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

Draft report of the Budgetary and Finance Committee

Rapporteur: Ms. MKHONZA Adelaide Phindile (Swaziland)

Addendum

CHAPTER IV. FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

A. Annual review of the financial situation, 1985

1. For its consideration of item 9 (a) of the Council's agenda, the Committee had before it the report of the Administrator (DP/1985/56), which provided a comprehensive financial review of the activities financed from the UNDP account during 1985, the financial position at the end of the year, and the forecast of activities in 1985 and 1986. The report also provided information on cash management practices, on agency support cost arrangements, on the status of the reserve of the construction loans to Governments and related matters, on management and other support services,

and on Government financial obligations in the fourth cycle, in accordance with decision 85/16. In addition, an addendum to the report (DP/1986/56/Add.1) provided data on the flow of contributions to, and payments from, the UNDP system in 1985 in respect of each participating Government.

2. In introducing the item, the Associate Administrator noted that total income in 1985 amounted to $873 million, while total expenditure amounted to $778.1 million. IPF expenditure amounted to $482.1 million, which represented an increase of 10.4 per cent over 1984, but a shortfall of 3.4 per cent with respect to the forecast of $500 million. The Administrator was pleased that for the first time, after a pattern of decline over the last three years, expenditures had seen a significant increase. None the less, in 1985 there was a surplus of income over expenditures of $94.9 million, resulting in a balance of UNDP general resources in 1985 of $184.4 million.

3. Regarding expenditures, the Associate Administrator reviewed the major elements in the recent and ongoing efforts relating to programme delivery that contributed to the improvement which had been achieved and which, it was hoped, would ensure continued growth. The Administrator envisaged a gradual and steady increase in programme delivery for 1986 and during the course of the fourth cycle. The modest increase set for 1987 reflected the temporary slowdown in expenditure that could be expected in the first year of the new cycle. The situation was being actively monitored and measures were being taken to counterbalance whatever tendency there might be for a fall-off in the delivery between the two cycles. The Associate Administrator emphasized that in order to maintain high quality in programmes it was essential to be able to plan for a gradual increase in delivery which could be sustained by available resources. In this connection, he stressed the importance of achieving a better balance between income and expenditure in UNDP, thus avoiding the pitfalls of a stop-go policy.

4. The Associate Administrator then reviewed the liquidity situation of UNDP and its current cash management practices. The Administrator was pleased to report that those four Governments that had provided comments on the paper which had been provided on cash management practices had indicated overall satisfaction with UNDP practices. Taking full account of the comments received from Governments, the Administrator believed that no major change in UNDP cash management procedures was needed. The Associate Administrator then referred to a number of other items covered in the document. Regarding the use of the Reserve for Construction Loans to Governments, the Administrator had become convinced that there might be a need to engage in the purchase and construction of housing. The authority granted to the Administrator in decision 82/30 would be exercised in a selective and prudent manner. Regarding Government financial obligations for local office costs deriving from Governing Council decision 85/16, the Associate Administrator noted that, while little new information was currently available, it already appeared that a number of issues had been raised which might well have to be brought to the attention of the Governing Council by the concerned Governments.

5. Finally, the Associate Administrator provided a brief introduction to the other major items before the Budget and Finance Committee at this session of the Governing Council.

Summary of discussions in the committee

6. While a number of members expressed satisfaction at the sound financial situation in which UNDP finds itself, members also expressed concern at the surplus of income over expenditure and at the consequent increase in the balance of general resources, now amounting to $184.4 million. One member considered that UNDP was placing excessive emphasis on financial soundness. Many members emphasized the need for UNDP to concentrate on increasing

delivery and improving the implementation rate. A number of members stressed the importance of continuing to review and improve agency project budgeting, implementation and monitoring practices. Several members emphasized the joint nature of the responsibility for improved performance between the recipient Government, the executing agency concerned, and UNDP. Several members also emphasized the importance attached to quality and stated that concentration on delivery should not be at the expense of quality. One member asked for information on indicators of actual delivery: for example, figures relating to expert man-months delivered. One member expressed satisfaction with the increased investment income of UNDP and noted that UNDP should continue to try to increase the rate of return earned. He also expressed an interest in obtaining information on UNDP performance in the use of currencies. Another member asked why the 8 per cent target figure for voluntary contributions established in decision 85/16 had not been used as the basis for the projection of income as reflected in table 1. In this respect, he stated that paragraph 48 of the document did not properly reflect the nature of the agreement reached in decision 85/16. Two members considered that recipient Government cost-sharing should be fully reflected in the format of the table presented in addendum 1 to the document, and questioned why third-party and recipient Government cost-sharing had been treated differently.

7. Regarding UNDP cash management practices, several members supported the proposals contained in paragraph 34 of the document. In this connection, support was expressed for a cautious and selective use of options. Several members noted that their evaluations of UNDP cash management practices had been very positive.

8. Many members referred to the status of the accumulated non-convertible currencies and expressed concern at the increase in the amounts held. Several

members considered that a solution to the problem should be found. In this connection, one delegate emphasized that the currency of his country had not, in reality, been accumulating. Figures shown in the table did not present an accurate picture, as a new contribution for 1986 was artificially added to the existing accumulations and the total was shown as a further accumulation at 31 December 1985. He was also surprised to note that committed and needed resources in the USSR Trust Fund were unjustifiably added to this total. He felt that all these factors served the purpose of presenting a more dramatic picture of the alleged accumulation of the USSR contribution to UNDP. He further stated that the figure was distorted by changes in the exchange rate, and proposed a new line in annex table 1 to show the amounts in national currency.

9. The member emphasized that an accumulation of 7 million roubles had occurred in the Special Fund in 1959-1965 because of the obstructive position of its administration. Since 1976, the USSR annual rouble contributions to UNDP were fully utilized, as had been stated by the Administrator on several occasions, and as confirmed by the bank statements. At present, there was much demand for roubles on the part of the United Nations Children's Fund (UNICEF), the United Nations Industrial Development Organization (UNIDO), the Office of the United Nations Disaster Relief Co-ordinator (UNDRO) and some other United Nations agencies, and he expressed the hope that the Administrator would find ways to satisfy this demand, as requested in decision 84/31.

10. A number of delegations expressed concern at the rise in outstanding contributions owed to UNDP. Several members urged that all countries honour their pledges, establish definite schedules of payment, and, to the extent possible, make their contributions as early as possible in the year. In this connection, one major donor stated that its outstanding contribution had been

11. A number of members expressed concern for the high ratio of administrative and programme support costs to programme expenditure. One member asked whether it would be possible, bearing in mind a number of different indicators of the support services provided by UNDP, to establish a ratio of administrative costs to programme resources. Another member asked whether it would be possible to separate the costs incurred by UNDP on behalf of its core programme from those costs incurred on behalf of agencies and from the other services provided by the UNDP field office network.

12. A number of members urged the Administrator to continue to provide management and other support services. One member encouraged the Administrator to further develop and refine the procedures used. It was important to preserve the multilateral character of the programme and to ensure that the provision of management and other support services did not detract in any way from the delivery of the core programme. The member suggested that a full review of management services should be undertaken in the next one or two years. The review should address such questions as the services provided, their impact on the core programme and core resources, and their significance for UNDP co-ordination activities. Finally, the member asked how the management fee established related to the 13 per cent support cost earned by agencies. Regarding the status of the Reserve for Construction Loans to Governments, several members expressed support for the views taken by the external auditors and for the position taken by the Administrator. Regarding Government financial obligations in the fourth cycle, several members stressed the importance of countries respecting both the spirit and letter of the agreement contained in decision 85/16. One member wished the Council to be kept informed of the progress made in the implementation of that decision.

Response of the administration

13. The Associate Administrator referred to the comments that had been made with respect to the surplus of income over expenditure and the resulting balance of general resources. He emphasized that a major objective of UNDP was to achieve a better balance between expenditure and income. He noted that UNDP would not simply go on a spending spree and, on this point, referred to the emphasis put by members on the issue of quality. He again reviewed the measures that had been taken by UNDP and stressed the respective responsibilities of the recipient Governments, the agencies, and UNDP. He stated that UNDP considered that the issue of resource management and the challenge of keeping delivery in line with resources was another major priority. In relation to this, the Associate Administrator referred to internal UNDP planning projections. On the basis of the level of resources projected by decision 85/16, it was true that a surplus of income over expenditure would be maintained during the course of the cycle if delivery was maintained at the projected level. On the other hand, if projected delivery was taken against projections of income maintained at the present level, UNDP would be faced with a deficit balance of general resources at the end of the cycle. Against this background, the Associate Administrator emphasized the importance for UNDP to carefully monitor available resources together with delivery projections and to plan more than one year ahead. Turning to comments made on the level of outstanding contributions, the Associate Administrator noted that the increase was largely due to the outstanding contribution of one major donor, which, in view of the statement made earlier, would now be paid.

14. Regarding the question of the accumulation of non-convertible currencies, the Associate Administrator confirmed the fact that to a large extent the

increase was due to the fall in the value of the dollar. He welcomed the possibility of looking further at exchanging roubles with developing country currencies which UNDP could use. Regarding the request for actual delivery figures, for example in terms of expert man-months, the Associate Administrator noted that the information was not yet available but that this could perhaps be discussed further at a later date in the Working Group of the Committee of the Whole. With respect to the ratio of administrative and programme support costs to programme expenditures, he considered that a crude relationship was not valid, since it would be misleading to consider the services provided by UNDP to be exclusively related to the IPF programme. In this respect, he noted that the resident representatives and field office staff time was on average used from 30 to 50 per cent on issues not related to the IPF programme. He noted that the idea of establishing a fixed relationship between delivery and administrative costs had been discussed at length a number of years ago, but it had been found that it was not possible to do so while UNDP was expected to perform its functions as a central financing organization for technical co-operation. Yardsticks other than delivery figures had to be used to reflect accurately UNDP performance; many of these yardsticks were not quantifiable. It was the role of the Governing Council and of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) to examine the appropriateness of UNDP budgetary proposals. With respect to the support costs earned by executing agencies, the Associate Administrator stated that these costs should be considered as an integral part of the cost of the Programme. Physical programme outputs could not be totally disassociated from the costs involved in producing those outputs. In this connection, he noted that the support costs rates paid to agencies compared very favourably to the overhead charged by private consulting firms.

Regarding the proposal to separate costs incurred on behalf of UNDP core activities from other services provided by UNDP field offices, the Director of Finance stated that this had been discussed in the past, but that it had been considered too highly complex in nature to carry out in practice; he did not consider that the proposal would give rise to very satisfactory results.

15. Referring to the request for more information on UNDP use and management of currencies, the Associate Administrator noted that detailed information on all UNDP investments was available in UNDP financial statements. The 1985 statement would be available around September 1986. He expressed gratitude for the supportive comments that had been made with respect to UNDP cash management practices. He noted in this respect that a few selected options had been bought by UNDP on an experimental basis.

16. Regarding management services, the Associate Administrator noted that the policy issues involved had been discussed at length in the last few years. UNDP had followed the guidelines established by the Council very carefully and the services provided had been fully self financing. He pointed out that the difference between the 5-8 per cent charged by UNDP for management services and the 13 per cent earned by the agencies for executing IPF projects was explained by the fact that UNDP was not providing full execution, but was providing only selected services as required. Each contract was dealt with separately depending on what the requirements were. UNDP preliminary assessment was that recipients under the management services modality had been able to benefit greatly from multilateral involvement in a bilateral programme. He agreed that a more comprehensive analysis of management services should be provided to the Governing Council within the next one or two years.

17. The Associate Administrator noted that the target resource figures contained in the document did not reflect the target figure established in decision 85/16 since it had always been the practice that financial planning forecasts should reflect the Administrator's most realistic estimates. The observance of decision 85/16 was a proper subject for discussion in plenary. Regarding the annex to the document, the Associate Administrator noted that recipient cost-sharing was not integrated into the tables since the tables were supposed to indicate the net contributor status, and in this respect, recipient Government cost-sharing represented both income and expenditure. The Director of Finance further noted that since the figures contained in the table reflected cash received, information on recipient Government cost-sharing could contain rather large distortions from year to year.