the priority needs of the country concerned and it

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was only subsequently that a source of financing was sought. He attached particular importance to the high value placed by recipient countries on the projects.

196. The Assistant Administrator, Bureau for Special Activities, confirmed that the same procedures and criteria were applied to projects financed from contributions to UNCDF's general resources and tied-procurement contributions. He stated that the resources made available under the modality had been important in allowing UNCDF to pursue its mandate in the least developed countries. He sought to reassure members that the Administrator attached the greatest importance to contributions to UNCDF's core resources, and nothing would be done which in the opinion of the Administrator could stand in the way of the mobilization of core resources.

197. The Deputy Director of UNFSSTD described the good experience the Fund had had so far in those projects that were already being implemented. He emphasized that the nature of the financing made no difference to the normal procedures applied by the Fund. The Deputy Director further expressed satisfaction at the distinction made by members between the other two funds and UNFSSTD.

Recommendation of the Committee

198. Following its consideration of this subject, the Committee recommended that the Council adopt the following decision:

The Governing Council,

Having considered the Administrator's report on trust funds conditioned on procurement in a donor country contained in DP/1984/58 and DP/1984/58/Add.1,

Reaffirming the fundamental principles of multilateralism as embodied in the Consensus and in UNDP's Financial Regulations, inter alia, financial regulation 14.5,

Noting General Assembly resolution 37/244 concerning the United Nations Financing System for Science and Technology for Development,

Having regard to the exceptional situation pertaining to the least developed countries, in particular those countries in Africa afflicted by drought and desertification,

Recognizing the availability of parallel financing and co-financing as means to complement the general resources of the United Nations Sudano-Sahelian Office and the United Nations Capital Development Fund in accordance with their respective mandates,

Recalling, subsequent to and in the spirit of decision 83/5, that the Administrator may at the request of the recipient country for bilaterally financed projects provide a full range of services, including procurement and financial services, as part of management services,

(a) Decides, as regards the United Nations Financing System for Science and Technology for Development, to extend decision 83/32 until 30 April 1986;

(b) Decides to extend the experimental period concerning trust funds conditioned on procurement in the donor country as regards the United Nations Capital Development Fund and the United Nations Sudano-Sahelian Office for a further period of two years until 30 April 1986;

(c) Decides that this experimental period shall not be extended beyond 30 April 1986 and that the Governing Council will take a final decision regarding the issue of trust funds conditioned on procurement in the donor country at its thirty-third session;

(d) Decides, as regards the United Nations Capital Development Fund, to allow the Administrator to accept trust funds conditioned on procurement in the donor country until 30 April 1986, provided that:

- (i) The donor country has not decreased its contributions in national currency to the general resources of UNDP;
- (ii) The donor is a contributor in the same year to the general resources of the United Nations Capital Development Fund; and
- (iii) The contribution conditioned on procurement in the donor country does not exceed 10 per cent of the sum of the donor's contributions to the general resources of UNDP and the United Nations Capital Development Fund;

(e) Urges all Governments to increase their contributions to the general resources of the United Nations Capital Development Fund so that the activities of the United Nations Capital Development Fund relating to the least developed countries can expand without recourse to contributions conditioned on procurement in the donor country;

(f) Decides, as regards the United Nations Sudano-Sahelian Office, to authorize the Administrator to accept trust funds conditioned on procurement in the donor country until 30 April 1986, provided that:

- (i) The donor country has not reduced its contributions in national currency to the general resources of UNDP;
- (ii) The donor is a contributor in the same year to the general resources of the United Nations Sudano-Sahelian Office; and

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- (iii) The contribution conditioned on procurement in the donor country does not exceed 15 per cent of the donor's contribution to the general resources of UNDP and the United Nations Sudano-Sahelian Office;

(g) Urges all Governments to increase their contributions to the general resources of the United Nations Sudano-Sahelian Office so that the United Nations Sudano-Sahelian Office programme in the countries affected by drought and desertification can expand without recourse to contributions conditioned on procurement in the donor country;

(h) Requests the Administrator to make a full report, including his recommendations on the issue of trust funds conditioned on procurement in the donor country, to the thirty-third session of the Governing Council, including in particular an evaluation on the sectoral and geographical distribution of the use of the funds conditioned on procurement in the donor country as well as on procurement procedures utilized and the effects obtained.

Further discussion in the Committee

199. Many members restated their positions on the recommendation after its approval. Members underlined the important points of principle reflected in the report but agreed to join the consensus on the recommendation in the spirit of compromise that had always characterized the Council's proceedings. One member stated that the recommendation approved by the Committee would lead his country to re-examine its policy of contributing to the general resources of any of the funds in question. Another delegate asked whether special contributions were included in the voluntary pledge of a donor when comparing the level of contributions from one year to another. The Assistant Administrator responded that special contributions would not affect the comparison of voluntary pledges from one year to another.

200. The Governing Council subsequently adopted decision 84/35.

E. UNDP Financial Regulations

1. Matters on which consensus was not achieved at the thirtieth session

201. For consideration of one of the subjects under item 9(e) of the Council's agenda, the Committee had before it a note by the Administrator contained in document DP/1984/60. The Assistant Administrator, Bureau for Finance and Administration, introduced the item stating that it had become a familiar one on the Committee's agenda. He explained that the document before the Committee was the shortest ever prepared by UNDP on a major policy issue, since the UNDP administration was not in a position to add new information to

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that provided to the Council in 1983 in document DP/1983/48. He reminded the Committee that the issues involved were those regulations in brackets which concerned the nature of voluntary contributions and the usability of currencies. He suggested that, in dealing with the issues, it might be necessary to distinguish between non-convertible currencies of donor countries and those of recipient countries. He also referred to the possible linkage which potentially existed between the utilization of a currency with the nature of the contribution: if such a linkage existed, it would make it necessary to pay for goods and services from countries with accumulating unconvertible currencies in those currencies, in the proportion that the particular currency was used to pay contributions to UNDP. The Assistant Administrator expressed the hope that the issues in contention would be resolved by the Committee, otherwise the old financial regulations would continue to be in force.

Summary of the discussion in the Committee

202. Members recognized that the issue for consideration had been pending for some time and expressed their interest and hope to find an acceptable solution. Most of the participants stated that the issues involved were matters of principle, since several Governments chose to make their contributions to UNDP in their national, non-convertible currencies. Such contributions made it necessary to use inputs only from the countries concerned, which by itself was a kind of tied contribution. What they viewed as being worse was the fact that, despite considerable effort and expense, it had not been possible to utilize many of those currencies during a lengthy period of time. They considered that the efforts that the Administration had to undertake to use even part of those currencies made their utilization so expensive that the value of the contributions was put in question. Some of those members urged the donors of such contributions to make their payments in freely convertible currencies, so that the contributions would be used in the support of technical co-operation programmes in developing countries.

203. A member further suggested that commercial firms in those countries often refused to accept payment in their own currencies for goods and services. That made the problem even more serious. Another delegate stated that the concept of multilateralism had to be preserved as well as the sovereignty of recipient countries. Such principles made it indispensable that recipient countries would have a choice in the selection of inputs. The lack of convertibility of certain currencies eliminated such a choice. Several delegations reiterated their objections to the fact that special efforts had to be made to use certain currencies and, while the UNDP Administration had to be praised for all its efforts, the Council should neither request nor expect such exceptional treatment to be accorded to any currency.

204. One member, on behalf of others whose contributions to UNDP in their national currencies were non-convertible and partly accumulated, stressed

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their firm position that suggestions made in the course of the discussion were unacceptable to those members. In referring to a statement by another delegate, he denied that the national currency was not accepted in his country by suppliers of goods and services and objected to attempts to discredit the national, non-convertible currencies of those members for whom he spoke.

Recommendation of the Committee

205. Following its consideration of this subject, the Committee recommended that the Council adopt the following decision:

The Governing Council

(a) Decides, notwithstanding the absence of a consensus in respect of the Administrator's proposed financial regulations 3.5, 3.6, 12.3 and 12.4 and the newly proposed regulation 3.6 remaining in brackets (see DP/1983/48), that all other regulations approved in its decision 81/28 of 30 June 1981 are fully in effect and that with respect to the five paragraphs remaining in brackets, existing financial regulations 6.4, 6.6, 4.2 and 4.3 shall, in the absence of such a consensus, apply until a decision is reached at the thirty-second session of the Governing Council;

(b) Further decides that the Budgetary and Finance Committee will consider during its meeting commencing immediately prior to the thirty-second session of the Governing Council, within the framework of the provisional agenda for the thirty-second session, the parts of the Financial Regulations and other questions on which consensus was not achieved at the thirty-first session of the Council, with a view to facilitating the resolution of these issues by the Council.

206. The Governing Council subsequently adopted decision 84/36.

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

207. For consideration of one of the questions under item 9(e) of the Council's agenda, the Committee had before it a Note by the Administrator (DP/1984/59) which provided information on the background to this issue.

208. The Assistant Administrator, Bureau for Special Activities (BSA), introduced the item and provided updated information on the progress achieved since the preparation of document DP/1984/59. He informed the Committee that the analysis of information from agencies on their procurement policies and procedures, provided in response to a detailed questionnaire sent to them, had proved far more complex than initially envisaged. Furthermore, many agency replies to the questionnaire had been delayed, also reflecting the complexity of the issue to all concerned. Those delays prevented the Inter-Agency

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Working Group on Procurement (IAPWG), which met in April 1984 in Copenhagen, from holding a comprehensive discussion on the issue of possible unification of procurement procedures. Nevertheless, preliminary discussions held at the meeting resulted in a consensus that the unification of procurement procedures was welcome, desirable and necessary in the long-term interest of increasing transparency of United Nations procurement systems as a whole. That recognition was coupled with acknowledgement that some differences in rules and practices would continue to exist even after greater unification was introduced, in part due to the size of procurement, technical areas of competence and other operational requirements. IAPWG, he went on, had designated a sub-working group which had as its objective the preparation of specific recommendations on the issue of unification of procurement systems to be submitted to the next IAPWG meeting.

209. He stressed that the issues of equitable geographic distribution of procurement and international competitive bidding were discussed at considerable length at IAPWG. The Working Group, while stressing the importance of the principle of international competitive bidding, recognized that certain major donors and certain developing countries had the reasonable right to expect increased procurement in their countries. In that connection, there was agreement that measures and activities should be undertaken which would provide better opportunities for procurement from those countries. He highlighted some of the constraints encountered in the past in encouraging procurement from those major donors, such as high manufacturing costs, inappropriate technology, language problems, production oriented towards traditional markets, and a lack of experience with the United Nations procurement process.

210. The Inter-Agency Procurement Service Unit (IAPSU) was embarking on a programme to study such issues further in an effort to overcome the difficulties. Furthermore, the recent movements in currency parities had resulted in a marked advantage for those countries. In addition, some of those countries had been acquiring new experience regarding the needs of developing countries, all of which gave some indication of possible improvement in the balance of procurement.

211. Concerning opportunities for developing countries, the Assistant Administrator reported that UNDP was reviewing a report prepared by a consultant whose mission was to explore the problems which United Nations organizations were encountering in their efforts to encourage a greater participation of suppliers from developing countries in the bidding process. A draft pilot project, still under consideration, would permit a focus on several developing countries and, in co-operation with their national export promoting organizations, identify products suitable for procurement by United Nations organizations. Should the study prove successful, the results would be disseminated to United Nations agencies for their use.

Summary of the discussion in the Committee

212. Members of the Committee expressed their appreciation for both the written report as well as the comprehensive oral presentation made by the Assistant Administrator. Members in general expressed their satisfaction in noting that it appeared that progress was being achieved in the efforts to unify the procurement procedures of United Nations agencies, even though, as some remarked, such action was being taken with considerable delay since the time when the Governing Council had first requested that action be taken. Several members emphasized that although in his statement the Assistant Administrator highlighted the determination of United Nations organizations to provide for more transparency in their procurement systems, that did not appear evident in the provision of information and statistical data on procurement, even though those delegations had repeatedly requested in the past considerably more information on the subject. One member remarked that, while his Government understood the complexity of the issue, which was due largely to the fact that UNDP needed to get the information from executing agencies, no similar difficulties in obtaining information were being encountered from other multilateral organizations. He expressed his hope for swift improvement in that area.

213. Members recognized that developing countries had legitimate expectations of obtaining inputs which were compatible with technical requirements at the best possible price and with properly guaranteed servicing. That could be assured through the process of international competitive bidding. Several members stated that that principle was not in conflict with the principle of equitable geographic distribution and that the two principles could be properly combined to provide the best possible results in procurement for recipient developing countries. One member, supported by some others, proposed that in addition to those two principles a third one needed formal recognition and appreciation: that preferential treatment should be accorded to procurement from developing countries, particularly recipient countries. However, several other members expressed their opinion that in that general context the sole principle that had to be maintained was that of international competitive bidding and they did not consider that the principle could be merged with that of equitable geographic distribution. Efforts to combine those two conflicting principles would be to the detriment of international competitive bidding. One member, supported by others, stated that due to the multilateral character of UNDP the principle of equitable geographic distribution was more important. In dealing with those issues, more members remarked with satisfaction that the approach outlined in paragraph 7 of DP/1984/59 was correct and could help in achieving progress. The paragraph in question stipulated that a set of practical measures on procurement could assist in achieving a more equitable geographic distribution of procurement. The paragraph listed several such possible measures. Other members expressed the view that formal measures to ensure more equitable geographic distribution, particularly from developing countries, would be preferable, but accepted the premise of the paragraph noted above.

214. The encouragement of procurement from developing countries was further dealt with by many members. Several emphasized that suppliers in those countries did not have sufficient knowledge of United Nations organizations' procurement systems and were therefore hampered in any efforts they were likely to make. Furthermore, transparency was not evident to suppliers in those countries. Availability of business opportunities did not reach them on time and therefore they could not participate in the bidding process. Apart from price preferential treatment advocated by some, other issues needed to be addressed in order to obtain a far greater volume of procurement from developing countries. Some members remarked that developing countries had relative advantages in certain areas and they could be explored for better results.

215. The importance of dissemination of information on business opportunities was repeatedly emphasized by members as an essential tool needed to ensure the highest possible participation of potential suppliers in bids. Some thought that the practice of short-listing suppliers, although recognized as a legitimate business practice, could, under certain conditions prevent many suppliers from having a fair opportunity and that process could be used in an improper manner by organizations of the United Nations system.

216. A variety of other issues were raised by members. One member, supported by another, remarked that his delegation requested last year the results of the study on agencies' procurement practices. He questioned whether the agencies had objected to providing that information and enquired whether his delegation could be assured of receiving the results. The same member requested information on the major donor countries where procurement was rather limited. Another member noted that the comparisons of contributions versus rates of return to the donor country in business opportunities, as referred to by some, was not helpful, since if carried far could result in the provision of inputs to developing countries under conditions which were not necessarily the best obtainable. One member underlined the importance of geographical distribution vis-à-vis international competitive bidding and remarked that a recent study showed that most of the procurement was given to suppliers from a limited number of countries, who seemed to always have early information on business opportunities and lobbyists to represent them. Other members did not consider that to be the case and stated that sufficient time was given to all potential suppliers to make their offers.

Response of the Administration

217. The Assistant Administrator, Bureau for Special Activities, in his response assured the Committee that note had been taken of the comments and observations made, which would guide the Administration in its future work on the subject. While he agreed with those delegates who suggested that clear rules on procurement would be preferable to a set of practical measures, he reminded the Committee that UNDP was not in a position to enforce such rules.

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218. He reiterated that the information available on agencies' procurement practices was still being analysed and could not as yet be provided to interested delegations. He stated that agencies had not objected to providing the relevant information to Governments and that UNDP thought it was possible to make available to the Governing Council analysed information which could be of both interest and utility. He reiterated that the delay in analysing the returns of agencies' responses to the questionnaire on procurement practices was due to (a) late responses because of the complexity of the issues reviewed, and (b) the need to compile and analyse information from 28 different sources. He defended the principle of short-listing, which was necessary as it was not practical to invite every potential supplier without making the process too costly. On the other hand, he recognized that procurement officers were not always familiar with every potential supplier and hence the importance of concrete efforts to identify sources of supply and to make rosters more comprehensive and complete. He informed the Committee that some developing countries were taking the lead in informing United Nations organizations of what was available in their countries and expressed the hope that other developing countries would take similar steps. He informed the Committee that developing countries, like all other countries, could obtain information on business opportunities through existing publications and other means.

219. The Assistant Administrator, Bureau for Finance and Administration, referring to the issue of preferential treatment to be accorded to procurement from developing countries, mentioned a Governing Council decision adopted at its twenty-fourth session^{1/} which permitted such preferential treatment provided the recipient country agreed to bear the higher cost and provided the equipment was indigenous.

Recommendation of the Committee

220. Following the discussion of this subject, the Budgetary and Finance Committee recommended that the following decision be adopted by the Council at its thirty-first session:

The Governing Council,

Having considered the note by the Administrator on guidelines for the procurement of equipment, supplies, and services (DP/1984/59), as well as the information provided orally by the Assistant Administrator, Bureau for Special Activities,

(a) Notes with appreciation the efforts and actions undertaken by UNDP in co-operation with agencies in order to reach greater harmonization of procurement procedures of executing agencies based on the principles of international competitive bidding and equitable geographic distribution;

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(b) Requests the Administrator to continue his efforts in this respect, inter alia, by means of developing practical measures and by making available to the Council for consideration at its thirty-second session the analysed results of the study on agency procurement practices;

(c) Further requests that the Council receive a report on developments in this regard at its next session.

221. The Governing Council subsequently adopted decision 84/37.

3. Annexes and amendments to UNDP Financial Regulations

222. For consideration of one of the questions under item 9(e) of the Council's agenda, the Committee had before it a note by the Administrator contained in DP/1984/61 and Add. 1 and 2. The Committee also considered the relevant report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) contained in DP/1984/56.

223. The Assistant Administrator, Bureau for Finance and Administration, introduced the subject. He highlighted the fact that the proposed amendments dealt primarily with two proposed annexes: one relating to UNCDF and the other relating to UNRFNRE. In addition, he said that the documentation contained details of three other minor amendments to the UNDP Financial Regulations. The first involved an update of the Regulations to reflect the fact that new Financial Regulations for UNFPA were approved by the Council at its thirtieth session. The second was an editorial clarification to make it clearer that UNDP was required to publish audited accounts every year. The third dealt with a change to the information annex to the Regulations dealing with external audit, a change already approved by the United Nations General Assembly, which therefore the Council could take note of.

224. In dealing with the proposed annexes for UNCDF and UNRFNRE, the Assistant Administrator, Bureau for Special Activities, stated that they were prepared in response to a request of the Governing Council made in 1981 for the purpose of taking into account the unique requirements of those funds. He emphasized that both of the funds had its own secretariat and distinct operational modalities which resulted in part from their legislative bases. He stated that out of 90 UNDP Financial Regulations only some 35 Regulations had to be modified in respect of each of those funds. Most of the changes were minor. Some other changes were made to reflect significant differences in operational modalities and changes in procedures. He then referred to the proposal made by ACABQ; namely, that in the presentation each article of the UNDP Regulations should be referred to. He said that while that presentation would not change anything in substance, UNDP was not convinced that the change

in presentation would be an improvement, particularly when one of the objectives had been to keep exceptions to the UNDP Regulations to a minimum and the annexes short and concise. UNDP intended, he concluded, to reissue its Regulations, indicating with an asterisk where they did not apply to UNCDF and UNRFNRE and referring the user to the annex.

Summary of the discussion in the Committee

225. Members expressed their general satisfaction with the documentation submitted by the Administrator as well as the clear presentation of the issues by the two Assistant Administrators. They viewed the proposed amendments to the UNDP Financial Regulations in respect of UNRFNRE and UNCDF as reasonable and responsive to the particular circumstances of those funds. They expressed their agreement to the proposed amendment concerning UNFPA as well as to the amendment dealing with the submission of the UNDP accounts to the United Nations Board of Auditors. Several members noted that the proposed UNCDF financial regulation 4.1 allowed voluntary contributions in cash only. One of those members also enquired whether contributions in kind in respect of UNCDF would also be reported to the Governing Council and to the United Nations General Assembly. A member noted the absence of certain UNDP Financial Regulations from the proposed annexes for UNCDF and UNRFNRE.

Response of the Administration

226. In his reply, the Assistant Administrator, Bureau for Finance and Administration, explained that the proposed financial regulations concerning voluntary contributions to UNCDF, regulations 4.1 and 4.5, reflected the language of the relevant paragraphs of General Assembly resolution 2186 (XXI) as indicated in the annotated comparative table contained in DP/1984/61/Add.2. He further stated that if any contribution in kind were received by UNCDF, it would be reported to the Governing Council and to the United Nations General Assembly, although it could be difficult to attribute a monetary value to such contributions. As to the absence of certain UNDP Financial Regulations from the annexes pertaining to the two funds, he drew attention to paragraph 2 of each annex which stated that unless otherwise specified in the annex, UNDP Financial Regulations shall apply, mutatis mutandis, to all funds administered by the fund concerned. He then referred to the regulations proposed for UNRFNRE and stated that, in accordance with the advice of ACABQ, the proposed regulation 8.10(f), dealing with the reimbursement of support costs of co-operating agencies, would be deleted.

Recommendation of the Committee

227. Following its discussion, the Committee recommended that the Council adopt the following decision:

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The Governing Council,

Having considered the proposals of the Administrator for revisions to the Financial Regulations of UNDP as contained in documents DP/1984/61, DP/1984/61/Add.1 and DP/1984/61/Add.2,

Noting with appreciation the observations of the Advisory Committee on Administrative and Budgetary Questions as contained in its report (DP/1984/56),

(a) Approves the following additions and amendments to the UNDP Financial Regulations:

- (i) Annex II containing special provisions for the United Nations Capital Development Fund, as contained in document DP/1984/61/Add.1;
- (ii) Annex III containing special provisions for the United Nations Revolving Fund for Natural Resources Exploration, as contained in document DP/1984/61/Add.1, except that the text proposed in that document for regulation 8.10(f) shall be deleted;
- (iii) The amendment of the text of Annex I, relating to the United Nations Fund for Population Activities, as contained in paragraph 7 of document DP/1984/61;
- (iv) The amendment to Regulation 16.3 of the UNDP Financial Regulations relating to the submission of annual accounts to the United Nations Board of Auditors, as contained in paragraph 8 of document DP/1984/61;

(b) Notes the amendments to the annex to the Financial Regulations of the United Nations, approved by the General Assembly in its decision 38/408, concerning additional terms of reference governing the audit of the United Nations and that these will consequently be reflected in the Information Annex to the UNDP Financial Regulations;

(c) Requests the Administrator to revise the UNDP Financial Regulations incorporating the additions and amendments thereto set forth in paragraph (a) above.

228. The Governing Council subsequently adopted decision 84/38.

F. Ex post facto reporting on agency support costs

229. For consideration of item 9(f) of the Council's agenda, the Committee had before it a report of the Administrator contained in DP/1984/62. In introducing the item, the Director of Finance highlighted the fact that it was the first detailed report submitted to the Council in response to the Council's decision 80/44 and other subsequent decisions on the subject.

230. He then described the extensive efforts which were needed to develop a reporting format which would be feasible from the standpoint of executing agencies, without requiring particularly extensive adjustments to their systems, and acceptable to the Council in order to provide the basic information required to make the report meaningful.

231. He informed the Committee that the data in the report had to be reviewed with great care since some agencies were able to readily extract the data required from their accounting systems. Others, however, had relied on either predetermined support-cost percentages based on past studies, or on management information which, in some cases, reflected estimated costs. In addition, differences in agencies' accounting treatment, and in their management systems and budgetary processes also affected their respective submissions. He then went on to describe some of the salient features of the reports and the method for the presentation of the tables in order to make the data as meaningful as possible.

Summary of the discussion in the Committee

232. Members expressed their appreciation for the submission of the detailed report and the complementary oral explanations provided by the Director of Finance. They recognized in general that the fact that it had taken four years to respond to the Council's request was an indication of the complexity of the issue at hand. Nevertheless, the amounts of support costs paid to agencies were substantial and therefore the report was indispensable in order to allow for some comparison between agencies and to allow a better understanding of the use of those monies. Most participants expressed satisfaction at agencies' co-operation in the process of preparing the ex post facto report and called upon them to continue to co-operate with UNDP in the provision of meaningful information for the report in the future. They considered the report to be a good beginning which could be further developed in future submissions.

233. One member, speaking on behalf of a group of delegations, found the data of significance and pointed to the lower rate of support costs incurred by UNDP/OPE, compared with other agencies, on programme activities financed by UNDP. That was an indication that UNDP/OPE was not subsidizing the support of trust funds from support-costs earnings on UNDP funds. While recognizing the importance of the data, that member questioned why it had not been provided at

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the level of detail required by decision 80/44. Several members expressed the view that some of the data were not specific enough and expressed the wish to have, in the future, a further breakdown of items such as "others" and "general operating expenses". One member noted the high ratio of personnel costs in the data provided. Members noted the wide divergence in support-cost rates incurred by various agencies and some remarked that several of the larger agencies had lower rates which confirmed that they benefited from economies of scale.

234. Several delegates suggested that the information contained in the report could be used to review measures to reduce support costs by permitting agencies and intergovernmental bodies to review systems and operational procedures. Many members expressed the opinion that funds saved on administration costs were funds available for development programmes. One member suggested that a close analysis of the available information could help reduce costs. In that connection he referred to one item, that of travel costs, where the ratio of such expenditure was substantially different between agencies.

235. Several agency representatives participated in the discussion. They explained that the high ratio of personnel costs was due to the fact that support activities were mainly headquarters' functions with heavy staff involvement. One agency representative stated that his agency was supporting its extrabudgetary activities from support-costs earnings on those programmes which, in accordance with Governing Council decision 80/44, were being charged at a uniform rate for all sources of funds.

Response of the Administration

236. In his response, the Director of Finance explained that the data provided, which was less detailed than that requested in decision 80/44, was based on negotiations with executing agencies. The results of those negotiations were communicated to the Council which had agreed to the proposed format. He then expressed the view that the importance of the data was to provide management information which would enable relative comparisons to be made. It could also provide a base against which future data could be reviewed. As to the views that support-costs expenditures could perhaps be further reduced, he stated that potential measures for cutting costs should be viewed as a permanent objective. However, a determination of what constituted a proper overhead rate depended to a large extent on definitions and on the base against which it was calculated. For instance, he continued, private firms often estimated their overhead to be well in excess of 100 per cent as applied against direct labour charges. He went on to say that if there were any comfort in the numbers, it came from the fact that UNDP in great part was paying a lower amount to agencies in support costs than agencies were expending as their overhead costs in supporting their various types and modes of technical assistance programmes. He assured the Committee that UNDP, in

co-operation with the agencies, would attempt in future submissions to improve the report and respond to the various requests made for some more detailed data.

Recommendation of the Committee

237. Following its discussion, the Committee recommended that the Council adopt the following decision:

The Governing Council

(a) Takes note of the Administrator's "Ex post facto report on agency support costs" (DP/1984/62) as well as views and opinions of members on the report;

(b) Expresses appreciation to the Administrator and the executing agencies for developing the format submitted;

(c) Requests the Administrator to continue submitting such a report on a biennial basis.

238. The Governing Council subsequently adopted decision 84/39.

G. Audit reports

239. For its consideration of agenda item 9(g), the Committee had before it a note by the Administrator contained in DP/1984/63 and Add.1. The addendum contained the audited accounts of the participating and executing agencies as at 31 December 1982 relating to the funds allocated to them by UNDP. Document DP/1984/63 provided the Administrator's comments on issues raised in the audit reports and a description of the follow-up action taken in respect of observations made by the auditors. It also included a report on the steps taken by UNDP in response to Governing Council decision 83/38.

240. The Director of Finance introduced the subject and recalled that decision 83/38 had requested the Administrator to convey to the Panel of External Auditors and to the administrations of the executing agencies concerned the view of the Governing Council that improvements in the style of reporting, and an increased emphasis in audit reports on the audit of the effectiveness of financial management, should be introduced as promptly as possible. He indicated that the Council's views had been brought to the attention of the Panel of External Auditors and also to the attention of CCAQ(FB) at their respective meetings in September 1983. He pointed out that any results from those consultations could only affect the audit of the agencies' accounts for the year 1983 at the earliest and that those accounts and the related audit reports would not be submitted to the Council until 1985.

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241. The Director drew attention to a proposal, similar to that made in 1983 by the auditors of the World Bank, which had been received from the Asian Development Bank (AsDB) concerning narrative audit. After careful review, the Administrator believed the proposal represented good "value for money" and recommended that the Council authorize him to reimburse AsDB for the additional cost involved.

242. Regarding the specific observations contained in the auditors' reports for 1982, the Director of Finance stated that ITU had refunded to UNDP the total amount of interest received as requested by UNDP and described in paragraphs 18-28 of DP/1984/63. With respect to miscellaneous expenses and exchange adjustments referred to in paragraph 29, he reported that the matter was still under review by UNDP and ITU. Regarding the purchase of equipment by WTO referred to in paragraphs 32 and 33, further information received from WTO confirmed that the equipment concerned did fulfil the purposes for which it was acquired.

Summary of the discussion in the Committee

243. Many members stressed the value they attached to long-form audit reports that included observations on substantive matters. A considerable number of members expressed disappointment at the response of the agencies to the concern of the Council in that regard. One member expressed the opinion that CCAQ's report on the matter, summarized in paragraphs 20 and 21 of DP/1984/63, was not conclusive and he requested that UNDP increase its efforts to request agencies to be responsive to the Council's concerns. He considered that the matter had important implications for the overall relationship between UNDP and the agencies. Another member stated that the Fund that provided the resources should have some say on the form of audit which was to be carried out. A number of delegations questioned whether External Auditors were solely responsible for determining the scope and content of audit reports and suggested that the appropriate legislative governmental bodies also bore responsibility in that regard. One member stated that the importance attached by the Council to the long-form audit report should again be emphasized in any decision recommended for adoption by the Council. A number of delegates requested further clarifications and explanations from the agencies on the matter.

244. One delegate stated that the practice of UNDP's making observations on the audit reports had proved its usefulness and suggested that that practice should be continued. Many members endorsed the Administrator's recommendation regarding the implementation of the proposals for the external auditors of AsDB and considered the proposed fee to be reasonable.

245. Regarding the delays encountered in the implementation of a number of UNESCO projects, several delegates stressed the importance of proper project formulation and of appropriate consultations to ensure, in particular, that

the inputs expected from recipient Governments were reasonable. A number of members expressed concern at the exceptional measures taken by ITU without due consultation with UNDP. Several delegates also expressed concern at the infringements on the use of UNDP funds reflected in the auditors' comments and considered the reasons provided by ITU in explaining the measures they had taken as unsatisfactory given the serious nature of the financial infringements involved. One member asked what measures could be adopted to prevent similar actions in the future. Concern was also expressed at the level of funds made available by UNDP to the agencies that remained unspent for considerable periods of time. Another member suggested that the number of agencies using the long-form audit report be increased within the present level of expenditure.

246. One member emphasized the importance of audit reports in particular for the benefit of the recipient countries. He suggested that information on the terms of reference, the scope and the methodology of external auditors' reports would be useful to Governments. He also suggested that it was important that recipient Governments be in a position to benefit from the mistakes identified by external auditors. He stated that agencies should co-operate in that process. The delegate expressed the concern of governmental agencies in his country at the lack of timely project delivery information and requested quarterly expenditure data.

Response of the Administration

247. The Director of Finance, responding to the concerns expressed by delegates to the response of CCAQ, expressed the opinion that the ultimate responsibility for projects financed by UNDP had to lie with the Administrator who allocated the funds. He noted, however, that in the United Nations system agencies had their own external auditors, with their specific responsibilities and that some agencies considered that their external auditors were solely responsible for determining the scope and content of audit reports. The Director further noted that, while several years ago there had been little in the way of substantive reporting, progress made so far was cause for optimism. He stated that UNDP's own external auditors had increasingly looked into UNDP substantive project operations in recent years. Regarding ITU, he stressed the value of the narrative reports in disclosing the actions that had been taken and stated that efforts would continue to be made to ensure compliance with UNDP's financial regulations and rules.

Views of executing agencies

248. A representative of ILO, speaking on behalf of the agencies, responded to the request to provide further clarification on the CCAQ statement. He stated that agencies' auditors had wide terms of reference and mandates that went beyond a limited financial audit. In practice, therefore, most United Nations agencies were able to be responsive to the Council's concerns. He

stressed the importance attached by ILO to substantive audits and noted that the external auditors were moving away from spot investigations and increasingly giving attention to audits of a systems nature. He stated that agencies' external auditors were fully autonomous and that it was not the function of the agencies' secretariats to determine the auditors' work plans.

249. The Secretary of CCAQ further stated that in the case of all agencies the external auditors were elected by their legislative bodies and were solely responsible to them. Legislative bodies might request the external auditors to perform specific tasks. He noted that the Panel of External Auditors had already shown itself responsive to the Council's concerns and considered that the extent of the responsiveness would become apparent in 1985. He stated that executing agency administrations were sympathetic to the Council's concerns. He suggested one way forward might be for the Governing Council to address the legislative bodies of the agencies with its request.

Further discussion in the Committee

250. One delegate noted that the Committee did not review and consider the external audit reports on UNDP itself. He referred to the constraint of time and to the present procedure by which the annual audited accounts of UNDP were considered each year by the Fifth Committee of the General Assembly. He suggested that in the light of those constraints, the Committee might wish to consider an annual report of the Administrator on the measures taken by the Administrator as a result of the external auditor's report, without prejudice to the comments of the Fifth Committee. Other delegates referred to the quantity of documentation already submitted and suggested alternatively adding an annex to the Administrator's report or requesting the Administrator to make an oral presentation.

251. A number of delegates considered the clarifications provided by the ILO representative to have been helpful. One delegate emphasized the ultimate accountability of the Administrator for the funds entrusted to UNDP and urged the Administrator to take the necessary steps to ensure that the scope and content of audits be sufficient to establish his accountability. If that were not possible, the Administrator should report on it to the Governing Council so that the Council could take special measures. Several delegates stated that their Governments would pursue the matter in the legislative bodies of the agencies.

Further response of the Administration

252. The Director of Finance reaffirmed his view that considerable progress was being made and that it would be reflected in the narrative reports in 1985. He noted, however, that a number of reports were still not of a narrative nature and stated that it was those reports that remained a subject of concern to the Council. He suggested that the Governing Council could make

its request to the legislative bodies of agencies by requesting the Administrator to raise the matter in the inter-agency machinery so that the executive heads of agencies could communicate the Council's concern to their respective governing bodies.

Recommendation of the Committee

253. The Budgetary and Finance Committee recommended that the following decision be adopted by the Governing Council at its thirty-first session:

The Governing Council

(a) Takes note of documents DP/1984/63 and Add.1 containing the audit reports of executing agencies for the year 1982, as well as the Administrator's comments on the substantive observations made by the external auditors and a description of the action taken by the Administration in response to Governing Council decision 83/38;

(b) Emphasizes again the importance which the Council attaches to receiving long-form narrative audit reports which disclose the results of audits that are sufficiently wide in scope as to cover those areas which the Council had identified in its previous decisions, including in particular the audit of the effectiveness of financial management;

(c) Requests the Administrator to bring this decision, and the views expressed by the Committee in the course of its discussion of this matter, to the attention of the Panel of External Auditors and of the administrations of the executing agencies;

(d) Further requests the Administrator to convey the Council's views on this matter to the Executive Heads of the executing agencies so that they, in turn, may advise their respective legislative bodies of the Council's concern and request such further action by those legislative bodies as may be necessary or appropriate in each case;

(e) Notes with appreciation and agrees with the proposal made by the external auditors of the Asian Development Bank to carry out, at an additional cost of approximately \$8,000 the additional audit procedures described in paragraph 5 of document DP/1984/63, including the preparation of a long-form audit report which would describe the procedures followed, the results obtained and any recommendations for improvement the auditors may wish to make;

(f) Authorizes the Administrator to reimburse the Asian Development Bank for the additional audit costs referred to in operative paragraph (e) of this decision and to charge these costs against the expenditure line for reimbursement of programme support costs, in addition to the reimbursement for programme support costs to which the Asian Development Bank would normally be entitled;

(g) Further requests the Administrator to make available at future sessions of the Council copies of the latest available General Assembly document containing the annual audited financial statements of UNDP, the report of the United Nations Board of Auditors thereon and the Administrator's financial report for the year in question, including his response to the observations of the auditors, as well as copies of the relevant decision of the General Assembly on the audit report, and to report orally to the Council on these matters.

254. The Governing Council subsequently adopted decision 84/40.

H. Sectoral support

255. For consideration of item 9(h) of the Council's agenda, the Committee had before it a report of the Administrator contained in document DP/1984/64.

256. The Assistant Administrator, Bureau for Programme Policy and Evaluation, introduced the report and stated that the Governing Council at each of its sessions for the past nine years had reviewed and debated the issues concerning sectoral support. That reflected the importance the Council attached to the programme and the difficulties of finding solutions to its various financial and administrative problems. In 1983 in decision 83/39, the Council had decided to review the entire question of sectoral support including its history, rationale and needs as well as proposals for the future financing of the SIDFA programme bearing in mind the future status of UNIDO. To assist in that review the Administrator had prepared a report, DP/1984/64, in consultation with UNIDO as concerns the SIDFA programme and with the other agencies regarding sectoral support for the smaller agencies.

257. The Assistant Administrator further stated that the report reviewed the history and rationale of sectoral support in paragraphs 1-5 and documented the present status of the SIDFA programme in paragraphs 6 and 7. It assessed both the sectoral support to the smaller agencies (paras. 12-16) as well as the SIDFA programme (paras. 17-24). The report concluded that the SIDFA programme continued to serve a vital function and enjoyed broad support in the developing countries. However, its financial conditions remained uncertain.

258. He further stated that the General Assembly at its thirty-seventh session had agreed to provide resources in order to maintain the current level of staffing taking into account UNDP financing as well as voluntary contributions to UNIDO. That provided financing for only 9 posts which, together with 19 posts financed from UNDP resources and 2 from voluntary contributions to UNIDO, brought the total for 1984 to 30 posts. Unless additional amounts were obtained through the General Assembly and in response to the appeal to developed countries for contributions to UNIDO's voluntary

programme, further reductions would have to be contemplated in 1985 since UNDP's contribution was for a fixed dollar amount which might cover only the financing of 15 posts in 1985.

259. The Assistant Administrator indicated that extensive consultations between UNDP and UNIDO had taken place to arrive at an equitable distribution of the remaining SIDFA posts and to ensure maximum coverage with limited resources. That had been accomplished by taking into account the relative size of the industrial sector in the countries covered by SIDFAs; the level of development of these countries; their classification as LDCs; the range of country coverage; and the expressed interest of the host Governments, including direct and indirect support towards local cost of SIDFAs.

260. The Assistant Administrator referred to decision 83/39 whereby the Governing Council had authorized an allocation of \$4,061,000 for the 1984-1985 biennium. He pointed out that the status of UNIDO as a specialized agency was still under consideration. Even if UNIDO were to achieve that status in 1985, not enough time would be available to change present financing arrangements before the end of the present cycle in 1986. Therefore, the Administrator proposed that an allocation of \$2.03 million be made to the SIDFA programme in 1986 in order to guarantee a maximum level of SIDFA services to the developing countries within available resources.

261. He said that the Administrator's report dealt with sectoral support to the smaller agencies also. Table 1 on page 3 of the report provided the Council with an overview of how the Administrator has distributed the resources since 1979. The report assessed in paragraphs 8-16 the results of that relatively small allocation which for 1984 and 1985 amounted to \$912,000 per annum.

262. The Assistant Administrator referred to paragraph 15 of the report which pointed out that it might be desirable to use short-term consultant missions instead of resident advisers for providing sectoral services. Several agencies used such a more flexible approach while others preferred more permanent arrangements. Sectoral support to the smaller executing agencies was providing one of the few resources available to them to respond to government requests for sectoral advice. Consequently, the Administrator proposed that assistance for sectoral support of the smaller agencies be extended and that an allocation of \$912,000 for 1986 be made available for this purpose.

Summary of the discussion in the Committee

263. In the subsequent discussion, many delegates commended the Administrator's report and expressed appreciation for his analysis of the issues. The sectoral support programme was considered as most helpful to developing countries by several delegates. They urged continued support of

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the SIDFA programme as well as other sectoral support. They also supported maintenance of the SIDFA programme at the current level. It was pointed out by some delegates that SIDFAs had proved useful in the identification and formulation of industry projects. Such a service was particularly important in the context of the African industrialization decade programme.

264. Several delegates agreed that the flexible approach described in paragraph 15 of document DP/1984/64 should be adopted. Resident advisers including SIDFAs should be appointed only when short-term missions were considered inadequate. UNDP resident representatives and field offices should be kept fully informed of planned missions and should serve as intermediaries with recipient Governments during field discussions. Some delegates pointed out that a single resident adviser could not possibly cover many specialized fields but nevertheless could play a useful co-ordinating role. In some cases short-term consultants should be considered as an alternative.

265. On the financing of the SIDFA programme, some delegates commented that it appeared that the responsibility of financing was being passed from one legislative body to another, e.g., from the General Assembly to the Governing Council and from the Governing Council back to the General Assembly. One delegate expressed surprise that national IPFs were not being used to finance SIDFAs who, according to most developing countries, were considered very useful.

266. Delegates welcomed the information that two of the recipient countries had agreed to contribute to SIDFA costs. It was suggested that more countries should follow that example. It was indicated by some delegates that the lack of willingness to share SIDFA costs reflected little interest in the SIDFA programme by the recipient countries. On the other hand, some delegates expressed the view that not sharing SIDFA costs did not indicate lack of interest in view of the harsh resource constraints currently being experienced by many countries. Some delegates expressed their concern that the SIDFA programme was being reduced in view of UNDP's financial constraints. Nevertheless, a consensus emerged that the SIDFA programme should be maintained at the current level through 1986.

267. Several delegates expressed their deep apprehension that the experience with the function of the senior agricultural advisers which were eventually expanded into FAO field offices might be repeated in the case of SIDFAs once UNIDO became a specialized agency and would fully finance the SIDFA. They felt that such a development could undermine the co-ordinating role of UNDP field offices. Some delegates requested that a table on the SIDFAs covering their duty stations, countries of their assignment, etc., should be made available to the Council for information. In view of the reduction in the SIDFA programme, some delegates expressed the view that priority should be given to the assignment of SIDFAs in LDCs. One delegate stated further that

African countries should be given priority consideration as well. Delegates also indicated that they would like to be fully informed of developments concerning SIDFA programme financing.

268. One delegate suggested that the SIDFA programme should be evaluated prior to adopting one course or the other. That view was endorsed by several other delegates. It was also agreed generally that the matter should be further reviewed when UNIDO became a specialized agency.

269. Some delegates pointed out that the sectoral support programme was considered particularly important because of its linkage with the preparation of round-table conferences.

270. Consensus emerged that the recommendations and conclusions of the Administrator in document DP/1984/64 were acceptable and that further financing for SIDFAs and for other sectoral support should be approved.

271. At the invitation of the Chairman, the UNIDO representative made a statement. He recalled the exhaustive study on the SIDFA programme carried out in 1980. He indicated that various ways and means had been examined by UNIDO regarding continued financing of the SIDFA programme such as funds provided by UNDP, by the regular budget of UNIDO and by voluntary funds. He reiterated the usefulness of SIDFAs and said that the current financing situation was not satisfactory. The future of SIDFA financing would be reviewed when UNIDO became a specialized agency. He described the main roles which SIDFAs played: co-ordinators with regard to industrial programmes; technical advisers to Governments; and representatives of UNIDO. In the latter role, UNIDO was able to conserve resources by avoiding the need to send representatives from headquarters.

Response of the Administration

272. The Assistant Administrator, Bureau for Programme Policy and Evaluation, in his response stated that the discussion in the Committee had indicated keen interest on the part of delegations with respect to sectoral support. As regards developments analogous to the senior agricultural advisers becoming FAO representatives, he said that that was not only relevant to sectoral support but also a question of the structure of the United Nations system for which intergovernmental bodies bore responsibility.

273. He pointed out that the arrangements proposed in document DP/1984/64 have been discussed fully with the agencies concerned and that the reductions were being proposed after careful consideration of the matter. He stressed that the UNDP field offices' involvement in the use of sectoral support funds should be assured and that the agencies should remain in close touch with the respective UNDP regional bureaux and the field offices. He stated that the arrangements regarding SIDFA postings had to be carefully reviewed in view of

the general criteria for SIDFA posts and the duration of individual contracts. He indicated that there were 32 SIDFAs in post and that two posts would be phased out by the end of 1984 in order to reach the agreed target of 30 posts. If resources could be mobilized in time, the matter could be reviewed further. He further stressed the point that the UNDP allocation for the SIDFA programme would be a fixed dollar amount and that the actual number of SIDFAs to be financed would depend on the evolution of average costs.

274. The Assistant Administrator recalled that the recent meeting of UNIDO's Industrial Development Board had not taken any decision on the future SIDFA system and had referred the matter to the Programme Committee. He said that it would be necessary to synchronize the views expressed in the General Assembly, the Governing Council and other such bodies by the delegations of the different countries.

275. He recalled that some delegations had suggested regionalization of the SIDFA programme. He pointed out that a SIDFA was, in fact, a mini-regional programme because most of the SIDFAs covered several countries. For example, the SIDFA in Fiji covered 10 different countries. He stated that the list of SIDFAs would be distributed to the Council as soon as it had been made available by UNIDO.

276. He recognized that sectoral analysis and the role of SIDFAs and sectoral advisers could be of assistance in the preparation of round-table meetings. As regards the review of SIDFA programmes, he pointed out that paragraph 17 of document DP/1984/64 contained the basic criteria for determining the SIDFA systems. He also recalled that a major study on those issues had been undertaken in 1980. Nevertheless, if delegates felt that more data were required, UNDP would contact UNIDO and explore whether such a study could be undertaken in the coming years. He also pointed out that the Council would have to review the SIDFA allocations as part of the review of the fourth-cycle programme and related issues.

Further discussion in the Committee

277. The Chairman of the Committee expressed appreciation for the reply of the Assistant Administrator and invited the Committee to comment further on the remaining issues. Some delegates reiterated their views with regard to the review of sectoral support and one delegate particularly repeated his request for an evaluation of the SIDFA programme. Another delegate made a further intervention and pointed out that the issues of financing sectoral support and of evaluation should not be lumped together. It was important that adequate consultations took place between UNDP and UNIDO and that further consultations should continue between UNDP, sectoral advisers and national aid co-ordinators to determine relevant needs. As regards the financing of the SIDFA programme, the delegate expressed the view that it was an internal matter of UNDP and UNIDO. On the other hand, as soon as UNIDO became a

specialized agency, the matter would have to be handled by UNIDO possibly in a similar manner as FAO had dealt with the senior agricultural advisers. He emphasized that the needs of LDCs must be recognized.

Further response of the Administration

278. The Assistant Administrator in his response indicated that he did not consider the treatment of the SIDFA programme and of sectoral support in one document as unusual since the two issues were basically the same. The SIDFA programme was discussed in more detail because of its size. As regards the sectoral support allocation, he stated that the allocations to the larger agencies had been phased out and that funds were now requested only for smaller agencies which could not undertake those functions because of lack of funds.

279. The Assistant Administrator indicated that a thematic evaluation of sectoral support could be undertaken. However, the Central Evaluation Office had only a very limited capacity at present and he hoped that the Committee would take that into account in its deliberations.

Recommendation of the Committee

280. In his summation, the Chairman said that consensus appeared to exist in favour of recommendations and conclusions of the Administrator in document DP/1984/64. He said that the matter of future financing arrangements should be looked into and that a further report be prepared on the matter in 1985. He also referred to the views expressed during the discussion concerning the linkage between sectoral support and the preparation of round-table conferences. He indicated that a decision would be drafted with the assistance of the Secretariat and the delegations.

281. Following consultations, the Committee recommended that the Council adopt the following decision:

The Governing Council,

Recalling its decisions 80/32 of 27 June 1980, 81/39 of 30 June 1981, 82/38 of 18 June 1982 and 83/39 of 24 June 1983,

Recalling General Assembly resolution 38/192 of 20 December 1983 which decided that adequate resources should be provided from the United Nations regular budget for the United Nations Industrial Development Organization in 1984 to maintain total staffing of the senior industrial development field advisers (SIDFA) programme at the existing level of already appointed advisers, in addition to the utilization in full of the allocation by UNDP, as well as voluntary funding through the United Nations Industrial Development Organization,

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(a) Takes note of the report of the Administrator on sectoral support (DP/1984/64) and of the views and comments thereon;

(b) Approves an allocation of \$2,943,000, subject to resource availability, to be used in 1986, as follows:

(i) \$912,000 to be used at the discretion of the Administrator for the smaller agencies; and

(ii) \$2,031,000 and any savings arising from previous years to cover the net costs to the United Nations Development Programme for the services of senior industrial development field advisers;

(c) Authorizes the Administrator to finance the maximum number of such advisors within available resources, and urges the Administrator to continue consultations jointly with the Executive Director of UNIDO with recipient countries in order to achieve a sharing of the cost of these services in accordance with Governing Council decisions 81/39 and 82/38;

(d) Urges continued close collaboration of SIDFAs with other United Nations agency field representatives under the co-ordination of the resident co-ordinator;

(e) Appeals to developed countries to provide voluntary contributions to increase the number of SIDFA posts;

(f) Reaffirms that priority shall be given in the provision of the services of a Senior Industrial Development Field Adviser, to those countries which have shared in the financing of the total net cost of those services, taking into account the special needs of the least developed countries;

(g) Requests the Administrator to report to the thirty-second session of the Governing Council on the current and future development of sectoral support, taking into account inter alia the linkage between sectoral support and sectoral analysis and further requests that the Administrator consult with the respective Executive Heads of Agencies to ensure that all sectoral advisors concerned are associated with the preparation of the round-table meetings for the least developed countries.

282. The Governing Council subsequently adopted decision 84/41.

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I. Other matters: reimbursement of services provided by UNDP field offices to other United Nations bodies

283. For consideration of item 9(i) of the Council's agenda, the Committee had before it a note by the Administrator contained in document DP/1984/73.

284. In introducing the item, the Assistant Administrator, Bureau for Finance and Administration, referred to the extensive consultations held on that matter between UNDP and the agencies, following which it had been agreed that the guidance of the Council on the issue should be sought. The Assistant Administrator then pointed out that the UNDP field office performed a vital function for the trust fund programmes in the country concerned and referred to the two principal options presented in the document for resolving the issue. Two specific aspects of that issue were emphasized. First, a decision to adopt the option authorizing new posts could have significant financial implications for UNDP in other countries where agreement had been reached with Governments to pay for UNDP support for ongoing trust fund programmes, on the premise that there was no provision in the biennial budget for such support. Second, the Administrator was concerned that the principle that UNDP-administered trust fund activities should not be subsidized from UNDP's central resources, as mandated by UNDP Financial Regulations, should also be applied to trust funds with no administrative affinity to UNDP.

285. The Assistant Administrator reported that the agency delivery figures for trust fund programmes in the country concerned in respect of 1983 amounted to \$10.9 million and that they were planned at \$14.6 million for 1984. The funds-in-trust programme for 1984 was thus estimated at some six times the level of UNDP activities. The Assistant Administrator noted that for 1984 it was planned to administer 323 expert posts, compared with 255 in 1983 and 197 in 1982. He pointed out that even those figures did not give the complete picture since, for example, with respect to one agency, against 164 established posts there had been a rotation of 249 experts.

Summary of the discussion in the Committee

286. A number of delegates stated that in their view Governing Council decision 82/33 had not properly reflected the discussions that had taken place in the Budgetary and Finance Committee and did not properly reflect its intention. They thought that the clear intention was to give the Administration sufficient room for flexibility to deal with "anomalous" situations.

287. Several members stressed that decision 82/33 required clarification and that an issue of principle was involved: namely, that agency trust fund activities should not be treated differently from UNDP's own administered trust funds. Many delegates stressed that UNDP should not be expected to bear

the costs of supporting agency trust fund activities and they favoured the option presented by the Administrator that called on the agencies to reimburse UNDP for those costs. A number of delegates stated that they did not consider those costs to be primarily the responsibility of UNDP.

288. Several delegates referred to the discussions held in the Committee at the Council's twenty-ninth session. They pointed out that part of decision 82/33 authorizing UNDP to continue to provide services at the same level as had been hitherto provided was taken in order to preserve UNDP's co-ordinating role at the field level and to discourage the opening up of new agency field offices. They emphasized the importance they attached to UNDP's co-ordinating role and considered that the matter before the Committee should therefore be treated as an exceptional case. Another member took the view that UNDP was only providing administrative services and that it was necessary to distinguish between the provision of such services and the carrying out of UNDP's mandate. He considered that reimbursement for the provision of services would not really affect UNDP's co-ordinating role. He stated that it was important for the Committee to exercise great caution in appropriating funds for activities outside of UNDP.

289. One delegate stated that trust fund activities should be marginal to core activities. Several delegates questioned the extent to which the case before the Committee was exceptional. A number of delegates requested further information on the negotiations that had taken place with the Government concerned.

Response of the Administration

290. The Assistant Administrator described the lengthy negotiations that had taken place between UNDP and the Government of the country concerned and subsequently with the agencies. He explained that every effort had been made to reach a solution and that when all efforts had not yielded results it was in agreement with, and in part at the request of the agencies, that the matter had been brought to the Council for its review and guidance. He reiterated that in other cases host Governments had agreed to pay the cost involved. While in the past UNDP had generally approached Governments directly on behalf of agencies with requests for reimbursement, the Assistant Administrator did not consider that to be primarily the responsibility of the resident representative. UNDP, however, would continue to do everything possible to assist the agencies in this respect. Regarding the question of the marginality of trust fund activities, he noted that such activities were not always marginal for agencies. He stated that in the discussion in the Committee at the twenty-ninth session of the Council a clear distinction had been drawn between agency regular and trust fund activities, and considered that an issue of principle was involved.

291. With respect to UNDP's role in co-ordinating trust fund activities, the Assistant Administrator believed that in many cases trust fund activities were negotiated between donor, recipient and the agency concerned without the

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resident representative being in any way involved. He considered that reimbursement for provision of services would not impact in any significant way on UNDP's co-ordinating role at the field office level.

Recommendation of the Committee

292. Following the discussion on this subject, the Committee recommended that the following decision be adopted by the Governing Council at its thirty-first session:

The Governing Council,

Having considered the report of the Administrator relating to the reimbursement of services provided by UNDP field offices to other United Nations bodies (DP/1984/73),

Reaffirming the co-ordinating role of UNDP at the country level,

Reaffirming also its decision 82/33 adopted at its twenty-ninth session,

Recalling that financial regulation 5.1 which was approved by decision 81/28 of the Council at its twenty-eighth session, provides that, in the case of trust funds to be administered by UNDP, trust funds which directly or indirectly involve additional financial liability for UNDP shall be established only by the Governing Council,

Decides that UNDP should be reimbursed by the United Nations Organization concerned for the cost of services provided by UNDP to trust fund activities of other United Nations bodies, unless the trust fund donor or the host Government concerned itself directly provides UNDP reimbursement for those costs.

293. The Governing Council subsequently adopted decision 84/42.

Notes

1/ Official Records of the Economic and Social Council, Sixty-third Session, Supplement No. 3A (E/6013/Rev.1), para. 525.

Annex

SUMMARY OF THE ASSOCIATE ADMINISTRATOR'S INTRODUCTORY STATEMENT
TO THE BUDGETARY AND FINANCE COMMITTEE

1. In his opening statement to the Budgetary and Finance Committee, the Associate Administrator commented on the UNDP programme's performance during 1983. Placing it in the context of the third programming cycle, he provided a review of the financial activities of UNDP during 1983, pointing, in particular, to the total income for the year of \$838 million which represented an increase of 5.8 per cent over 1982. With respect to total programme expenditure, he noted a decline of 15 per cent during 1983 to some \$560 million. He then described the major factors contributing to such a decline, the first being the strengthening of the United States dollar which, though unfavourable with respect to the level of UNDP resources, was, on the other hand, beneficial with respect to the quantum of assistance provided because of the increase in the United States dollar's purchasing power. As an example, he stated that in the third cycle, whereas programme delivery would be 52 per cent of the original target in current dollar terms, the number of expert months would actually be 62 per cent of what was assumed in the original calculations of the targets. The second reason related to cancellation of many obligations considered unnecessary by some executing agencies, thus returning them as savings to 1983 project accounts. Third, in order to provide a smooth transition to a lower level of programming, the Administrator had set declining limitations on programme expenditures in 1982, 1983 and 1984. However, due to more cautious programming by Governments and resident representatives, there was a significant reduction in project approvals during 1983 itself, rather than more gradually as envisaged earlier.

2. The Associate Administrator then reviewed the development of programme expenditures taking together the years 1982 and 1983. He pointed out that there had been a gradual adjustment by UNDP to a lower level of programming and that the actual LPF expenditures for those two years amounted to \$1,035 million, a shortfall of only \$35 million compared with the revised planned LPF expenditures of \$1,070 million. That resulted in the shortfall in programming resources being reduced by \$31 million. The lower 1983 expenditures also resulted in an increase of \$62 million in UNDP investments held at the end of 1983 which amounted in all to \$250.7 million over and above the \$200 million held on behalf of the Operational Reserve. He then reminded the Council of certain liabilities which amounted to \$253.8 million which exceeded the \$250.7 million held in investments.

3. Turning to the years ahead, the Associate Administrator assumed that the annual growth rate in voluntary contributions would be some 7.5 per cent in 1984 and 1985, and possibly in 1986 as well. The LPF expenditures were set at \$500 million for 1984, \$540 million for 1985 and \$570 million for 1986. The

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balance of programmable resources should grow from a negative amount of \$29 million at the end of 1983 to a positive amount of \$25 million by the end of the cycle.

4. The Associate Administrator then pointed out that during the cycle the liquidity position of the Programme had never been jeopardized, despite the shortfall in programmable resources and deficits in the revenue reserves, and that a drawdown against the Operational Reserve had not been necessary. He also mentioned a few proposals made by the Administrator regarding the purpose of the Operational Reserve, in particular a request that for the fourth cycle the Council introduce a second level of the Operational Reserve which would serve to iron out fluctuations in planned IPF expenditures during the cycle. That would not affect the present liquidity reserve at its level of \$200 million.

5. The Associate Administrator concluded by reviewing briefly the other issues which figured on the agenda.
