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## Industrial Development Board

Resumed third session  
Vienna, 12 October 1987

### REPORT OF THE PROGRAMME AND BUDGET COMMITTEE ON THE WORK OF ITS THIRD SESSION

#### Addendum

Resumed third session of 12 October 1987

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#### Introduction

1. The Programme and Budget Committee resumed its third session for the second time at UNIDO Headquarters, Vienna International Centre, on 12 October 1987, for half a day.

2. In accordance with decisions IDB.2/Dec.36 and IDB.3/Dec.24 of the Industrial Development Board, the Committee resumed consideration of items 6 and 9 of the agenda of its third session, i.e. financial situation of UNIDO and financial regulations. As a result of information provided by the Director-General, the Committee also resumed the consideration of item 10, programme and budgets, 1988-1989.

3. The following 25 of the 27 members of the Committee participated in the resumed 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, Turkey, Union of Soviet Socialist Republics, United States of America.

4. The following 49 Members of UNIDO also attended the session:

Australia, Austria, Bolivia, Burundi, Canada, Chile, Côte d'Ivoire, Cuba, Czechoslovakia, Ecuador, Egypt, Ghana, Greece, Guatemala, Hungary, Iran (Islamic Republic of), Iraq, Israel, Italy, Kenya, Lesotho, Luxembourg, Malawi, Malaysia, Mexico, Morocco, Norway, Pakistan, Panama, Peru, Philippines, Poland, Portugal, Republic of Korea, Romania, Saudi Arabia, Senegal, Spain, Sudan, Sweden, Tunisia, United Arab Emirates, United Kingdom of Great Britain and Northern Ireland, Uruguay, Venezuela, Viet Nam, Yugoslavia, Zaire, Zambia.

The International Labour Organisation was represented.

5. The report contains the conclusions reached by the Committee. Statements of principle related to the adoption of conclusions 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 resumed session.

6. The conclusions adopted by the Committee as reported below (conclusions 1987/21, 22 and 23) were submitted to the Board for action at its resumed third session on 12 October 1987.

#### I. FINANCIAL SITUATION OF UNIDO

7. The Committee had before it a report of the Director-General on the regular budget, 1986-1987 (PBC.3/19-IDB.3/34 and PBC.3/CRP.21-IDB.3/CRP.15) and conference room papers on the report adopted by the International Civil Service Commission on remuneration of the General Service and related categories in connection with a survey of best prevailing conditions of service at Vienna (PBC.3/CRP.22-IDB.3/CRP.16) and on the agreed termination exercise (PBC.3/CRP.23-IDB.3/CRP.17). In addition, the Committee considered the opening statement of the Director-General to the resumed session.

8. The Committee considered a draft conclusion on the financial situation of UNIDO submitted by the Chairman (PBC.3/L.15) with amendments proposed orally by the Chairman. The representative of Brazil requested a roll-call vote on the draft conclusion as amended. By 18 votes to 3 and 4 abstentions, with the majority required being 14, the Committee adopted conclusion 1987/21 reproduced below. The voting was as follows:

In favour: Algeria, Bangladesh, Bulgaria, Cameroon, Cape Verde, China, Denmark, Ethiopia, France, German Democratic Republic, Germany, Federal Republic of, India, Indonesia, Japan, Netherlands, Switzerland, Thailand, Turkey.

Against: Argentina, Brazil, United States of America.

Abstaining: Belgium, Colombia, Nigeria, Union of Soviet Socialist Republics.

#### Conclusion 1987/21

##### The Programme and Budget Committee:

(a) Took note of the financial situation of UNIDO, as reported in the updated budget performance report, 1986-1987, of the Director-General (PBC.3/19 and PBC.3/CRP.21) and, in particular, of the increased costs measured in United States dollars of expenditures incurred in Austrian schillings resulting from the depreciation of the dollar since 1986;

(b) Noted that the rate of exchange of the dollar in terms of schillings has remained significantly below the rate of 17.70 schillings to one dollar, which was the rate adopted by the General Conference in its appropriation decision GC.1/Dec.26 in December 1985, and anticipates that it will continue to remain below the rate of 17.70 schillings for the remainder of the biennium;

(c) Further noted that, after taking into account the economies implemented by the Director-General (PBC.3/19) the net shortfall in the resources of UNIDO for the biennium 1986-1987 has been recomputed at 3.1 million dollars;

(d) Recalled that, in accordance with the Constitution and the financial regulations, the Director-General cannot authorize expenditures

beyond the appropriations provided for by the General Conference;

(e) Recommended that, at its resumed third session, the Industrial Development Board adopt the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the financial situation of UNIDO as reported in the updated budget performance report, 1986-1987, of the Director-General (PBC.3/19 and PBC.3/CRP.21-IDB.3/34 and IDB.3/CRP.15);

"(b) Recommends that, at its second regular session, the General Conference approve a supplementary estimate of 3.1 million dollars for the regular budget for the fiscal period 1986-1987 in accordance with Article 14.5 of the Constitution, so as to cover the net shortfall in the resources of UNIDO for that period resulting from the depreciation of the dollar;

"(c) Urges those Member States that have not yet paid their regular assessed contributions for 1986 and 1987 to do so without further delay and requests all Member States to pay the supplementary assessed contributions for the biennium 1986-1987 as soon as possible."

9. On the question of adjustments to the salary levels and related allowances in the General Service, Manual Worker and Language Teacher categories, the Chairman made a statement summarizing the understanding of the Committee. The Committee decided to reproduce the statement of the Chairman in the report as follows:

#### Summary statement by the Chairman

(a) I should like to recall that in accordance with Article 11, paragraph 5, of the Constitution the level of conditions of service of staff shall conform as far as possible to that of the United Nations common system.

(b) I take it that the Programme and Budget Committee will wish to take note of the fact that in its report ICSC/26/R.26 the International Civil Service Commission (ICSC) submitted recommendations concerning the salary scales and related allowances for the staff at the Vienna-based organizations in the General Service, Manual Worker and Language Teacher categories.

(c) In his opening statement to the Programme and Budget Committee the Director-General expressed his intention to implement the ICSC recommendation after consulting with the other Vienna-based organizations and ensuring that adequate resources were available to the Organization to meet fully the assumption of these new obligations. In that connection, however, he pointed out that it would not be feasible to implement the adjustments recommended in the course of 1987. Implementation of the ICSC recommendation will be made only after the decision of the Director-General. I take it that the Programme and Budget Committee would wish to take due note of the statement of the Director-General.

(d) Finally, I take it that the Programme and Budget Committee would wish the Director-General to report on the entire matter to the Programme and Budget Committee at its fourth session.

## II. FINANCIAL REGULATIONS

10. The Committee had before it the second report of the informal Open-ended Working Group established by Programme and Budget Committee conclusion 1986/4 to review the draft financial regulations of UNIDO (PBC.3/CRP.20-IDB.3/CRP.12). After consideration of a draft conclusion submitted by the Chairman (PBC.3/L.16), the Committee adopted the following conclusion:

### Conclusion 1987/22

The Programme and Budget Committee:

(a) Took note of the report of the informal Open-ended Working Group on financial regulations (PBC.3/CRP.20);

(b) Recommended to the Industrial Development Board that it decide to submit to the General Conference at its second regular session for its approval the draft financial regulations as contained in document PBC.3/11 with the amendments listed in paragraphs (a), (b), (d) and (e) of conclusion 1987/10 of the Programme and Budget Committee as well as those listed in paragraph 2 of IDB.3/CRP.12-PBC.3/CRP.20;

(c) In relation to regulation 5.5(d), recommended that the Board propose to the General Conference that the Director-General be requested to report, in connection with the request contained in paragraph (c) of its decision IDB.3/Dec.23, also on the question of which currency or currencies should be used, in future, for the Working Capital Fund.

## III. PROGRAMME AND BUDGETS, 1988-1989

11. The Committee had before it proposed adjustments to the programme and budgets, 1988-1989, relating to the programme of work of the Department for Programme and Project Development and the Department for Industrial Promotion, Consultations and Technology (PBC.3/CRP.19-IDB.3/CRP.11). After consideration of a draft conclusion submitted by the Chairman (PBC.3/L.17) and orally amended by the Chairman, the Committee adopted the following conclusion:

### Conclusion 1987/23

The Programme and Budget Committee:

(a) Noted the adjustments of the Director-General (PBC.3/CRP.19) of the Director-General relating to the programme of work of the Department for Programme and Project Development and the Department for Industrial Promotion, Consultations and Technology;

(b) Further noted that the adjustments, which have no financial implications, are based upon the changes approved by the Programme and Budget Committee and the Industrial Development Board at their third regular sessions and have been incorporated in the revised consolidated text of the programme and budgets, 1988-1989 (GC.2/10);

(c) Recommended that the Industrial Development Board adopt the following draft decision:

"The Industrial Development Board:

"(a) Adopts the adjustments of the Director-General relating to the programme of work of the Department for Programme and Project Development and the Department for Industrial Promotion, Consultations and Technology for the programme and budgets, 1988-1989, as contained in document IDB.3/CRP.11-PBC.3/CRP.19;

"(b) Notes that those adjustments are incorporated in the proposed programme and budgets, 1988-1989, to be submitted to the General Conference at its second regular session for its approval."

## IV. ADOPTION OF THE REPORT AND CLOSURE OF THE THIRD SESSION

12. The Committee closed its third session, having entrusted the Rapporteur with the preparation and finalization of the report of its resumed third session (continued).

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Annex I

## STATEMENTS BY DELEGATIONS

The present annex includes only statements of principle made at the Programme and Budget Committee during its resumed third session (continued), in connection with the adoption of conclusions, which some delegations requested to be included in the report.

Financial situation of UNIDO (chapter I)

## (a) Statement by Bulgaria on behalf of Group D:

"The Delegations of the Group D countries that are members of the PBC and IDB have carefully studied the report of the Director-General and the financial situation of UNIDO contained in document PBC.3/19, which clearly and precisely indicates the causes of the Organization's financial difficulties, their impact on the allocation of resources to the main programmes and future prospects.

It is obvious, Mr. President, that certain factors which are well known to all of us lie at the root of the continuing financial difficulties of UNIDO, and it is equally obvious that one of these factors plays the dominant role. I have in mind the failure of a number of Member States to fulfil their financial commitments to the regular budget. As is indicated in annex IV to the above-mentioned document, 70 states still have debts outstanding to the Organization in respect of the year 1986.

In this context our delegations would like to express their regret that more than two years after the entry into force of UNIDO's Constitution, its governing bodies are constantly forced to apply themselves to problems arising from the fundamental failure of some Member States to fulfil their constitutional obligations, a situation that has considerably reduced their ability to concentrate their attention on the substantive questions of UNIDO's activities.

Particularly alarming is the situation projected in annex I of the report of the Director-General whereby UNIDO will start the year 1988 with a shortfall corresponding to more than 20 per cent of the budget appropriations for the subsequent financial biennium. In other words, the financial problems of the Organization will not be overcome even if the supplementary budget requested by the Director-General is approved. If the practice of not paying contributions to the regular budget is allowed to continue, matters will become even more difficult in the future. I therefore wish to emphasize that we have always been opposed to the principle that the failure of some to fulfil their constitutional obligations should result in new burdens for others.

Mr. President, our countries have more than once stated that they are not in a position to accept responsibility for UNIDO's substantial financial difficulties arising out of the crisis of the monetary and financial systems of the capitalist world. Furthermore, we are not convinced that approving the supplementary estimates will solve the problem of the Organization's financial viability in the programme period. It is of course clear that those who have not been paying their contributions to the budget probably

have no intention of paying the supplementary contributions either. I should like to observe that some countries will, because of complex internal practices, not be in a position to pay their contribution in respect of the supplementary estimates by the end of this year, even if the governing bodies approve the supplementary estimates. Our delegation would accordingly prefer it if the Working Capital Fund were utilized to cover the supplementary expenditures and the supplementary assessments of Member States were then used to replenish the Fund.

Despite what I have been saying here, our delegations will not vote against the supplementary estimates, in view of the difficult situation of the Organization and for the sake of the lofty and noble aims it has set itself."

## (b) Statement by Uruguay on behalf of the Latin American Group

"I am making the following statement on the subject of the financial situation of UNIDO on behalf of the Latin American countries and would kindly request you to have the complete text included in the record of the present resumed session of the Programme and Budget Committee.

The Latin American Group once more reaffirms its determined support for UNIDO, the activity of which is of undeniable importance to the efforts of international co-operation towards the industrial growth of the developing countries and the improvement of the standard of living of their peoples. Similarly, the Latin American countries repeat their firm commitment to strengthening the role of the Organization in accordance with the objectives and functions laid down in its Constitution.

The Latin American countries have on various occasions expressed their serious concern at the present financial situation of UNIDO and, like many other delegations, regret that this situation has mainly originated from delays in payment of or withholding of contributions by certain Member States. The Latin American Group is convinced that the profound crisis with which the majority of the developing countries are confronted has prevented many of them from meeting their financial commitments to this and other international organizations; but they believe that there is no justification for countries that do have sufficient resources deliberately and arbitrarily to delay or withhold their contributions, thus impairing the proper performance of the Organization and the stability of its staff.

As clearly follows from the last statement submitted on the status of assessed contributions to the regular budget for 1986 and 1987 (document IDB.3/34-PBC.3/19, annex IV), it remains apparent that more than 80 per cent of the contributions due to UNIDO are those owed by developed countries.

The Latin American Group realizes that the monetary losses caused by the devaluation of the dollar have also had a negative effect on UNIDO's financial stability; however, it has been possible to demonstrate that these problems can and must be overcome through a suitable application of austerity policies and other methods of making savings, particularly with regard to the Organization's administrative expenditures.

On these lines, the Latin American countries have been supporting, and will continue to back, any way of saving that will enable the monetary losses due to the dollar devaluation to be compensated for without impairing the substantive programmes or the capacity of the Organization.

The Latin American Group considers that a solution to the present crisis and the future financial stability of UNIDO can be achieved only to the extent that Member States fulfil their financial commitments promptly and in full. Any other method that might be adopted would always prove inadequate.

The Latin American Group issues a fresh appeal to all countries, and particularly to the major contributors, to renew their political will to strengthen UNIDO by making early payment of their contributions. It also reaffirms its specific call for those countries whose currencies have been revalued to make voluntary contributions with the financial resources that they have saved and were originally earmarked for the payment of their contributions in dollars. A decision of this kind would redound to the credit of those countries that took it and would be tangible evidence of their political will to strengthen international co-operation."

(c) Statement by Brazil

"The Brazilian delegation voted against the supplementary budget on two grounds. First of all, because from the beginning of the financial crisis of UNIDO, Brazil has advocated increases in economies in order to offset the adverse effect of the exchange rate fluctuations and of the delayed payment by major contributors to the Organization. We are not satisfied that all possible economies were made. Second, because we note that in spite of the request by many delegations - including my own - that the additional economies of \$US 1.7 million be used to reduce the amount of any supplementary budget, this was not heeded to. No decision was finally taken as to the use of these economies. Nevertheless, this amount has been used for termination of contracts

settlements. Brazil could therefore neither agree to the supplementary budget as such nor to the amount requested."

Financial regulations (chapter II)

(d) Statement by Turkey

"As noted in document PBC.3/CRP.20, my delegation is not entirely satisfied with regulation 5.4(a). The reasons for this are fundamental and were explained in the meeting of this Committee in March 1987 and on less formal occasions since then. I shall not repeat them.

The regulation in question refers to the amount and purposes of the Working Capital Fund. We believe that the determination of the purposes of the Fund is a matter of policy; therefore we agree that the proposal on the purposes of the Fund should come from the policy-making side of the Organization. In contrast, the amount of the Fund is a matter of management, and therefore the proposal on the amount of the Fund should clearly originate with the Director-General.

Accordingly, my delegation has the honour to propose the following formulation for regulation 5.4(a):

'The purposes of the Working Capital Fund shall be determined by the General Conference by a two-thirds majority of the Members present and voting upon the recommendation of the Programme and Budget Committee and subsequently the Board. The amount of the Fund shall be similarly determined by the General Conference upon the proposal of the Director-General and any recommendations thereon of the Committee and the Board.'

.....

... Of course at the end it is the General Conference that decides everything, so it perhaps does not make much difference whether the proposal originates from the policy-making organs or from the executive organ, that is to say the Director-General. But I think in theory there is an important difference: the difference is something that concerns the respective powers and authority of the executive organ and of the policy-making organs. We think this is an important matter, it is a constitutional matter, but seeing that my proposal has not found any support I certainly would not wish to delay matters in the Committee and would agree to the text as it emerged from the informal working group."

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Annex II

DOCUMENTS CONSIDERED BY THE PROGRAMME AND BUDGET COMMITTEE  
AT ITS RESUMED THIRD SESSION (CONTINUED)

<u>Document symbol</u>	<u>Title</u>
PBC.3/1/Add.3	Annotations to the items on the agenda of the continued resumed third session.
PBC.3/19-IDB.3/34	Financial situation of UNIDO. Report of the Director-General on the regular budget, 1986-1987.
PBC.3/11	Financial regulations. Report of the informal Open-ended Working Group established by Programme and Budget Committee conclusion 1986/4 to review the draft financial regulations of UNIDO (PBC.2/3).
IDB.3/CRP.7	Report of the Programme and Budget Committee: Financial regulations. Observations of the External Auditors.
PBC.3/CRP.20-IDB.3/CRP.12	Financial regulations. Second report of the informal Open-ended Working Group, established by Programme and Budget Committee conclusion 1986/4, to review the draft financial regulations of UNIDO.
PBC.3/CRP.19-IDB.3/CRP.11	Programme and budgets, 1988-1989. Adjustments to the programme and budgets, 1988-1989.
PBC.3/CRP.21-IDB.3/CRP.15	Financial situation of UNIDO. Report of the Director-General on the regular budget, 1986-1987
PBC.3/CRP.22-IDB.3/CRP.16	Financial situation of UNIDO. Report adopted by the International Civil Service Commission on remuneration of the General Service and related categories: survey of best prevailing conditions of service at Vienna
PBC.3/CRP.23-IDB.3/CRP.17	Financial situation of UNIDO. Information note on the agreed termination exercise