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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: Mr. Hans OLSSON (Sweden)

Addendum

CHAPTER \_\_\_\_.

Annual review of the financial situation in 1986

1. The Associate Administrator introduced this item by highlighting the substantial increases in expenditure and income in 1986. He stressed the efforts made throughout the system to achieve these results and expressed his appreciation for the co-operative efforts of the executing agencies. On the income side, he commended Member States for increasing pledges to UNDP and the excellent payment record for the year. He stressed the impact of exchange rate changes on income for the year and as a result the substantial increase in the balance of general resources. He noted that had exchange rates remained stable, the balance of general resources would have increased by \$16.2 million rather than the \$130.4 million actually recorded.
2. The Associate Administrator reviewed the forecasts for 1987 and 1988, noting that 1987 amounts incorporated the impact of exchange rate changes to 1 May 1987; however, no attempt had been made to project exchange fluctuations for the balance of 1987 or 1988. It was for this reason that income was not projected to increase significantly in 1988. He stated that the Administrator would monitor the resource situation and would report to the Council in February 1988, seeking its guidance as

to whether the fourth cycle indicative planning figure (IPF) should be reviewed in June 1988.

3. The Associate Administrator reviewed those items on which a decision was requested: (a) the level of the operational reserve in the fourth cycle and (b) the proposal to use a portion of the reserve for construction loans to Governments to purchase appliances which would be rented to eligible international staff. He suggested that the request of the World Meteorological Organization (WMO) for additional support cost reimbursement be discussed with the similar requests from the United Nations International Development Organization (UNIDO) and the Consultative Committee on Administrative Questions (CCAQ) on behalf of the major agencies.

#### Summary of the discussion in the Committee

4. The members generally felt that the results achieved in 1986 were excellent. One member asked whether a substantial increase in expenditures would be possible in 1987 to overcome the expected lag in the first year of the cycle. A second asked for the assumptions used for income growth and pledges and whether the available resources could be used to replenish the operational reserve by the \$40 million set aside for programme purposes in the fourth cycle. Another asked for confirmation that the quality of the programme was not affected by the increase in expenditures.

#### Observations of the Administration

5. The Associate Administrator reviewed the difficulties which precluded substantial changes in expenditures, up or down, in a short period of time. He indicated that it took approximately one year to change the direction of the programme significantly. He also pointed out that the Administrator attempted to maintain a smooth flow of identification, formulation, approval and implementation of quality projects rather than following a stop-and-go programming strategy.

6. He stated that the Administrator was currently assuming a 4.5 per cent increase in contributions, although the fourth cycle was based on an 8 per cent growth rate in contributions. The Administrator felt it essential to use his best judgement for short-term forecasts in order to present a reasonably accurate projection of the financial situation. He stated further that no assumptions are made regarding exchange rate fluctuations.

#### Resumed summary of the discussion in the Committee

7. Speakers again generally remarked on the excellent results achieved in 1986 and on the strong financial position of UNDP. Several speakers noted the growth in supplementary activities and asked whether that impacted on the ability of UNDP to support the programme and if there were any budgetary implications. Another member, noting the increase in expenditures, asked whether it was possible to express delivery in non-monetary terms to confirm real growth in the programme. One member, noting the relatively large exchange gains recorded in 1986, asked if the administration could show a breakdown of miscellaneous income in future

reports. Several members asked whether the implementation rate achieved in 1986 was realistic and sustainable. The amount of the unspent third cycle IPF was surprising to another member and he asked what could be done to reduce that amount in the fourth cycle. Several members noted that the increase in supplementary activities was a sign of the confidence both recipient and donor countries have in UNDP. Several Governments commented on the level of outstanding contributions and questioned the shortfall in local cost obligations in table 3 of document DP/1987/54/Add.1. One member, noting the level of unexpended contributions held for the Special Measures Fund for the Least Developed Countries (SMF/LDC), felt it might be appropriate to change the programming from a fully funded basis to one of partial funding. Several members, recalling that IFPs had been reduced in the third cycle because of a lack of resources, suggested increasing fourth cycle IFPs in light of the present resource outlook. Others, preferring a cautious approach, agreed with the Administrator's recommendation. Several members were pleased to note that Yugoslavia was no longer listed on the report of accumulated non-convertible currencies.

8. Members generally agreed with the Administrator's proposals on the level of the operational reserve for the fourth cycle and on the use of funds in the reserve for construction loans to Governments to purchase appliances which would be rented to eligible international staff. One member asked if the arrangement with the United Nations Children's Fund (UNICEF) would have any cost implications to UNDP.

9. Members agreed to discuss the WMO request for additional support cost reimbursement with the two other requests under item 9 (g), Other matters.

#### Observations of the Administration

10. The Associate Administrator confirmed that the seven-year amortization of the cost of appliances was consistent with the UNICEF plan. He indicated that there were no cost implications from implementing the plan, in fact some savings were anticipated. He stated that some carry-over of unspent IPF must be expected in each cycle in view of difficulties experienced in some countries. The Administrator had no authority to reallocate such funds. A report could be provided on countries where difficulties exist if the Committee wished. He further stated that the expert component in the programme had decreased from 52 per cent to 47 per cent and there had been a shift from international experts to national experts. The reports currently received on man/months delivered were not as precise as formerly. Those factors would make it difficult to use man/months delivered as a reliable tool to monitor real growth in the programme. That was further complicated by the increasing use of subcontracts and short-term experts. The Associate Administrator indicated he did not feel it prudent to change the Special Measures Fund to a partial funding programme as its base of contributions was not sufficiently broad. He agreed to report the breakdown of miscellaneous income in future reports. He assured the Committee that field office and Office for Project Evaluation (OPE) costs for supplementary activities are being met fully from extrabudgetary funds derived from those activities. Headquarters costs were estimated as part of a non-core budget exercise and in the best judgement of UNDP were fully covered. He reminded the Committee that under management services, UNDP provided limited services and a reduced fee was justified and sufficient. He

indicated that a comprehensive review of management services activities would be presented in 1988 but it was evident that it had resulted in closer co-operation with the World Bank and other regional development banks. With respect to the lag in expenditures in the first year of the cycle, he indicated that country programmes should form the basis for project approval and that the Administrator would not want to deviate from that practice. He felt that stress should be therefore placed on completing country programmes. He noted that existing country programmes could be extended if necessary.

Draft decision

Annual review of the financial situation in 1986

The Governing Council,

Taking note of the report of the Administrator of the United Nations Development Programme on the review of the financial situation (DP/1987/54 and Add.1),

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

1. Requests the Administrator to monitor the resource situation and report to the Council in February 1988 to seek its guidance on whether a review of indicative planning figures for the fourth cycle should be undertaken for consideration of the Council at its June 1988 session;
2. Requests the Administrator to report on problems relating to utilization of currencies;
3. Requests the Administrator to provide a comprehensive review of the experience gained on the provision of management services at the thirty-fifth session of the Governing Council;
4. Agrees that the formula for establishing the level of the operational reserve during the fourth cycle should be the same as that established for the third cycle in decision 80/50 taking into account decision 85/16, paragraphs 5 (c) and 17;
5. Approves the Administrator's proposal to use up to \$650,000 from the reserve for construction loans to Governments, as a revolving fund, to purchase appliances which would be rented to eligible international staff.

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