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REPORT OF THE PROGRAMME AND BUDGET COMMITTEE ON THE
WORK OF ITS SECOND SESSION

12-16 May 1986

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Introduction

1. The Programme and Budget Committee held its second session at UNIDO Headquarters, Vienna International Centre, from 12 to 16 May 1986. The following 26 of the 27 members of the Committee participated in the session: Algeria, Argentina, Bangladesh, Belgium, Brazil, Bulgaria, Cameroon, Cape Verde, China, Colombia, Denmark, Ethiopia, France, German Democratic Republic, Germany, Federal Republic of, India, Indonesia, Japan, Netherlands, Nigeria, Switzerland, Thailand, Trinidad and Tobago, Turkey, Union of Soviet Socialist Republics and United States of America. The following 40 Members of UNIDO also attended the session: Australia, Austria, Byelorussian Soviet Socialist Republic, Canada, Chile, Côte d'Ivoire, Cuba, Czechoslovakia, Democratic People's Republic of Korea, Egypt, Finland, Greece, Guatemala, Hungary, Iran (Islamic Republic of), Israel, Italy, Jamaica, Kenya, Lebanon, Luxembourg, Malaysia, Mexico, Morocco, Norway, Oman, Panama, Peru, Poland, Republic of Korea, Senegal, Spain, Sweden, Tunisia, Ukrainian Soviet Socialist Republic, United Kingdom of Great Britain and Northern Ireland, Venezuela, Viet Nam, Yugoslavia and Zaire. The United Nations Office at Vienna, the United Nations Development Programme, the International Atomic Energy Agency, the International Labour Organisation and the European Economic Community were represented.

2. In accordance with rule 17 of its rules of procedure, the Committee elected by acclamation: Mr. J. R. Hiremath (India) as Chairman; Mr. A. Rodriguez Pires (Cape Verde), Mr. A. Orduz Duarte (Colombia), Mr. C. Tsukada (Japan) as Vice-Chairmen; and Mr. R. Ruthe (German Democratic Republic) as Rapporteur.

3. The agenda for its second session as adopted by the Committee is contained in document UNIDO/PBC.2/1.

4. The report of the Programme and Budget Committee on the work of its second session (12-16 May 1986) is submitted to the Industrial Development Board in accordance with Article 10.4(d) of the Constitution. The report of the resumed second session (see para. 16 below) will be issued as an addendum to the present report.

5. The report contains the conclusions reached by the Committee. Statements of principle by delegations wishing to go on record are reflected in annex I to the report. Annex II contains a list of documents submitted to the Committee at its current session.

6. The following conclusions of the Committee call for action by the Board:

<u>Conclusion</u>	<u>Subject</u>
1986/2	Financial situation of UNIDO and scale of assessments of Member States
1986/3	Format of the programme and budgets for the biennium 1988-1989
1986/5	Industrial Development Fund
1986/7	Financing arrangements for the Senior Industrial Development Field Adviser programme

I. RULES OF PROCEDURE

7. On 12 May, the Committee considered the provisional rules of procedure for its first session (PBC.2/2 and Corr.1 and 2) as well as a number of

proposed modifications (PBC.2/CRP.1) submitted by the Chairman of a working group on the rules of procedure, Mr. L. Alcon (Argentina), and adopted the following conclusion:

Conclusion 1986/1

- (a) The Committee adopted as its rules of procedure the rules contained in document PBC.2/2 and Corr.1 and 2 along with the changes listed in conference room paper PBC.2/CRP.1, with the exception of rules 43 and 62 which the Committee adopted provisionally for the second session only.
- (b) The Committee requested the working group on the rules of procedure to continue its consideration of rules 43 and 62 and to submit its proposals to the Committee at its third session.

II. FINANCIAL SITUATION OF UNIDO AND SCALE OF ASSESSMENTS OF MEMBER STATES

8. On 12, 13 and 16 May, the Committee considered a report by the Director-General on the financial situation of UNIDO (PBC.2/6 and Corr.1), a report by the Director-General on effects of exchange rate fluctuations on the budget of UNIDO (PBC.2/9), a note by the Secretariat on the updating on the financial situation of UNIDO and analysis of currencies of expenditures (PBC.2/CRP.5), a note by the Secretariat on cash flow 1986-1987 (PBC.2/CRP.6), the first status report of assessed contributions paid for the year 1986 submitted by the Secretariat (PBC.2/8), the updated annex to document PBC.2/8 (PBC.2/CRP.3) and a note by the Secretariat on the scale of assessments of Member States (PBC.2/CRP.7). On 16 May the Committee after consideration of a draft conclusion submitted by the Chairman (PBC.2/L.5), adopted the following conclusion:

Conclusion 1986/2

- (a) The Committee requested the Director-General to submit to the Board at its second session a further report on the financial situation of UNIDO, taking into account the actual payment of assessed contributions by Member States at that time, as well as the effects of the exchange rate fluctuations.
- (b) The Committee recommended to the Board that it endorse the proposal by the Director-General that adjustments in programmes, if necessary, should be on a selective basis rather than across-the-board. The Committee requested the Director-General in such case to submit to the Board for its consideration a list of proposed adjustments, stressing that technical co-operation activities were the main purpose of the Organization.
- (c) The Committee requested the Director-General to continue to review alternative systems and the relevant experience of other organizations within the United Nations system, in particular the International Atomic Energy Agency, of stating budget estimates and assessing Member States, and report thereon to the Programme and Budget Committee at its third session.
- (d) Pending a recommendation on the above-mentioned report by the Programme and Budget Committee at its third session, the Director-General should:

- (i) In the preparation of the budget estimates for 1988-1989, apply the rate of exchange of 1 US dollar = 17.70 Austrian schillings as used for the previous appropriation for purposes of comparability with the previous budget;
 - (ii) Assume that in approving the appropriation for 1988-1989 the General Conference would apply, for the expenditures in currencies other than the US dollar, the United Nations operational rate of exchange in effect at the time of the approval of the appropriation; and
 - (iii) In maintaining accounts for the biennium 1988-1989, record expenditures at the United Nations operational rate of exchange in effect at the time of payment.
- (e) The Committee noted with appreciation the fact that some Member States had paid their assessed contributions at an early stage. It urged those Member States that had not yet paid their assessed contributions for 1986 to do so with a minimum of delay.
 - (f) The Committee requested all Member States to pay their assessed contributions for 1987 as early as possible.
 - (g) As regards Namibia which became a Member State on 21 February 1986, the Committee recommended to the Board that it propose to the General Conference at its second session to waive the assessment of Namibia in accordance with United Nations General Assembly resolution 39/50C, paragraph 9.

III. FORMAT OF THE PROGRAMME AND BUDGETS FOR THE BIENNIUM 1988-1989

9. On 12, 13 and 16 May, the Committee considered a note by the Director-General on the format of the programme and budgets for the biennium 1988-1989 (PBC.2/10) and a note by the Secretariat on the format of the medium-term plan, 1990-1995 (PBC.2/4). On 16 May, the Committee after consideration of a draft conclusion submitted by the Chairman (PBC.2/L.2) adopted the following conclusion:

Conclusion 1986/3

A. Programme and budgets for the biennium 1988-1989

The Committee requested the Director-General to prepare and present the draft proposal for programme and budgets for the biennium 1988-1989 by substantive programmes rather than organizational units, taking into account the observations and comments made by delegations during the current session, at the same time improving the transparency of the programme and budget presentation.

B. Medium-term Plan 1990-1995

The Committee recommended to the Board the adoption of the following draft decision:

"The Industrial Development Board requests the Director-General to present, simultaneously with his Programme and Budget Estimates for 1988-1989, a Medium-term Plan for the period 1990-1995 in a separate but concise document."

IV. FINANCIAL REGULATIONS

10. On 13 and 16 May, the Committee considered the draft financial regulations of UNIDO presented by the Director-General under cover of a note (PBC.2/3). On 16 May the Committee after consideration of a draft conclusion submitted by the Chairman (PBC.2/L.6) adopted the following conclusion:

Conclusion 1986/4

The Committee decided to set up an informal open-ended working group under the chairmanship of Ambassador Alfonso Orduz Duarte (Colombia) to review the draft financial regulations of UNIDO. The Committee requested the working group on financial regulations to commence its work in June 1986 and to report to the Programme and Budget Committee at its third session.

V. INDUSTRIAL DEVELOPMENT FUND

11. On 13, 14 and 16 May, the Committee considered a report by the Director-General on the programme for 1987 and a plan for 1987-1988 (PBC.2/5 and Add.1). On 16 May, the Committee after consideration of a draft conclusion submitted by the Chairman (PBC.2/L.4) adopted the following conclusion:

Conclusion 1986/5

(a) The Committee recommended to the Board the adoption of the following draft decision:

"The Industrial Development Board

1. Takes note of the report of the Director-General contained in document PBC.2/5 and Addendum 1;

2. Approves the proposed IDF programme for 1987 and the proposed plan for 1987 and 1988 as contained in document PBC.2/5;

3. Decides to delegate authority to the Director-General to approve projects for financing under IDF in 1987 and 1988;

4. Urges Member States to consider specific ways and means of ensuring that the desirable annual funding level of \$50 million be reached as soon as possible;

5. In the light of the rapidly shrinking general-purpose convertible segment of the Fund, encourages all donors to consider providing at least a part of their pledges to the general-purpose convertible segment of the Fund;

6. Takes note of the fact that the Director-General shall apply to IDF, *mutatis mutandis*, the provisions of General Assembly resolutions 31/202 and 31/203 of 22 December 1976 concerning the financial management and operation of UNIDF, pending the adoption of policy guidelines for IDF and financial regulations for UNIDO by the General Conference;

7. Authorizes the freezing of the operational reserve at the level of \$550,000."

(b) The Committee requested the Secretariat to report to its third session on the manner in which the Annex to the Financial Regulations and Rules of the United Nations concerning the UNIDF (ST/SGB/UNIDF Financial Rules/4 (1982)) was applied.

VI. WORKING CAPITAL FUND

12. On 13 and 16 May, the Committee considered the first status report on contributions received for the biennium 1986-1987 presented by the Director-General (PBC.2/7) and a note by the Secretariat on the status of advances (PBC.2/CRP.4). On 16 May, the Committee after consideration of a draft conclusion submitted by the Chairman adopted the following conclusion:

Conclusion 1986/6

The Committee decided to consider further the question of the Working Capital Fund at a resumed session to be held during the second session of the Board with a view to formulating a recommendation on the subject in the light of the financial situation prevailing at that time.

VII. FINANCING ARRANGEMENTS FOR THE SENIOR INDUSTRIAL DEVELOPMENT FIELD ADVISER PROGRAMME

13. On 14 May, the Committee considered a note by the Secretariat on financing arrangements for the Senior Industrial Development Field Adviser (SIDFA) programme (PBC.2/CRP.2) and adopted the following conclusion:

Conclusion 1986/7

The Committee took note of the information provided by the Director-General on financing arrangements for the SIDFA programme and

requested him to submit a further report to the Board at its second session subsequent to the thirty-third session of the Governing Council of the United Nations Development Programme and in the light of his discussions with Member States on the subject.

VIII. DATE OF THE THIRD SESSION

14. On 14 May, the Committee adopted the following conclusion:

Conclusion 1986/8

The Committee decided to hold its third session from 9 to 20 March 1987.

IX. ADOPTION OF THE REPORT ON THE SECOND SESSION

15. On 16 May, the Committee adopted the draft report of its second session (PBC.2/L.1) as amended with the understanding that the Rapporteur would be entrusted with the task of finalizing the report.

X. SUSPENSION OF THE SECOND SESSION

16. On 16 May at 12.00 noon the second session of the Committee was suspended to be resumed during the second session of the Board (13-23 October 1986) for the consideration of the question of the Working Capital Fund (see conclusion 1986/6 above).

Annex I

STATEMENTS BY DELEGATIONS

1. The present annex includes only statements of principle made at the Programme and Budget Committee during its second session by delegations who requested that these statements be included in the report.

Rules of procedure (cf. chap. I)

2. The delegation of Nigeria, referring to rule 62 which had been adopted provisionally for the purpose of the second session of the Committee, stated that it was their understanding that the working group on the rules of procedure would further consider the contents of that rule. The delegation was not satisfied with the treatment given to national liberation movements and representatives of other organizations and could not accept the situation whereby some observers were allowed to participate in the session and some were not. In the view of the delegation, the Committee should be able to formulate rules which would allow different categories of observers to participate without discrimination.

Financial situation of UNIDO and scale of assessments of Member States (cf. chap. II)

3. The delegation of the United States of America noted that the United Nations Council for Namibia had sought to accede to the Constitution of UNIDO and that the Secretary-General, acting as Depositary, had accepted the Council's accession. The United States had serious reservations concerning the eligibility of the Council for Namibia for membership in UNIDO. While being aware that the Programme and Budget Committee was not the proper forum for discussion of that matter, the delegation felt obliged to place its position on record.

Financial situation of UNIDO and scale of assessments of Member States (cf. chap. II) and Industrial Development Fund (cf. chap. V)

4. The delegation of the German Democratic Republic, speaking also on behalf of the delegations of Bulgaria and the Union of Soviet Socialist Republics, said that although those delegations did not object to the adoption by consensus of conclusions 1986/2 and 1986/5, they did not entirely agree with those adopted conclusions, and wished to state the following:

- "(a) We continue to consider that financing of technical assistance from the regular budget of UNIDO exceeding 6 per cent of this budget constitutes a grave violation of the Constitution of UNIDO which must not take place;

- (b) We resolutely object to any attempts to establish obligatory requirements in respect of the volume and currency of contributions of Member States to the voluntary Industrial Development Fund, inasmuch as this violates the fundamental principle of voluntariness and universality of the Fund and presents a manifestation of discriminatory attitude towards the contributions of a number of States."

Working Capital Fund (cf. chap. VI)

5. The delegation of Nigeria, speaking on behalf of the African members of the Programme and Budget Committee, informed the Committee that the position of the African members concerning conclusion 1986/6 on the Working Capital Fund was the same as that of the Asian members.* Furthermore, the majority of the African members of the Committee were not represented in Vienna and it would be very difficult and expensive for these members to attend a resumed session. However, in order to go along with the spirit of consensus, the African members were supporting conclusion 1986/6.

* The delegation of Bangladesh, speaking on behalf of the Asian members of the Committee, had stated that, in a spirit of compromise and accommodation, they had not objected to the postponement of the consideration of the issue of the Working Capital Fund. In their opinion, however, the documents and explanations of the Secretariat had provided a comprehensive and convincing case for the Committee to arrive at a decision at the current session; the deterioration of the situation since the first session of the Committee clearly demonstrated the need for a level of the Working Capital Fund much higher than \$9 million; and re-examination of the issue in October would thus be a repetitive and wasteful exercise, would introduce an additional element of uncertainty in the financial management of the new Organization and would impair its capability to discharge its responsibility. The Asian members hoped that, at the next occasion, the Committee would arrive at a decision in favour of payment of the additional \$3 million to the Working Capital Fund.

Annex II

DOCUMENTS SUBMITTED TO THE PROGRAMME AND BUDGET COMMITTEE
AT ITS SECOND SESSION

<u>Document symbol</u>	<u>Title</u>	<u>Document symbol</u>	<u>Title</u>
PBC.2/1	Provisional agenda	PBC.2/L.1	Draft report of the Programme and Budget Committee on the work of its second session, 12 to 16 May 1986
PBC.2/1/Add.1	Annotated provisional agenda		
PBC.2/2 and Corr.1 and 2	Provisional rules of procedure for the first session of the Programme and Budget Committee	PBC.2/L.2	Format of the programme and budgets for the biennium 1988-1989 and the medium-term plan 1990-1995 (item 7), draft conclusion submitted by the Chairman
PBC.2/3	Draft financial regulations of the United Nations Industrial Development Organization. Note by the Director-General	PBC.2/L.3	Working Capital Fund (item 11), draft conclusion submitted by the Chairman
PBC.2/4	Format of the programme and budgets for the biennium 1988-1989. Format of the medium-term plan, 1990-1995. Note by the Secretariat	PBC.2/L.4	Industrial Development Fund (item 9), draft conclusion submitted by the Chairman
PBC.2/5	Industrial Development Fund. Programme for 1987 and plan for 1987-1988. Report by the Director-General	PBC.2/L.5	Financial situation of UNIDO and scale of assessments of Member States (items 6 and 10), draft conclusion submitted by the Chairman
PBC.2/5/Add.1	Industrial Development Fund. Lists of projects approved in 1985 under the United Nations Industrial Development Fund (UNIDF), prepared by the Secretariat. Addendum.	PBC.2/L.6	Financial regulations (item 8), draft conclusion submitted by the Chairman
PBC.2/6 and Corr.1	Financial situation of UNIDO. Report by the Director-General	PBC.2/CRP.1	Provisional rules of procedure for the first session of the Programme and Budget Committee (PBC.2/2). Changes agreed at the open-ended working group level
PBC.2/7	Working Capital Fund. First status report on contributions received for the biennium 1986-1987, submitted by the Director-General	PBC.2/CRP.2	Financing arrangements for the Senior Industrial Development Field Adviser Programme. Note by the Secretariat
PBC.2/8	Scale of assessments of Member States. First status report of assessed contributions paid for the year 1986, submitted by the Secretariat	PBC.2/CRP.3	Scale of assessments of Member States. Updated annex of the first status report of assessed contributions paid for the year 1986. Note by the Secretariat (PBC.2/8)
PBC.2/9	Financial situation of UNIDO. Effects of exchange rate fluctuations on the budget of UNIDO. Report by the Director-General	PBC.2/CRP.4	Working Capital Fund. Status of advances. Note by the secretariat
PBC.2/10	Format of the programme and budgets for the biennium 1988-1989. Note by the Director-General	PBC.2/CRP.5	Financial situation of UNIDO. Updating on the financial situation of UNIDO and analysis of currencies of expenditure. Note by the Secretariat
	*****	PBC.2/CRP.6	Financial situation of UNIDO. Cash flow 1986-1987. Note by the Secretariat
PBC.2/INF.1/Rev.1 and Add.1	List of participants	PBC.2/CRP.7	Scale of assessments of Member States. Note by the Secretariat
