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BUDGETARY AND FINANCE COMMITTEE
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Item 10 of the agenda of the
Budgetary and Finance Committee

ADOPTION OF THE REPORT OF THE BUDGETARY AND FINANCE COMMITTEE
TO THE GOVERNING COUNCIL

Draft report of the Budgetary and Finance Committee

Rapporteur: Mrs. MKHONZA Adelaide Phindile (Swaziland)

Addendum

CHAPTER IV. FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

C. Trust funds

2. Trust funds conditioned on procurement from the donor country

1. For its consideration of item 9 (c) of the Council's agenda, the Committee had before it a report of the Administrator, contained in document DP/1986/62.
2. The Deputy Assistant Administrator and Director of Finance introduced the item by noting that the document provided background information on tied trust funds established by the Administrator from the time that the authority was first granted by the Council in its decision 82/5. The Deputy Assistant Administrator reviewed the evaluation provided by the report on the geographical and sectoral distribution of these trust funds, including the procurement procedures utilized, for the period 1982 through the end of 1985. He then informed members of those new trust funds accepted after 31 December 1985 through 30 April 1986, the end of the experimental period. In presenting his review, he noted the sizeable percentage of contributions not in fact tied to procurement in the donor country as well as the sizeable

amounts generated in the form of contributions by recipient Governments. The experience gained to date confirmed that the contributions made had been directed to those countries most in need. Thus, 70 per cent of such contributions had been channelled to countries in Africa afflicted by drought and desertification.

The Administrator was aware that members of the Council held different views on the subject of tied trust funds. There had been, he recalled, a notable drop both in the number of new projects and in the amount of total contributions made to tied trust funds in the period following the adoption of decision 84/35 in June 1984. Against this background, the Administrator was recommending that with respect to the activities of the United Nations Sudano-Sahelian Office (UNSO) and the United Nations Capital Development Fund (UNCDF), no new contributions conditioned on procurement from the donor country should be authorized by the Council after 30 April 1986. With respect to the United Nations Financing System for Science and Technology for Development (UNFSSTD), it was proposed that a recommendation should be considered following the decision to be taken at the session of the Inter-Governmental Committee on Science and Technology for Development. Should the recommendations of the Secretary-General be accepted with regard to the integration of this fund into UNDP, it would be the Administrator's recommendation that no new contributions conditioned on procurement from the donor country be accepted in respect of the activities of UNFSSTD after 30 April 1986.

Summary of the discussion in the Committee

3. Many members stressed the importance they attached to the principles of unconditionality and of international competitive bidding, which they considered to be fundamental characteristics of multilateral aid, in this connection, they supported the recommendations of the Administrator. Several members considered that the abolition of the authority to accept tied trust funds would enable a much clearer line to be drawn between multilateral and bilateral assistance. One member noted that while his Government was traditionally opposed to tied trust funds, he none the less considered that the authority given to UNDP in this respect was less harmful than the use of tied trust funds by the specialized agencies, since in the case of UNDP, such funds were being entrusted to the organization responsible for the

co-ordination of overall technical co-operation. Another member stressed that the transfer of resources through tied trust funds provided an important means of channelling additional resources to developing countries and that this was distinct from the provision of bilateral aid.

4. Regarding the experience of UNDP with tied trust funds, several members emphasized that the resources made available to UNDP through this mechanism represented additional resources and had at no time detracted from contributions to UNDP general resources. Several members emphasized the percentage of the tied contributions that were not spent in the donor country; the fact that these resources have mobilized a substantial degree of further resources; and the fact that the contributions were for the most part to countries in Africa most in need. Several members noted that the guidelines established by the Council had been followed by the Administrator. One member attributed the decline in contributions after June 1984 in part to the restriction imposed by the ceilings and considered that the experiment had not really been given an opportunity to develop fully. One member noted that UNDP had the authority to manage bilateral programmes under the management services concept. In this case, UNDP was providing services for a programme that was clearly bilateral and the resources channelled through UNDP were not to be considered in any way contributions to UNDP. This member suggested that a fuller review of the concept of management services should be undertaken in one or two years. He stressed that management services should not detract from the capacity of UNDP to deliver its own main programmes, nor should it detract from contributions made by donors to UNDP central resources. This member further noted that, in his opinion, the USSR and Bulgaria trust funds established for the training of specialists from developing countries constituted tied trust funds and should be dealt with in the same way as these tied trust funds.

Response of the administration

5. The Deputy Assistant Administrator noted, on the one hand, the real needs which had been met through contributions conditioned on procurement from the donor country; on the other hand, he noted the important issues of principle that were at stake. Regarding management services, he noted that the Council would continue to receive full information on management services in the annual review document. In addition, he suggested that in 1988 a full analysis should be provided of the experience to date with management services. He stressed that, in the case of management services, UNDP was

providing services to a bilateral programme and that the resources advanced to UNDP to provide those services were in no way considered contributions to UNDP. In this regard, a very clear distinction had been established and was being respected between multilateral resources on the one hand, and, on the other, monies advanced in order to pay for services provided for a bilateral programme. He further confirmed that management services were fully self-financing in nature and that core resources were not allowed to subsidize the provision of management services.
