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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

PROPOSED PROGRAMME BUDGET FOR THE BIENNIUM 1980-1981

Preparatory work for bringing the Common Fund into operation

Administrative and financial implications of the draft decision contained in document A/C.2/34/L.117

Statement submitted by the Secretary-General in accordance with rule 152 of the rules of procedure of the General Assembly

1. At its 56th meeting on 8 December 1979, the Second Committee adopted the draft decision contained in document A/C.2/34/L.117. At that time it had before it a statement of financial implications contained in document A/C.2/34/L.119 and Add.1.

2. In the draft decision contained in document A/C.2/34/L.117, the General Assembly would take note of resolution 206 (XIX) of the Trade and Development Board at the second part of its nineteenth session on "Preparatory work for bringing the Common Fund into operation", and would decide to make appropriate arrangements to advance the necessary funds to enable the financing of the preparatory work required for bringing the Common Fund into operation, up to a total of $1.8 million.

3. Should the General Assembly adopt this draft decision, an additional appropriation in the amount of $1,722,700, on a non-recurrent and reimbursable basis, would be required under a new section 15B of the programme budget for the biennium 1980-1981. This provision would be fully offset by an increase of the same amount under the Income section of the budget reflecting the reimbursement due to the United Nations from the Common Fund once it is declared operational. In view of the uncertainty as to the exact date the Common Fund will be declared operational, the Secretary-General intends to allot funds to the Secretary-General of UNCTAD on an "as required" basis. Accordingly funds not spent at the time the Common Fund is declared operational would be surrendered in the context of the budget and programme performance report to be submitted for the biennium 1980-1981.

4. The breakdown of the above-mentioned amount is in paragraph 14 below.

5. The fundamental elements of the Common Fund relating to its objectives, capital structure, organization, management and voting procedures are discussed in the annex to the present document.

6. The exact nature of the preparatory work to bring the Common Fund into operation, its location and the related institutional setting have not yet been fully determined. Neither can it be precisely stated at this stage how long the preparatory machinery would need to remain in existence. It is however estimated that the period from the date of the adoption of the Articles of Agreement of the Common Fund to the formal commencement of operations could range from six to 18 months. Thus this statement of administrative and financial implications has been based on a compromise duration of 12 months with the location of the Preparatory Commission being assumed to be in Geneva.

7. In the period between the adoption of the Articles of Agreement by the Negotiating Conference and the inaugural meeting of the Governing Council, and subsequently until the first meeting of the Executive Board which would mark the commencement of the Common Fund's operations, it would be necessary to undertake certain activities suggested by the experience of similar international financial institutions. That experience indicates that the preparatory work would involve legal and procedural activities such as the drafting of the rules of procedure of the Governing Council and the Executive Board, the by-laws for the conduct of the business of the Common Fund, and the related financial regulations. The framework of operational activities would need to be established, involving the formulation of the Common Fund's lending policies and criteria and the drafting of the general conditions applicable to association agreements and to loan agreements. In addition, relationship agreements with the United Nations and various other co-operating institutions would need to be written, as well as a headquarters agreement with the host country. There would be a need to define an organizational structure for the Common Fund, and to produce an administrative budget. Furthermore, personnel policies would have to be formulated, including the related staff rules and regulations. Finally, it would be necessary to make arrangements for the first session of the Governing Council in the light of progress made in securing signatures and ratifications of the agreements.

8. Fourteen posts are deemed necessary to carry out the work of the Preparatory Commission in bringing the Common Fund into operation. They are as follows:

Professional category and above

Executive Secretary	1 D-2
Legal Adviser	1 D-1
Financial Adviser	1 D-1
Operations Adviser (First account)	1 P-5
Operations Adviser (Second account)	1 P-5
Administration Adviser	1 P-5
Administrative Officer	1 P-3
Administrative Officer	1 P-3
	8

General Service

Administrative assistant	1 principal
Secretarial/Clerical	5 other
	6
Total	14

9. The required posts under general temporary assistance are costed below on the basis of a 12-month duration, in Geneva, at the 95 per cent turnover rate for Professional staff. As the commencement date of the activities for which these posts are required is not known, costs are distributed over the last six months of 1980 and the first six months of 1981, for presentation purposes.

Staff requirements

	1980 $	1981 $	Total $
General temporary assistance			
Professional			
1 D-2	34,200	34,500	68,700
2 D-1	62,400	63,000	125,400
3 P-5	85,200	85,900	171,100
2 P-3	40,400	40,800	81,200
Subtotal	222,200	224,200	446,400

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		1980 $	1981 $	Total $
General Service				
1 principal		20,050	20,050	40,100
5 other		69,000	69,000	138,000
	Subtotal	89,050	89,050	178,100
	TOTAL	311,250	313,250	624,500
Common staff costs		98,800	99,400	198,200
	GRAND TOTAL	410,050	412,650	822,700

10. Official travel estimated at a cost of $40,000 would be required to be undertaken by senior staff to the various geographic areas in the course of the preparatory process of bringing the Common Fund to operational status.

11. The services of consultants, equivalent to 20 work-months, would also be required to assist in the highly technical aspects of the preparatory work for the Common Fund, as outlined in paragraph 6 above. It is estimated that $100,000 in fees and associated travel would be needed for this purpose.

12. It is assumed that the Preparatory Commission would require six weeks of meetings for which a cost of $600,000 is estimated.

13. An estimated amount of $160,000 would cover the cost of accommodation, furniture and equipment, supplies and materials, communications and miscellaneous services.

14. The requirements for a period of 12 months during the biennium 1980-1981 are summarized as follows:

	1980 $	1981 $	Total $
Salaries and common staff costs	410,050	412,650	822,700
Consultant services	49,500	50,500	100,000
Travel of staff	19,900	20,100	40,000
Meetings	285,000	315,000	600,000
Other operating costs	75,000	85,000	160,000
TOTAL	839,450	883,250	1,722,700

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15. The UNCTAD secretariat will continue to render assistance to the preparatory activities for the establishment of the Common Fund from resources available within the existing commodities programme of UNCTAD. Accordingly, the level of requirements requested above has been based upon the level of additional workload arising, which cannot be absorbed within existing resources.

16. Therefore, should the General Assembly approve the draft decision in document A/C.2/34/L.117, an appropriation would be required in the amount of $1,722,700 in a new section 15B of the programme budget for the biennium 1980-1981, offset by an equal amount under income section 2.

Annex

Fundamental elements of the Common Fund

I. OBJECTIVES AND PURPOSES

A. Objectives

1. The Common Fund would be established as a new entity and an effective and financially viable institution to serve as a key instrument in attaining the agreed objectives of the Integrated Programme for Commodities as embodied in UNCTAD resolution 93 (IV). It should facilitate the conclusion and functioning of international commodity agreements and arrangements (ICAs), particularly on commodities of special interest to developing countries.

B. Purposes

(i) Stocks

2. The Common Fund through its first window would contribute to the financing of international buffer stocks and, under modalities to be determined, internationally co-ordinated national stocks, within the framework of international commodity agreements and arrangements representing producers and consumers covering the bulk of world trade in the commodities concerned. The Fund would respect the autonomy of ICAs and would not intervene directly in commodity markets.

(ii) Other measures

3. The Common Fund, through its second window, would finance measures other than stocking. These would be commodity development measures, aimed at improving the structural conditions in markets and at enhancing the long-term competitiveness and prospects of particular commodities.

4. The Common Fund through its second window, would promote co-ordination and consultation with regard to measures other than stocking and their financing with a view to providing a commodity focus.

5. The measures to be financed by the second window would include research and development, productivity improvements, marketing and measures designed to assist, as a rule by means of joint financing or through technical assistance, vertical diversification. These measures could be undertaken alone, as in the case of perishable commodities and other commodities whose problems cannot be adequately solved by stocking, or in addition to, and in support of, stocking activities. In financing these measures, the Fund shall take into account the need for avoiding a disproportionate amount of the second window's total resources being used for the benefit of a single commodity.

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6. The measures to be financed through the second window would be jointly sponsored and followed up by producers and consumers within the framework of international commodity bodies meeting agreed criteria. In determining these criteria, the importance of adequate coverage of commodities of particular export interest to developing countries should be taken into consideration.

7. The Common Fund, through its second window, would establish a close working relationship with existing international financial institutions and would as far as possible avoid duplication of their activities.

8. The Common Fund, through its second window, may participate in the financing of measures other than stocking in association with other entities.

9. Within the context of determining priorities in the use of resources, efforts should be made, through the second window, to give due emphasis to commodities of interest to poorer developing countries, particularly those of the least developed countries.

II. FINANCIAL RESOURCES AND CAPITAL STRUCTURE

10. The financial resources of the Fund would consist of:

(a) Direct government contributions to enhance the Fund's creditworthiness and to provide working capital to meet specified short-term liquidity needs (first window) and to cover the Fund's administrative costs;

(b) Resources deriving from the association of ICAs with the Fund (first window) as a proportion of their maximum financial requirements;

(i) cash deposits from ICAs;

(ii) callable capital/guarantees for borrowing by the Fund;

(c) Borrowings;

(d) Voluntary contributions;

(e) Net earnings.

11. The resources allocated to the first window from direct government contributions would be $400 million, of which $150 million would be contributed in cash, $150 million as capital on call and $100 million as callable capital.

12. Direct government contributions to the Fund would consist of:

(a) Contributions of $1 million by each member State, of which a part may be allocated by the contributing State to the second window, so that the total amount so allocated would be not less than $70 million.

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(b) An additional amount of $320 million (assuming universal membership and the allocation of $80 million to the first window under para. 12 (a)), a/ whose distribution among the Group of 77, Group B, Group D and China would be:

Group of 77	-	10 per cent
Group B	-	68 per cent
Group D	-	17 per cent
China	-	5 per cent

The distribution within the Groups would be determined by the Groups themselves. b/

13. The resources of the second window would be derived from initial direct government contributions of at least $70 million allocated under paragraph 12 (a) and in addition from voluntary contributions by member States and other sources with a target of $280 million.

14. ICAs associated with the Fund would deposit with it 33 1/3 per cent of their MFRs. The deposits would be paid either in full, or in stages on a basis to be agreed and would give rise to credit rights proportionately related to them. The deposits would be withdrawn when required for stocks purchases.

15. ICAs associated with the Fund would be negotiated or renegotiated on the principle of joint buffer stock financing by all producers and consumers participating in the ICAs.

16. Callable capital/guarantees would be pledged directly to the Fund by ICA members to the value of each ICA's borrowing entitlement, and on modalities and conditions to be agreed. The ICAs and their members should be fully responsible for servicing and repaying their borrowings from the Fund in accordance with the terms and conditions agreed with the Fund. The members of ICAs will not be liable through their callable capital/guarantees, for the default of ICAs of which they are not members.

17. ICAs would assign all of their stock warrants to the Fund on modalities to be agreed.

18. The procedure for calling up callable capital would be determined.

19. ICAs associated with the Common Fund would use the Fund as their only banker for their buffer stocking operations.

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a/ If these assumptions prove to be incorrect, the adequacy of the financial resources would be reviewed as soon as possible after the entering into force of the Articles of Agreement.

b/ The assessment of contributions of any country not belonging to any of these groups shall be provided for in the Articles of Agreement.

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20. Provision would be made for a pledging procedure for voluntary contributions to the second window and for arrangements for replenishment in the light of its activities.

21. The resources allocated to the first and second windows would be held in separate accounts without detracting from the character of the Fund as an integral entity. Resources committed to one window should not be used to support the operations of the other.

III. ORGANIZATION, MANAGEMENT AND VOTING

22. The provisions relating to organization, management and voting would be based on the conclusions reached in Negotiating Group III.

23. Decisions in the Fund would, wherever possible, be taken without vote.

24. No group would have a simple majority of the total votes. Votes would be distributed among member countries of the Fund on the basis of three elements (equality principle; direct contributions; and contributions of callable capital to the Fund by country members of ICAs associated with the Fund), the objective being to secure the following outcome: c/

Group of 77	-	47 per cent
Group B	-	42 per cent
Group D	-	8 per cent
China	-	3 per cent

25. The most important decisions, including constitutional decisions and decisions with significant financial implications for member States, would be taken by a majority of three fourths of total votes cast. Other decisions, depending on their relative importance, would be subject either to a majority of two thirds of total votes cast or by a simple majority.

26. The Governing Council shall establish a Consultative Committee on the second window to facilitate its operation.

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c/ In case such system of allocation of votes would result in a voting structure significantly different from that described in para. 24, or not in conformity with the principles enunciated in para. 24, appropriate adjustments would be made by the Governing Council of the Fund.