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

Draft report of the Budgetary and Finance Committee

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Addendum

CHAPTER IV. FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

A. Annual review of the financial situation, 1987

1. For its consideration of this item of the agenda, the Budget and Finance Committee had before it the following documents:

   
   (b) Net flow of contributions by donor and recipient Governments, Report of the Administrator, contained in document DP/1988/51/Add.1; and
   

2. In introducing the subject, the Associate Administrator noted with satisfaction that the various measures taken by the administration to accelerate programme delivery appeared to be having their desired effect. IPF delivery in 1987 achieved its final target of $590 million, which had itself been increased from $550 million earlier in the year. This was the first time that such an increase in delivery had been achieved in the first year of a programme cycle. In previous cycles, the first year had instead witnessed a
dip in expenditure, as a result of attention being paid to programme and
project identification and formulation.

3. On the income side, UNDP had another good year, with voluntary
contributions amounting to $887.1 million for the year, an increase of
12.5 per cent. The Associate Administrator noted that over 98 per cent of
1987 pledges had been received. Taken together with miscellaneous income,
comprising primarily interest earnings and gains on exchange, total income for
the year therefore amounted to nearly $1.2 billion. He stressed, however,
that the increase in voluntary contributions had been significantly affected
by the decline in the value of the United States dollar and pointed out that
such a boost could not be expected to continue. None the less, contributions
had increased by 6 per cent after discounting the effect of currency
realignment.

4. The net effect of these movements, the Associate Administrator noted, was
a continued increase in the UNDP balance of resources for its main programme.
As of 31 December 1987, this amounted to $533.2 million, an increase of
$200 million over the level at the end of the previous year. He emphasized
that, while a major cause of this build-up was in fact exchange rate
fluctuations, there was little that the administration could do to draw down
this surplus unless and until the Governing Council authorized supplementary
programme expenditures, over and above the level originally embodied in
decision 85/16 of 29 June 1985 on the fourth cycle. Moreover, a decision was
necessary at the current session, if management was to be accorded sufficient
time to plan and effect expenditures within the present cycle.

5. The Associate Administrator went on to note the increasingly important
role being played in the programme by supplementary activities. With this in
mind, he cited the data in the present paper on cost-sharing, management
services and the various trust funds. He further noted the papers and
forthcoming debates on various of these areas, especially management
services. The Associate Administrator further noted the current status of the
Senior Industrial Development Field Adviser (SIDFA) programme, which was
continuing to operate as before, pending the outcome of a meeting of the
Industrial Development Board of the United Nations Industrial Development
Organization (UNIDO). Finally, he invited Committee approval of the
Administrator's proposal with regard to the Reserve for Construction Loans to
Governments.
Summary of the discussion in the Committee

6. Members of the Committee generally expressed their satisfaction with the current financial situation of UNDP. Notwithstanding the significant effect of currency fluctuations, they felt that the increase in voluntary contributions reflected widespread confidence in, and support for the organization. They further noted with satisfaction the high level of payments against pledges, although several members exorted recipient Governments to increase their contributions to local office costs, especially in the context of decision 85/16. On the other hand, several members noted that, after discounting for the effect of currency fluctuations, the real growth in voluntary contributions was 6 per cent, somewhat lower than the 8 per cent target agreed upon by the Council for the fourth cycle. In connection with overall income, one member asked how UNDP treated the $165.8 million total return on investments in 1987.

7. Members also noted the 2 per cent increase in programme expenditure in 1987, and congratulated UNDP on this achievement in the first year of the cycle. They felt that this indeed indicated that management had effected substantial improvements in overall programme financial management. Several members, however, questioned how much of the increase in delivery could be attributed to the depreciation of the dollar, while several others questioned UNDP ability to sustain the increase in programme expenditure, stressing the need for management to continue its efforts to improve UNDP capacity to respond flexibly and thereby to accelerate delivery. They questioned, for instance, the extent to which UNDP was currently able to over-programme as a means of increasing total expenditure. One member also expressed concern at the 14 per cent increase in biennial budget expenditure in 1987, comparing it with the 2 per cent increase in programme expenditure.

8. There was general agreement in the Committee concerning the desirability of the Council making its decision on the utilization of the projected surplus in general UNDP resources during the present session. A number of members, moreover, stressed that this made it even more important that UNDP continue to improve programme delivery, as well as project quality: when distributed, it was important not only that the surplus be spent but that it be spent on worthwhile projects. Several members also stated that the existence of such a substantial surplus jeopardized their own ability to maintain, let alone increase, the contributions of their governments to UNDP.
9. A number of members expressed concern about the decline in expenditures against Special Programme Resources (SPR) during 1987, and requested an explanation as to the causes of that; the same members also noted that the administration's projections for SPR funds in 1988 and 1989 suggested that the aforementioned decline in expenditures was purely temporary; they wondered on what basis these projections had been made. A number of members also expressed uncertainty as to the administration's proposals vis-à-vis the Special Measures for the Least Developed Country (SMF/LDC) Fund; they stated that they wished to reserve their positions on this issue until the discussion on the proposed management facility. One member further expressed concern about, and requested an explanation of, the apparent accumulation of unutilized resources in the United Nations Capital Development Fund (UNCDF) on the one hand, and the apparent decline in programmable resources available to the Revolving Fund for Natural Resources Exploration (UNRFNRE) on the other.

10. A number of members wished to receive further information on the trends in the payment by UNDP of support costs to its executing agencies. They noted that the three largest United Nations agencies had received less support costs from UNDP in 1987 than in the previous year, while the UNDP Office for Project Services (OPS) had received more. They also noted that UNDP payments were estimated by the smaller specialized agencies to cover no more than 49 per cent of the costs of project execution; the members wondered who financed the remaining 51 per cent of these costs.

11. Most members spoke in support of the Administrator's proposals with regard to the Reserve for Construction Loans to Governments. One member, however, requested clarification as to how the proposal would work in practice, whether the Reserve bore any routine maintenance costs and who bore the ultimate costs of these capital investments, which appeared to be an appropriate charge to the biennial budget. Another member expressed concern at the apparent non-compliance with agreements that necessitated such extensive rehabilitation of housing which UNDP had financed in the first place.

12. With regard to the Operational Reserve, many members considered that the level of the reserve should be maintained at $200 million. One member, whilst supporting this proposal, sought clarification on the relationship between decisions 80/50 and 85/16 concerning the level of the reserve. Another member, on the other hand, noted that UNDP unutilized resources exceeded $600 million and that liquid funds exceeded $900 million; under these
circumstances, questioned whether it was necessary to retain the Operational Reserve. He suggested that a detailed study be prepared as a basis for reviewing policy. If there were a consensus to maintain the level of the reserve at $200 million, it should be made quite clear that this decision on the matter superseded previous decisions. In this regard, he further recommended that the level of the reserve be set as an absolute figure rather than as a percentage.

13. Several members expressed concern that the holdings of non-convertible currencies had increased during 1987 and were projected to grow even more in 1988. Satisfaction was, however, expressed that utilization of two currencies had improved, so that they were no longer included in the list. Some members asked that special efforts be made to reduce and eventually eliminate these excess balances. One member, however, could not agree to this approach, suggesting that all contributions should be paid in convertible currencies and that, therefore, the currencies should be left to accumulate. Other members also suggested that all donors be encouraged to contribute in convertible currencies. One member pointed out that the inclusion of balance of funds relating to the UNDP/USSR Trust Fund distorted the picture and should be removed in future. His Government was also concerned about the reduction in disbursements in non-convertible currencies and the possible further negative impact of recent developments concerning Government execution and the recruitment of short-term consultants. They were studying the situation with a view to broadening their involvement in UNDP and the activities of other agencies. Another member informed the Committee that, in his country, a national committee had been established to prepare proposals for greater utilization of their currency.

14. One member stated that his Government was in principle against the payment of salary supplements to employees of the recipient Governments. He considered that such payments were difficult to sustain and on conclusion of the projects left the recipient Governments with higher cost structures. He appreciated that one must take a pragmatic approach and suggested that, if such payments became necessary, emoluments received by counterparts be kept as close as possible to Government remuneration levels.

15. Several members sought clarification regarding the placement of funds in World Bank bonds, while another member queried the increase in the accounting linkage in respect of Government contributions to local office costs.
Response of the Administration

16. Responding to the various questions about the projected surplus of general resources, the Associate Administrator pointed out that the major decisions with regard to this subject would be taken in the plenary meeting of the Governing Council. He stressed, however, that until a decision was taken on the utilization of this surplus, the UNDP administration was bound to stay within the parameters established by decision 85/16 on the fourth cycle. Thus, UNDP could neither plan nor programme utilization of resources above the level of $3.1 billion envisaged for the fourth cycle in decision 85/16. In this connection, the Associate Administrator pointed out that the decision itself had assumed a base level of resources in 1986 of $700 million, whereas the actual level proved to be $775 million; this higher base served to explain, at least in part, the current surplus notwithstanding the growth of contributions at 6 per cent rather than the originally planned 8 per cent.

17. The Associate Administrator explained that, in recognition of the impending surplus, UNDP had certainly sought to front-load programme commitments; this had been effected within the overall resources approved in decision 85/16 and, in the absence of a decision to expand programmable resources to encompass the projected surplus, there would have to be a corresponding downward adjustment towards the end of the cycle.

18. The Associate Administrator went on to emphasize the importance of assuring recipient Governments of an increased level of programmable resources, without which many were reluctant to engage in extensive development of pipeline projects. Moreover, without such solid pipeline development, it was unlikely that delivery could be increased in line with available resources. A clear decision on utilization of the surplus was therefore essential.

19. As regards the ability of UNDP to increase programme delivery to absorb the surplus, the Associate Administrator felt that this could, indeed, be achieved. UNDP already exercised a good deal of flexibility in terms of over-programming, allowing multi-year commitments and over-budgeting at an annual level. Moreover, existing policies deliberately stressed flexibility on the part of individual resident representatives within overall expenditure targets. He stressed, none the less, that programme development and realistic budgeting involved all parties in the tripartite relationship: UNDP, executing agencies and Governments. Programme delivery could, therefore, be adversely affected by slow Government clearance of candidatures or inadequate
provision of counterpart contributions in cash and in kind. UNDP was very conscious of these factors and was taking steps to resolve bottlenecks wherever possible. It was essential, however, that Governments and agencies played their part in this respect.

20. Turning to the question of the United Nations executing agencies, the Associate Administrator acknowledged that the share of the large United Nations agencies in UNDP project execution and declined by $20 million in 1987. However, although OPS execution had risen by $8 million, the truly significant shift was reflected in the $26 million increase in Government execution; this would no doubt be discussed in more detail in the forthcoming debate on the subject (see paragraphs of this report). He further noted in regard to UNDP/OPS that its share of indicative planning figure (IPF) delivery had held relatively steady at around 8 per cent for the past several years. As regarded the smaller agencies, he stated that, while UNDP support cost payments evidently met 49 per cent of their costs, the remaining 51 per cent would be borne by the budgetary resources of the agencies themselves.

21. As regarded the decreases in expenditure against SPR and SMF/LDC funds, the Associate Administrator noted that it was necessary to probe beneath the macro figures in order to identify the causes. As regards SPR, he stated that the disaster relief elements of the overall allocation had been responsible for the slow-down: the emergency payments of $50,000 could be rapidly disbursed, but long-term rehabilitation projects often took sometime to be developed and implemented. He agreed that the discussion on the proposed management facility should be deferred until the Administrator's proposal on the surplus had been discussed.

22. As regards SMF/LDC, the Associate Administrator stated, in the first place, that the fund was fully funded, not partially funded, since the continuing level of contributions was uncertain. He went on to note that disbursements against the fund had been slowed down as a result of a change in its terms of reference, namely with regard to the funding of round-table meetings. He assured the Committee, however, that plans were well in hand in this respect and, subject to the support of individual affected Governments, expenditures were expected to accelerate in 1988 and subsequent years.
23. Turning to the question of UNCDF accumulated unutilized balances, he noted that it was precisely for the same reason that the Administrator had proposed, and the Council had approved at its thirty-fourth session (1987), a modification to the Fund's partial funding formula. As a result, the unutilized balances were expected to be reduced progressively in the years to come. As regarded UNCDF staffing, he went on to state that the Fund's staffing had been increased for the 1988-1989 biennium and it was quite possible that a further increase would be proposed in the 1990-1991 biennial budget, to match the projected increase in programme delivery. As regarded UNRFNRE, the Associate Administrator pointed out that the financial status of that Fund depended almost exclusively upon the contribution of one donor.

24. With regard to the Operational Reserve, the Associate Administrator pointed out that such a reserve enabled the organization to take some of the risks associated with over-programming. Should the favourable resource position change, because of the appreciation of the United States dollar, for example, the Reserve would provide a cushion to permit controlled programme reductions rather than drastic cuts. In response to the query about the necessity of retaining the reserve in the light of the substantial balance of unutilized resources, the Associate Administrator had every expectation that these resources would be allocated by the Council. If this were not the case, then the matter would have to be reconsidered. In the meantime, the Associate Administrator felt that retention of the Operational Reserve was a prudent measure. He further recalled that the determination of the level of the reserve in decision 85/16 had been reached as a compromise. He agreed that, in the light of the observations of the Board of Auditors (see paragraphs below), the decision of the Council should be clear and avoid any possible confusion with previous decisions.

25. With regard to the utilization of non-convertible currencies, the Associate Administrator pointed out that some $3.6 million of the increase was due to the revaluation of the holdings. He agreed that, as the UNDP/USSR Trust Fund was fully funded and subject to separate rules, it was not appropriate to include those balances in the list; they would be presented separately in future. He further recalled that some of the constraints on the utilization of non-convertible currencies resulted from past Council decisions: utilization of non-convertible currencies for the IPF programme in a country required the approval of the recipient country; procurement must be
subject to international competitive bidding; and the currencies could not be transferred to trust funds. The Administrator was obliged to operate within these decisions. The Administration did, however, appreciate the efforts of several Governments to improve the situation.

26. The Associate Administrator informed the Committee that the investment in World Bank bonds was made in response to earlier exhortations of the Council to invest in developing countries. As the organization did not have the resources or expertise to research the world markets for secure investments, it was considered more appropriate to invest part of the surplus funds in World Bank bonds. As the proceeds of these bonds were used for the benefit of the developing countries, the organization considered that the arrangement met the wishes of the Council and at the same time ensured the security of UNDP investments.

27. The Associate Administrator confirmed that UNDP, too, did not agree in principle with the payment of salary supplements to counterparts. However, the programme was sometimes under great pressure to do so as such payments were being made under bilaterally funded activities. Moreover, there were occasions when it was necessary to make extra payments to recognize the work done and ensure the timely implementation of the activities. Sometimes, for example, budgetary cutbacks in the middle of a project might jeopardize work already done at UNDP expense, in which case some infusion of local cost support might be justified in order to protect the investment already made by UNDP. This required a pragmatic approach and he assured the Committee that UNDP sought to ensure the efficient utilization of members' contributions. Each case was judged on its merits.

28. As regarded the Reserve for Construction Loans to Government, he confirmed that the Reserve would bear only capital and/or capital rehabilitation costs; there was no intention for the Reserve to bear costs relating to routine preventive maintenance, which were handled by means of a separate mechanism. He went on to stress, moreover, that management of the Reserve was predicated upon full cost-recovery from rents payable by individual tenants. This was particularly important since UNDP was, in this respect, managing a stock of housing units which went well beyond that required for UNDP staff alone. It was, therefore, appropriate that the costs of such expenditures be borne by United Nations staff in the country in accordance with actual utilization rather than be borne by the UNDP biennial
budget. This same principle of cost-recovery on the basis of actual utilization was also applied to the household appliance rental scheme. The Associate Administrator further noted that the present proposal to redefine and rename the Reserve sprang from an overall review of that element of UNDP operations, which was intended to generally improve administrative procedures.

29. As regards the percentage of UNDP general resources which were absorbed by the biennial budget, the Associate Administrator acknowledged that it had been increasing in the early 1980s. He pointed out, however, that this was as much a function of programme delivery as of administrative expenditure levels; in that respect, the percentage might be expected to decline somewhat as programme delivery increased, especially when the projected surplus was taken into account. He none the less agreed that every attempt should be made to contain it within reasonable limits. He went on to note, however, that there could be no absolute, objective definition of what level was appropriate in that respect: while he assured the Committee that the Administrator would continue to deploy UNDP administrative expenditures with economy and efficiency, it was also his responsibility to advise the Council of instances in which additional resources were required if the organization was to respond effectively to the many additional demands being placed on it. The present proposal with regard to UNDP operations in Africa was such a case in point. Finally, the Associate Administrator reminded the Committee that a substantial element of the UNDP workload could not be measured in terms of programme delivery; this naturally affected the validity of judging the administrative ratio on this basis.

30. On the specific issue of why the biennial budget expenditure had increased by 14 per cent in 1987, the Associate Administrator stated that that was a normal pattern for the second year of the biennium and he suggested that a multi-year trend should be examined, rather than a year-to-year comparison. As regarded the accounting linkage, he stated that 1987 was the first year of the fourth cycle, when new waivers for Government contributions to local office costs, including those for net contributors, took effect. The accounting linkage, he explained, had been applied by transferring from voluntary contributions to make up for any shortfall in meeting government contributions to local office costs targets for a specific country.

31. Finally, with regard to the question posed concerning the treatment accorded to the $165.8 million of total returns on UNDP investments, the Associate Administrator stated that the greater part accrued to general UNDP with the balance going to individual trust funds, as appropriate.
Statement by the representative of the United Nations Industrial Development Organization

32. The representative of UNIDO informed the Committee of developments in UNIDO pursuant to decision 87/48 on the Senior Industrial Development Field Advisers (SIDFA) programme. The Director General had submitted a draft decision to the third session of the Industrial Development Board in July and October 1987 which, with the exception of the reference to limitations in grade classification, closely followed the Governing Council decision. As some delegates had raised questions about the meaning of the principles contained in the decision, an Inter-Sessional Working Group had been established to review the draft decision and report to the fourth Session of the Board in October 1988. It was expected that a new memorandum of understanding between UNIDO and UNDP for the SIDFA programme could then be concluded. Until that time, the present arrangement would continue. Currently there were 31 SIDFAs, of which 19 were funded from the UNDP contribution, 9 from the UNIDO regular budget and 3 from voluntary contributions. It was hoped to increase the number to 36 by the end of 1988. These SIDFAs were supported by 61 Junior Professional Officers. The organization was satisfied with the quality of the SIDFAs. However, negotiations with recipient countries on the level of contributions towards local costs and selection of advisers had been causing some delays in recruitment. UNIDO was concerned that the maximum grade permissible for a SIDFA had been set at the P-5 level. While this achieved only minimal budgetary savings, the organization was convinced that at this grade level, it would not be able to attract candidates of the right calibre and experience.

Summary of the discussion in the Committee

33. Several members recalled the discussions held on the SIDFA programme at the thirty-fourth session (1987) of the Council. While recognizing the importance of the programme, members reaffirmed the principle that the SIDFAs should be under the authority of UNDP Resident Representative to ensure effective co-ordination at the field level.

34. With regard to the grade level of the SIDFAs, a number of members considered that the maximum level should be retained at the P-5 grade for the time being and reviewed again, if necessary, in 1989. One member recalled that the present job description appeared to be concerned more with project monitoring than substantive issues. If these truly reflected the work of the SIDFAs, there was no justification for upgrading the posts. Other members,
however, recognizing the importance of the role of the SIDFAs in project execution, the size of the industrial programmes in certain countries, and the need for continuity, expressed understanding for the concerns of UNIDO.

35. Two members recalled that the arrangements between UNDP and UNIDO were based on a cost-sharing partnership. One of those members expressed concern at the disproportionate share of support borne by UNDP and asked what amounts were contained in the UNIDO budget proposals towards support for the programme.

36. Many members, noting that the Inter-Sessional Working Party was due to report to the Industrial Development Board in October 1988, expressed the hope that the matter would be satisfactorily resolved at that meeting. If this were not the case, the Council could revert to the matter at its next session. Several members pointed out that the present arrangements were based on a memorandum of understanding which was very old. It was important that a new memorandum of understanding be concluded as soon as possible to better reflect the role of the SIDFAs and the relationship between UNDP and UNIDO.

37. One member informed the Committee that his Government had had the opportunity of reviewing the work of one of the SIDFAs and had been particularly satisfied at the quality.

Response of the Administration and UNIDO

38. With regard to the grading of the SIDFAs, the Deputy Director-General of UNIDO stated that UNIDO would have preferred to grade the SIDFAs within a range from P-4 to D-1. This would provide the flexibility to respond to experience and responsibilities and fit in with the size and structure of the UNDP field office. He further pointed out that the new memorandum would fully spell out the role and functions of the SIDFAs. It was expected that there would be a series of core tasks common to all posts, supplemented by responsibilities reflecting each country or regional programme.

39. The Deputy Director-General of UNIDO informed the Committee that, in its 1988-1989 budget, $2.94 million had been provided for support to the SIDFA programme. In addition, it was expected that voluntary contributions would amount to $0.45 million. Together with the UNDP contribution of $6.4 million, the total budget for the SIDFA programme would be $9.8 million.

40. The Associate Administrator recalled that the Governing Council, in agreeing to provide funding to the SIDFA programme until 1991, had assumed that the SIDFA programme would be an integral part of the UNDP office. He considered that, if the Industrial Development Board sought to modify this arrangement, the matter would have to be referred to the Council. He
suggested that this view could be conveyed to the Industrial Development Board by means of a Governing Council decision. If the outstanding issues were resolved and a new memorandum of understanding concluded with UNIDO, there would be no need for the Council to return to this matter prior to the review of the sectoral support modality in 1990.

41. With regard to the grading of SIDFAs, the Associate Administrator agreed with the concerns of UNIDO. The grade limitations applied only to those posts funded from UNDP resources, and not to those funded from the UNIDO regular budget or voluntary funds. This could lead to different treatment of advisers and restrict the flexibility of UNIDO. It should be recalled that SIDFAs were working in quite complex and sophisticated industries, where expertise was very well remunerated.