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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

ANNUAL REVIEW OF THE FINANCIAL SITUATION, 1992

Report of the Administrator

SUMMARY

The present document constitutes the Administrator's main report on the financial aspects of the United Nations Development Programme and provides a comprehensive financial review of the activities financed from the United Nations Development Programme account during 1992 and of the financial position as at the end of that year and responds to decisions of the Governing Council described below.

The report provides a detailed analysis of the present financial situation and estimates of income and expenditure for 1993 and 1994 incorporating strategic plans presented in related documents. It identifies issues of concern to the Administrator which he brings to the Governing Council for its consideration. The report includes information on cost-sharing activities, the status of the Special Measures Fund for the Least Developed Countries and of Special Programme Resources, the placement of United Nations Development Programme funds, the Operational Reserve, and the utilization of accumulated non-convertible currencies.

The report also provides information on agency support cost flexibility arrangements in accordance with decision 82/36 of 18 June 1982 and 91/32 of 25 June 1991; the status of the Reserve for Field Accommodation and related matters, in accordance with paragraph 5 of decision 82/30 of 18 June 1982 and paragraph 2 of decision 89/57 of 30 June 1989; management and other support services as per decision 83/5 of 24 June 1983.

The Governing Council is being requested to respond to the request of the United Nations Educational, Scientific and Cultural Organization for additional support cost reimbursement (sect. V). The Council should note the Administrator's comments contained in paragraphs 28 and 57.

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ABBREVIATIONS

|        |  |
|--------|--|
| AfDB   | African Development Bank                                 |
| AFESD  | Arab Fund for Economic and Social Development            |
| AsDB   | Asian Development Bank                                   |
| ECA    | Economic Commission for Africa                           |
| ECE    | Economic Commission for Europe                           |
| ECLAC  | Economic Commission for Latin America and the Caribbean  |
| ESCWA  | Economic and Social Commission for Western Asia          |
| ESCAP  | Economic and Social Commission for Asia and the Pacific  |
| FAO    | Food and Agriculture Organization of the United Nations  |
| GCCC   | Government cash counterpart contribution                 |
| HARS   | Household Appliances Rental Scheme                       |
| IAEA   | International Atomic Energy Agency                       |
| ICAO   | International Civil Aviation Organization                |
| IDA    | International Development Association                    |
| IDB    | Inter-American Development Bank                          |
| IFAD   | International Fund for Agricultural Development          |
| IFC    | International Finance Corporation                        |
| ILO    | International Labour Organisation                        |
| IMO    | International Maritime Organization                      |
| IMF    | International Monetary Fund                              |
| IPF    | Indicative planning figure                               |
| ITC    | International Trade Centre                               |
| ITU    | International Telecommunication Union                    |
| JCGP   | Joint Consultative Group on Policy                       |
| LDC    | Least developed country                                  |
| NATCAP | National technical cooperation assessment and programmes |

NGO Non-governmental organization  
OPS Office for Project Services  
RFA Reserve for Field Accommodation  
SDR Special drawing rights  
SIS Special Industrial Services  
SMF/LDC Special Measures Fund for the Least Developed Countries  
SPR Special Programme Resources  
TSS Technical Support Services  
UNCHS United Nations Centre for Human Settlements (Habitat)  
UNCTAD United Nations Conference on Trade and Development  
UNDP United Nations Development Programme  
UNEP United Nations Environment Programme  
UNESCO United Nations Educational, Scientific and Cultural Organization  
UNFSTD United Nations Fund for Science and Technology for Development  
UNFPA United Nations Population Fund  
UNHCR Office of the United Nations High Commissioner for Refugees  
UNICEF United Nations Children's Fund  
UNIDO United Nations Industrial Development Organization  
UNIFEM United Nations Development Fund for Women  
UNRFNRE United Nations Revolving Fund for Natural Resources Exploration  
UNSO United Nations Sudano-Sahelian Office  
UNV United Nations Volunteers  
UPU Universal Postal Union  
USAID United States Agency for International Development  
WFP World Food Programme  
WHO World Health Organization  
WIPO World Intellectual Property Organization  
WMO World Meteorological Organization  
WTO World Tourism Organization

I. ANNUAL REVIEW OF THE FINANCIAL SITUATION

A. Overview of the financial situation

1. Introduction

1. The present report provides the Governing Council with comprehensive financial information on the activities financed from the United Nations Development Programme (UNDP) Account during 1992. Information on trust funds administered by UNDP is being provided to the Council in separate documents (DP/1993/44/Add.2 and Add.3). In response to the Council's request contained in paragraph A.1 of the annex to decision 87/1 of 17 February 1987 that basic statistical data and financial data be provided to it for trust funds the Administrator has provided resource planning tables for UNV, UNSO, UNIFEM, UNFSTD, UNRFNRE, and the Energy Account in addendum 1 to the present document.

2. As in the past, the Administrator brings to the Governing Council in this document financial issues that are of concern to him. The Administrator indicated in document DP/1992/38 that 1992 contributions would not reach the 8 per cent growth rate agreed to by the Council for the fifth programming cycle. It would now appear that the situation is more serious than originally projected and it is important that the Council be fully aware of the implications thereof. UNDP is in a period of transition, a period requiring prompt and appropriate action to maintain the financial viability of the Programme.

3. The critical factors in this transition period are:

(a) Income levels, which are primarily a reflection of voluntary contributions and miscellaneous income, but with an increasingly important cost-sharing component;

(b) Resource balances, which govern the extent to which shortfalls in income can be made up by drawing down accumulated "surplus" balances;

(c) Programme expenditure planning, to ensure that programme expenditures remain within available and projected resources;

(d) Other costs, to ensure cost-effectiveness in the use of agency support costs, programme support and core budget expenditures.

These are considered in more detail as follows.

Income

4. Voluntary contributions received have grown from \$680 million in 1982 (the start of the third programming cycle) to \$1,178 million in 1992 (see table 1). Over the period 1985-1988, there was a strong growth in the dollar value of voluntary contributions received, which went from \$659 million in 1985 to \$931 million in 1988. The weakening of the dollar was a major factor in that the growth of contributions as measured in dollar value was faster than the growth of contributions in donor currencies.

Table 1

5. It should be noted that voluntary contributions of \$1,178 million received in 1992 are higher than normal in that this figure reflects a very high level of payment of pledges with respect to 1992 as well as very high collection of pledges with respect to prior years (including \$105 million with respect to 1991 pledges that were received in the first few days of 1992).

6. Pledges with respect to 1992 amounted to \$1,079 million. The latest estimate for pledges with respect to 1993 is \$930 million, which represents a reduction from 1992 of \$149 million or 14 per cent. Additionally, this represents a shortfall of \$236 million from resources projected to be received in 1993 in accordance with decision 90/34, which envisaged an annual increase in contributions of 8 per cent. To date in 1993, the pledge figure for 1993 has decreased by \$80 million from the estimates as at 31 December 1992, with \$36 million as a result of exchange rate changes and \$44 million from reductions in actual and estimated pledges.

7. Miscellaneous income has been an important element in financing and amounted to over \$50 million per year in the period 1985-1990, rising to a peak of \$155 million in 1987. As the dollar weakened, large foreign exchange gains increased miscellaneous income as a result of the increasing dollar value of non-dollar assets. UNDP has also benefited in the past from relatively high rates of return on investments. However, miscellaneous income fell from \$150 million in 1990 to \$13.1 million in 1991 and to \$0.5 million in 1992, reflecting lower interest rates on investments and substantial foreign exchange losses at a time of high foreign exchange rate volatility and the significant devaluation of a number of currencies of donor countries.

8. Cost-sharing contributions have grown substantially, to almost \$300 million in 1992, and are expected to continue to increase steadily. While this source of funding enables a larger total programme expenditure in selected countries, it does not make up for the shortfalls in voluntary contributions necessary for financing IPFs.

#### Balance of resources

9. The balance of general resources increased rapidly from \$184 million in 1985 to a peak of \$581 million in 1988. Several measures were taken during these years to enhance the capacity of the United Nations system to deliver an increased level of programme expenditure and thereby utilize the accumulated balance of resources. With higher income and resource balances than foreseen when planning fourth cycle expenditures, the Governing Council in 1988 approved an increase in IPFs established earlier for the fourth cycle. Accordingly, in 1989 and later years, total expenditures exceeded income, thus reducing the balance of resources, which had come down to \$153 million by end 1991. In 1992, the balance of resources increased slightly to \$220 million but is projected to come down to around \$106 million by end 1993, to \$80 million in 1994 and to remain at around this level in the following years. This is the minimum practical year-end balance given the different patterns of cash inflows and outflows during the course of any year. Thus, annual expenditures must in the future be established within the constraints of annual income.



10. Cost-sharing balances have grown from \$62 million in 1985 to \$216 million at end 1992. This reflects the continued growth in cost-sharing income and expenditures and the requirement that cost-sharing income be received before expenditures are made.

#### Programme expenditure planning

11. Core programme expenditures have to be planned taking into account the forecast levels of income. The Administrator continually reviews resource availability and establishes programme expenditure projections within the limits of available resources while ensuring that they are used effectively and promptly for financing technical cooperation activities.

12. 1992 IPF expenditures were \$142 million less than in 1991, reflecting measures introduced to control expenditure levels in the light of lower-than-expected income levels and the substantially lower balance of general resources. The reduced level of expenditures is also in accord with the pattern observed in the second and third cycles of a decline in expenditures in the first year of a cycle. In the light of the disappointing pledges for 1993 and the conclusion that the fifth cycle contribution growth target of 8 per cent is unlikely to be achieved, the Administrator has now established IPF expenditure targets of \$640 million in 1993 and \$590 million in 1994.

#### Other costs

13. Other costs such as agency support costs, programme support and development costs and core budget costs have to be paid from the same voluntary contributions as fund the main programme. Agency support cost expenditures are to some extent a function of programme expenditures. The Administrator's commitment to reduce budgetary expenditures is explained in the context of his 1994-1995 budget proposals (DP/1993/45).

14. The financial review paper, in the forecasts for 1993 and 1994, incorporates projections from both the report of the Administrator on matters relating to the programming cycles (DP/1993/21) and the budget estimates (DP/1993/45) and reflects the strategies set out in those papers. It is imperative that the Governing Council appreciate that neither the proposed budget strategy nor improved management of UNDP resources will provide funds sufficient to meet those needed to enable delivery of the programme as originally envisaged. The main question to be addressed by the Council is whether Governments can achieve the level of contributions required to enable delivery of the planned programmes.

15. Tables 3 and 4 provide the preliminary unaudited data on income and expenditure for 1992 and the statement of assets and liabilities as at 31 December 1992. The data is compared to 1991 results. The Administrator's forecasts for 1993 and 1994 are also presented in tables 3 and 4. For this purpose, the United Nations operational rates of exchange in effect as of March 1993 have been used in making the projections of income and expenditure. Whenever necessary and appropriate, historical patterns and judgemental factors have been used in making the projections of other financial elements.

2. Income

16. Total income in 1992 amounted to \$1.5 billion and total expenditures \$1.4 billion. This resulted in a surplus of income over expenditure of \$100 million, which is attributable to the individual funds in the UNDP account, as shown in table 5.

17. The increase in voluntary contributions resulted primarily from a substantially higher payment rate in 1992 than in 1991. Some 98.5 per cent of contributions for 1992 (\$1,079.4 million) were received in 1992. This was up from 86 per cent of contributions from 1991 (\$1,030.2 million) which were paid in 1991. The increase can be accounted for in the following manner:

Table 2. Income received for voluntary contributions

(Millions of dollars)

|      | For<br>prior years | For<br>current year | For<br>future years | Total        |
|------|--------------------|---------------------|---------------------|--------------|
| 1992 | 118.9              | 1 063.1             | 0.2                 | 1 182.2      |
| 1991 | 71.1               | 883.8               | 0.4                 | <u>955.3</u> |
|      |                    |                     | Increase            | <u>226.9</u> |

18. The higher collection rate in 1992 does not increase overall resources but does substantially improve the UNDP cash flow. The Administrator wishes to thank member States for achieving the excellent payment rate in 1992. It is one of the highest to date for UNDP. Contributions outstanding as at 31 December 1992 are reported in annex table 1.

19. Cost-sharing contributions increased by \$75 million in 1992. This follows an increase of \$50 million in 1991. The increase in cost-sharing contributions cannot be attributed to any one donor but rather is a general increase by many donors. Cost-sharing contributions received to the end of March 1993 are 17 per cent higher than contributions received to the same date in 1992 so that a further substantial increase in cost-sharing activity might be expected this year.

20. Miscellaneous income decreased in 1992 by \$13.1 million. This reflects the lower interest rates prevailing in most countries during the year. The decrease also includes exchange rate losses resulting from the turmoil in the European monetary system, which resulted in the significant devaluation of many European currencies. It also includes losses on exchange from devaluation of holdings in non-convertible currencies. These issues are addressed in more depth under section I.E, placement of UNDP funds.

Table 3

Table 4

21. The reduction in extrabudgetary income to a great extent also reflects the lower interest rates prevailing in most countries during the year and therefore a lower apportionment of interest to supplementary activities.

### 3. Programme expenditures

22. On the expenditure side, after several years of annual increases in the fourth cycle, IPF expenditures in 1992 dropped to \$727 million, exclusive of add-on expenditures, a reduction of 17 per cent from 1991 expenditures of \$867 million. This reduction was in line with the usual historical pattern observed in previous cycles of a decline in expenditures in the first year of a cycle. Additionally, as explained in section I.A.5, measures were taken during 1992 to reduce IPF expenditures below the forecast of \$780 million provided to the Governing Council last year when it became apparent that contributions were unlikely to meet the established targets.

23. The increase in cost-sharing expenditures is indicative of the increased availability of contributions. Cost-sharing is becoming a steadily increasing portion of the programme. This reflects resource mobilization efforts undertaken in various countries as well as the increasingly effective central coordinating function being played by UNDP in the field through NATCAP and round-table activities.

24. The decrease in agency support costs in the main reflects the decrease in total programme expenditures. Additionally, there was a significant increase in activities designated for national execution. In 1991, Governments implemented approximately 15 per cent of the programme, while in 1992, that percentage increased to 23 per cent.

25. The reduction in UNDP biennial budget expenditure results from implementation of the budget strategy for 1992-1993 and the fact that expenditures in the first year of the biennium are generally lower than in the second.

26. Table 3 incorporates the new presentation of programme support and development activities agreed to by the Governing Council at its thirty-ninth session. The 1991 accounts have been restated for comparison purposes. Annex tables 2 (a) and 2 (b) provide expenditure information by agency and support costs paid by agency.

### 4. Net assets and liabilities

27. The major focus on the balance sheet changes should be on the balances of resources and unexpended contributions. As indicated in table 5, these increased by \$108 million in 1992 for reasons previously stated. UNDP holdings of accumulated non-convertible currencies decreased, as is explained in section I.G below. The impact of these changes is reflected in the change in investment holdings. Investments held on behalf of the main programme were \$254.8 million. Investments held for the Operational Reserve were \$210 million. Amounts held for supplementary activities were \$540.2 million, the distribution

of which is shown in table 6 below. Investments held for supplementary activities are earmarked for specific projects or programmes, must be held for the intended purposes, and are not available for main programme activities.

28. Other balance sheet changes are operationally oriented, reflecting the changed nature and distribution of core and non-core programme activities. Operating funds provided to executing agencies are a function of programme delivery, so were reduced in line with the reduced expenditure level. Other accounts payable include \$129.6 million held for trust funds established by the Administrator in 1992. These are reported on in DP/1992/44/Add.3.

Table 5. 1992 (deficit)/surplus of income over expenditure in the UNDP account by source of funds

| <u>Source of funds</u>                   | <u>Amount</u>            |
|--|--------------------------|
|  | (Millions of US dollars) |
| General resources                        | 67.7                     |
| Cost-sharing                             | 53.1                     |
| SMF/LDC                                  | (6.5)                    |
| Government cash counterpart              | (1.4)                    |
| Extrabudgetary activities                | <u>(4.7)</u>             |
| Total surplus of income over expenditure | <u>108.2</u>             |

Table 6. Investment as at 31 December 1992: supplementary activities

|   | (Millions of dollars) |
|---|-----------------------|
| Unexpended resources for the SMF/LDC, cost-sharing, cash counterpart contributions extrabudgetary resources | 275.8                 |
| Trust fund activities   | 129.6                 |
| Management Service Agreements   | 114.1                 |
| Advances received in respect of agency programmes and MIP   | <u>20.7</u>           |
| Total   | <u>540.2</u>          |

## 5. Financial forecasts

29. Last year, in his annual review of the financial situation (DP/1992/38) as well as in his report on matters relating to the fourth and fifth programming cycles (DP/1992/22), the Administrator pointed out that it had become evident at that time that the target for annual increases in contributions of 8 per cent assumed in decision 90/34 was unlikely to be achieved. Accordingly, while continuing to seek increased resources and emphasizing the need for meeting the established growth targets, the Administrator had been obliged, for prudent financial management purposes, to take the following actions: (a) assume an annual rate of growth in resources of 4 per cent in the establishment of the planning framework for the fifth cycle; (b) instruct individual UNDP field offices to provide for a programme reserve of 10 per cent of the IPFs in the country programmes; and (c) establish annual expenditure targets for 1992 and 1993 of \$780 million and \$760 million respectively, in order to keep within available resources.

30. Towards the end of 1992, following a detailed review, the Administrator concluded that a further decline in contributions for 1993 had become likely, resulting from reductions in pledges by some major donors as well as a substantial appreciation in the value of the dollar vis-à-vis the currencies of several other donors. Based on these factors and on the best estimates available at that time, the Administrator decided to revise further the planning parameters for the fifth cycle and advise UNDP field offices that, for programme-planning purposes, resources at the level of 75 per cent of the established IPFs should be assumed. Since that time there has been a further deterioration in the outlook for resources, with indications that contributions for 1993 would amount to only \$930 million, a reduction of 13.5 per cent from 1992.

31. In addition to the above considerations, and as reported in paragraph 5 of document DP/1992/22, there has been a progressive and significant reduction in UNDP cash holdings in the last several years. It has therefore become essential that, even though programme planning would be continued at the level of 75 per cent of IPFs, annual expenditure levels be established in such a manner that the resulting cash outflows are in balance with cash inflows during a year and that no drawdown of the Operational Reserve is planned. Accordingly, the Administrator has revised IPF expenditure targets for 1993 and 1994 to \$640 million and \$590 million respectively. With these expenditure targets, the balance of resources for the main programme is forecast to be \$106.5 million at the end of 1993, and \$79.8 million at the end of 1994.

32. The Administrator intends to monitor closely the development of the resource situation and take such measures as are necessary in line with evolving circumstances. While the rate of new project approvals so far in the fifth cycle has been consistent with the available resources, it is essential to ensure that the programme build-up during 1993 and 1994 is in accordance with revised budgeting targets and that expenditure targets are not exceeded. For this purpose, strict financial management controls will be applied, while taking steps to minimize disruptions to the ongoing programmes. The Administrator expects, however, that the programme levels as currently established can be sustained, and increased in the later years of the fifth cycle, should additional resources be forthcoming.

B. Special Programme Resources

33. Total SPR expenditures during 1992 amounted to \$83.2 million, of which \$32.6 million has been charged against cost-sharing contributions, resulting in a net expenditure in 1992 against SPR resources of \$50.6 million. The latter represents an increase of 18 per cent over expenditures in 1991 and 27 per cent over the forecast of \$40 million. While project approvals under the SPR programme have gradually increased since the programme documents for the sub-categories of the SPR were approved by the Governing Council in February 1992, it has been necessary to reduce the SPR expenditure level for 1993 and 1994 in line with reduced expectations of resources, as described in Section I.A.5.

C. Cost-sharing arrangements

34. Cost-sharing expenditure during 1992 totalled \$225.2 million, which was \$20.2 million more than the forecast presented in document DP/1992/38. Of the total amount, \$192.6 million was cost-sharing for IPF-financed programmes and projects while \$32.6 million was applied to SPR-financed projects. An amount of \$141.5 million was expended as recipient Government project cost-sharing, \$7.4 million as recipient Government programme cost-sharing and \$43.7 million as third-party cost-sharing. As has been mentioned in previous reports, it is more difficult to give an accurate forecast of cost-sharing expenditure than of IPF expenditure, mainly for the following reasons: only at the time of the signature of a project document which includes a cost-sharing component, is there reliable data that can be used for the forecasting of expenditures against cost-sharing contributions; and as the apportionment of expenditures is dependent on the incidence of cost-sharing contributions, the actual level of cost-sharing expenditures cannot be determined until year end.

35. Annex table 3 (a) provides a country-by-country analysis of the 1992 income from cost-sharing contributions and annex table 3 (b) provides additional information on income received under third-party cost-sharing arrangements, a summary of which is as follows:

|   | (Millions of dollars) |
|---|-----------------------|
| Project cost-sharing by recipient Governments | 183.3                 |
| Recipient Government programme cost-sharing   | 19.4                  |
| Third-party cost-sharing                      | <u>91.1</u>           |
| TOTAL   | <u>293.8</u>          |

36. Table 7 summarizes the movement in the balances of cost-sharing contributions held by UNDP in 1992.



Table 7. Status of cost-sharing contributions held

|                                      | (Millions of US dollars) |         |              |
|--------------------------------------|--------------------------|---------|--------------|
| Balance as at 31 December 1991       |                          |         | 162.7        |
| Cost-sharing income during 1992      |                          | 293.8   |              |
| Cost-sharing expenditure during 1992 | (225.2)                  |         |              |
| Support cost thereon                 | (15.5)                   | (240.7) | <u>53.1</u>  |
| Balance as at 31 December 1992       |                          |         | <u>215.8</u> |

37. Cost-sharing contributions received to the end of March 1993 are 17 per cent higher than contributions received in 1992 to the same date. The increase in cost-sharing expenditures to \$300 million in 1993 and to \$340 million in 1994 reflect the Administrator's expectation that cost-sharing will continue to grow.

D. Special Measures Fund for the Least Developed Countries

38. The balance of resources for this Fund as of 31 December 1991 was \$26.0 million. In 1992, contributions to this Fund were minimal. The 1992 expenditure was \$6.5 million. The balance of resources available as at 31 December 1992 was therefore \$19.5 million. Expenditures in 1993 against the SMF/LDC are estimated to be \$6.5 million, the same level as 1992 expenditures. In view of the fact that the Fund has not received any major pledges for 1991, 1992 and 1993, its balance of resources at the end of 1993 should decrease by \$6.5 million. All resources of the Fund have been committed during 1992, and most of the Fund's resources will have been expended by 1994. The Administrator will continue to monitor the resource situation of the Fund, to ensure that expenditures remain within available resources. In view of the limited activity of the Fund, the Administrator proposes that he not report on the Fund in future years other than providing a final report when all available resources have been expended.

Table 8 provides a summary of the SMF/LDC account for 1992.

Table 8. Status of the Special Measures Fund  
 for the Least Developed Countries

|                                | (Millions of dollars) |             |
|--------------------------------|-----------------------|-------------|
| Balance as at 31 December 1991 |                       | 26.0        |
| Income received during 1992    | 0.0                   |             |
| Expenditures during 1992       | (6.5)                 |             |
|                                | (6.5)                 |             |
| Decrease in balance held       |                       | ( 6.5)      |
| Balance as at 31 December 1992 |                       | <u>19.5</u> |

E. Placement of UNDP funds

39. In the financial context, the year 1992 will be remembered most for the near collapse of the Exchange Rate Mechanism in Europe and the unprecedented swings in the foreign exchange parities in the latter half of the year. Short-term interest rates continued to fall in North America and Japan throughout most of 1992 while interest rates in Europe remained relatively firm by comparison. The effect of developments in the foreign exchange markets and lower interest rates in the United States is reflected in the total return on investment, which dropped proportionately from 1991 levels. The events in Europe, while primarily affecting European currencies, also destabilized the United States dollar, which was already weakened by the slow pace of economic recovery in the United States.

40. The total return on UNDP investments was \$15.3 million in 1992, or 1.9 per cent and is comprised of interest earnings and foreign exchange losses as set forth in the table below. The table includes results for 1991 for comparative purposes. The reduction in total return on investment during 1992 (1.0 per cent) resulted primarily from reduced interest earnings of \$22.9 million while the total exchange loss in percentage terms for 1992 is comparable to that in 1991 - (-5.1 per cent in 1992 versus -5.8 per cent in 1991). The exchange losses noted below exclude losses of \$10.6 million in 1992 and \$3.7 million in 1991 resulting from the decrease of the dollar value of UNDP holdings of accumulating non-convertible currencies, prior to their utilization, which are not a part of the UNDP investment portfolio.

(Millions of dollars)

|      | Interest<br><u>earnings</u> | Yield<br><u>(percentage)</u> | Foreign<br>exchange<br><u>gains/losses</u> | Yield<br><u>(percentage)</u> | Total<br><u>return</u> | Net yield<br><u>(percentage)</u> |
|------|-----------------------------|------------------------------|--|------------------------------|------------------------|----------------------------------|
| 1992 | 55.1                        | 7.0                          | (39.8)                                     | -5.1                         | 15.3                   | 1.9                              |
| 1991 | 78.0                        | 8.7                          | (52.1)                                     | -5.8                         | 25.9                   | 2.9                              |

41. The losses from fluctuations in exchange rate parities are attributed to the following:

| (Millions of US dollars)  |             |
|---|-------------|
| (a) Non-dollar holdings in the Operational Reserve which are invested in a basket of currencies                                   | 3.2         |
| (b) Currencies held by UNDP in the currency of payment of the pledge for utilization in those currencies for operational purposes | 18.6        |
| (c) Net realized losses on exchange and costs incurred on foreign exchange activities to meet operational needs                   | <u>18.0</u> |
| Subtotal  | 39.8        |
| (d) Holdings of accumulated non-convertible currencies  | <u>10.6</u> |
| Total   | <u>50.4</u> |

Annex table 4 provides information on UNDP's placement of funds as at 31 December 1992.

#### F. Status of the Operational Reserve

42. In accordance with Governing Council decision 90/34 of 22 June 1990, the level of the Operational Reserve is determined as 20 per cent of estimated contributions or expenditure, whichever is higher. On this basis, the level of the Reserve was initially established at \$220 million during 1992. On the basis of estimated income and expenditure for 1993, the level has been reduced to \$210 million as at 31 December 1992. Present forecasts of income and expenditure for 1994 suggest that the Reserve will be further reduced to \$200 million in 1994.

43. As indicated in previous reports, investments denominated in European Currency Units will ultimately amount to 35 per cent of the Reserve. At year end 1992, ECU-denominated investments amounted to 32.9 per cent. There have been no other changes relative to the composition of the reserve. The composition of the investments of the Reserve may be found in annex table 4.

#### G. Utilization of accumulated non-convertible currencies

44. UNDP holdings of accumulating non-convertible currencies amounted to \$12.0 million as at 31 December 1992. This balance represents a net decrease of \$9.1 million from 31 December 1991.

45. As projected in the annual review of the financial situation for 1991 (DP/1992/38 and Add.1 and DP/1992/38/Add.1/Annex), the establishment of active UNDP operations in several Eastern European countries has resulted in the usage by UNDP and its executing agencies, during the course of 1992, of previously designated accumulating non-convertible currencies in that region. During 1992, the currencies of Albania, Bulgaria, Czechoslovakia, Romania, and the Commonwealth of Independent States were removed from the list of accumulating non-convertible currencies.

46. The Cuban peso is the only remaining currency officially designated as an accumulated, non-convertible currency and the balance of \$12.0 million noted above refers entirely to those holdings.

47. In addition, an accumulation of Myanmar kyats has been experienced over the past year and is included in the chart below (which replaces annex table 1 in previous reports), for information purposes. If this accumulation continues, the currency will be officially added to the list of accumulating non-convertible currencies in future reports.

Table 9. Holdings of accumulated non-convertible currencies

(Thousands of dollars)

| <u>Currency</u> | <u>Balance</u><br>31/12/91 | 1992<br><u>Receipt</u> | 1992<br><u>Utilization</u> | Exchange<br><u>adjustment</u> | <u>Balance at</u><br>31/12/92 |
|-----------------|----------------------------|------------------------|----------------------------|-------------------------------|-------------------------------|
| Cuban pesos     | 10 478                     | 1 828                  | 290                        | -                             | 12 016                        |
| Myanmar kyats   | 1 804                      | 376                    | 636                        | 68                            | 1 612                         |

## II. AGENCY SUPPORT COSTS: FLEXIBILITY ARRANGEMENTS

48. Support cost flexibility arrangements have been regulated since 1992 by Governing Council decision 91/32 of 25 June 1991, in which the Council approved support-cost flexibility arrangements for eligible executing agencies which are autonomous organizations within the United Nations system are eligible for and whose annual delivery level of UNDP-funded projects does not exceed \$24 million. In annex 3 of the decision, the Council established the variable rates for flexibility payments ranging from a maximum of 9 per cent for programme delivery under \$8 million to zero for delivery exceeding \$24 million. UNDP arrangements relating to the reimbursement of support-cost flexibility are contained in detailed guidelines issued by the Administrator in January 1982 and appended to his report on support-cost flexibility arrangements (DP/1982/93) submitted to the Council at its thirty-ninth session (1992).

49. Annex table 5 shows a comparison of forecast and actual amounts relating to the delivery of UNDP-financed projects and associated support costs for the seven agencies which were expected to be eligible for support cost flexibility in 1992. The forecast of approximately \$8.4 million for total support-cost reimbursement to those agencies was based on detailed data submitted by agencies early in 1992 for that year. By comparison, actual reimbursement for 1992, on a

provisional basis, amounted to approximately \$7.1 million and represents an average of 19.75 per cent of project expenditures for those agencies.

50. Annex table 6 provides data on expected programme delivery for the agencies that are likely to be eligible for flexibility payments in 1993 and estimated support cost reimbursements to them. For those agencies taken as a group, UNDP is expected to provide support cost at an average of 20.64 per cent of the estimated programme delivery, as compared with the standard 13 per cent for the agencies retaining the old regime of support cost reimbursement. The table further indicates that the reimbursement to those agencies, including flexibility payments, is expected to finance an average of 47 per cent of the total costs which agencies expect to incur in support of the UNDP-financed projects. The remaining 53 per cent will be met by agencies from sources other than UNDP.

### III. RESERVE FOR FIELD ACCOMMODATION AND RELATED MATTERS

51. The status of the Reserve for Field Accommodation as at 31 December 1992 is presented in annex tables 7 (a) and 7 (b).

52. The total of reserve funds disbursed less repayments as at 31 December 1992 was \$28,192,619 consisting of:

|                                    | \$                |
|------------------------------------|-------------------|
| Balance of outstanding loans       | 3 829 943         |
| Completed investments              | 371 825           |
| Work in progress                   | 19 310 957        |
| Household Appliances Rental Scheme | 859 714           |
| Repairs and Rehabilitation         | <u>3 820 180</u>  |
|                                    | <u>28 192 619</u> |

53. It will be recalled that the Governing Council, in paragraph 4 of its decision 89/57 of 30 June 1989, authorized the Administrator to overcommit the RFA by up to \$10 million, while ensuring that funds disbursed from the reserve do not exceed \$25 million in any one year. In this regard, although the schedules reflect disbursements in excess of \$25 million during 1992, it should be noted that of the construction costs for buildings to be used as common premise incurred during 1992, lump-sum reimbursements are to be paid to UNDP by participating agencies as follows, in accordance with JCGP decisions:

| <u>Field Office</u>   | <u>Agency</u> | <u>Amount</u><br>(dollars) |
|-----------------------|---------------|----------------------------|
| Cape Verde            | UNICEF        | 574 725                    |
|                       | WFP           | 383 704                    |
|                       | WHO           | 321 344                    |
|                       | UNFPA         | 251 472                    |
|                       | UNIDO         | 27 723                     |
|                       | Subtotal      | 1 558 968                  |
| Guinea-Bissau         | UNICEF        | 744 024                    |
|                       | WHO           | 654 888                    |
|                       | FAO           | 286 521                    |
|                       | WFP           | 249 127                    |
|                       | UNCDF         | 89 436                     |
|                       | UNFPA         | 84 964                     |
|                       | Subtotal      | 2 109 010                  |
| Sao Tome and Principe | UNICEF        | 668 381                    |
|                       | WFP           | 230 008                    |
|                       | UNFPA         | 122 562                    |
|                       | Subtotal      | 1 040 951                  |
| Zambia                | UNICEF        | 1 300 000                  |
| Comoros               | UNICEF        | 510 000                    |
| Maldives              | UNICEF        | 402 218                    |
|                       | UNFPA         | 103 153                    |
|                       | Subtotal      | <u>505 371</u>             |
|                       | GRAND TOTAL   | <u>7 024 300</u>           |

54. The various organizations have been billed for these costs and it is expected that the Reserve will be reimbursed shortly.

55. Work in progress consists of construction of UNDP office and housing accommodations under either the investment or government loan modalities. A total of \$9,049,395 has been committed as loans to Governments and \$16,795,000 for direct UNDP investment. From these commitments, \$19,310,957 have been disbursed, leaving the balance of commitments at \$6,533,402.

56. Under the approval granted by the Governing Council in its decision 87/42 of 19 June 1987, HARS also operates as a revolving fund to purchase appliances which are rented to eligible UNDP and UNFPA international staff members. As at 31 December 1992, a total of \$1,208,410 has been spent to purchase 127 stoves, 138 refrigerators, 102 freezers, 414 air-conditioners and 95 generators in a total of 50 countries. Rental income of \$388,398 has been received in respect of these appliances; repairs and maintenance of existing appliances amounted to \$39,702. The allocation for HARS is fully committed and as a result the purchase of new equipment for rental to eligible staff members has ceased. However, field offices have been advised to dispose of appliances held in

surplus for periods in excess of three months. The estimated value of such appliances is \$195,304. It should also be noted that income of \$213,000 is projected for 1993. In the cases of Liberia and Somalia, in light of the civil war, household appliances valued at \$19,400 for Liberia and at \$69,500 for Somalia have to be written-off since all appliances were lost through looting. A request for write-off in accordance with the Financial Rules is now being prepared. No additional purchases will be made until the balance of funds is within authorized levels.

57. Repair and rehabilitation of UNDP-managed office and housing accommodation increased during 1992. The rehabilitation of 52 housing and office units in Angola, Burundi, Gabon, Gambia, Ghana, Guinea, Samoa, Sao Tome, Sudan, and Swaziland were completed during 1992 and in Chad and Tanzania work is ongoing for the rehabilitation of 86 housing units. Total expenditure less rental income received in respect of UNDP housing operations amounted to \$3,820,180 as at 31 December 1992. While this outstanding balance at the end of 1993 exceeds the existing authorization, expected income in 1993 will bring the balance within authorized levels. No additional activity will be undertaken until funds are available within the existing framework. In addition, rental income collected during 1992 for housing units in Uganda and the United Republic of Tanzania and reported to headquarters in 1993 amounted to \$429,582. Because of the revolving nature of the fund, it is expected that at the present level, \$1,500,000 in respect of rental income will be recorded as inflow for the year ending 31 December 1993.

58. The situation as at 31 December 1992 is summarized in the annex table 7 (a). Details are provided in annex table 7 (b).

#### IV. MANAGEMENT AND OTHER SUPPORT SERVICES

59. In its decisions 83/5 of 24 June 1983 and 84/35 of 29 June 1984, the Governing Council authorized the Administrator to provide, at the request of recipient Governments, management and other services. The Council also decided, in its decision 88/54, that a report on the status of management services be submitted every two years, beginning 1990. The latest report of the Administrator on the biennial activities of management services was submitted in 1992 in document DP/1992/43. In its decision 92/39 of 1992, the Council requested the Administrator to continue to report on management services as part of the annual financial report.

60. In 1992, total income received by UNDP under management service agreements was \$114.0 million. Total expenditures, including management fees, totalled \$110.4 million. As a result, funds held by UNDP on behalf of management services as at 31 December 1992 amounted to \$51.4 million. While the majority of these agreements are implemented by OPS, one such agreement with Czechoslovakia received income of \$664,000 and had been implemented by other agencies.

61. Programmes benefiting from management services provided by UNDP continue to be funded by multilateral lending institutions (the World Bank, IDB, IFAD), by individual donor countries and, to a much lesser extent, by recipient countries themselves. As of the end of 1992, OPS was providing services through

126 agreements, under which expenditures (excluding the IFAD programme, which had drawdowns of \$69 million) totalled \$107 million. A schedule of agreements entered into or increased in 1992 is provided in annex tables 8 (a) and 8 (b).

62. Thirteen new management service agreements with funds from development banks valued at \$110.7 million were entered into during 1992; in addition, the budgets of four existing agreements were increased by \$1.5 million while one agreement was reduced by \$1.8 million.

63. Bilateral funding worth \$66.7 million accounted for 12 new management service agreements in 1992. The new projects represent six agreements for the procurement of commodities financed by Japan, with budgets totalling \$55.2 million and six agreements initiated with funding from Denmark, Germany, Netherlands, Sweden, United States and the Commission of the European Communities (CEC), with budgets totalling \$11.5 million. The new agreements initiated with Japanese funding accounted for 83 per cent of the total value of new bilateral agreements.

64. Government funding was made available for eight new Management Service Agreements with budgets totalling \$17.5 million.

65. The IFAD portfolio has also expanded by nine new projects during 1992, with loans totalling SDRs 85.5 million. For the IFAD programme, OPS undertakes loan administration and project supervision but does not disburse the loan amounts. The loan proceeds are disbursed to the borrowers directly by IFAD upon OPS verification and authorization. Loan drawdowns during 1992 totalled \$69 million. As of 31 December 1992, a total of 81 projects were under OPS supervision in 51 countries.

#### V. REQUESTS FOR ADDITIONAL SUPPORT COST REIMBURSEMENT

##### A. Request for support cost reimbursement from the United Nations Educational, Scientific and Cultural Organization

66. UNDP has received a request for retroactive application of the formula for additional support costs as a result of the significant appreciation of the French franc *vis-à-vis* the dollar during 1989/1990. The request is in accordance with UNDP Financial Rule 108.16. The average French franc exchange rate appreciated by 13.9 per cent during 1989/1990, i.e., 2.9 per cent higher than the trigger level established by the Governing Council. Documentation received from UNESCO is presented in annex I to the present document. The Administrator supports this request on the basis of the information provided.

##### B. Request for support cost reimbursement from the World Meteorological Organization

67. At its thirty-ninth session (1992), the Governing Council deferred consideration of the request for additional support reimbursement from WMO. Although the Secretary-General of WMO had indicated in June 1992 that he wished the matter to be presented to the Council at its fortieth session, a formal request with supporting documentation has not been submitted to the Administrator.



Annex I

DOCUMENTATION SUBMITTED BY UNESCO IN SUPPORT OF  
ADDITIONAL SUPPORT COST REIMBURSEMENT

Letter dated 15 April 1991 from Mr. D. C. Daly, Comptroller, UNESCO

We are hereby submitting a request for additional support cost reimbursement in accordance with the provision in paragraph 5 (a) of Governing Council decision 81/40. The compensation permitted under this decision is \$329,667, calculated as follows:

The decline in the value of the United States dollar relative to the French franc between 1989 and 1990 exceeds the 11 per cent floor fixed by paragraph 5 (a) of decision 81/40:

|                    |         |
|--------------------|---------|
| Average rate 1989  | FF 6.35 |
| Average rate 1990  | FF 5.47 |
| Percentage decline | 13.9%   |

Full reimbursement for this currency fluctuation would be \$586,994 i.e., 13.9 per cent of \$4,222,979 support costs claimed for 1990.

Reimbursement is limited, however, to 14 per cent of delivery (see copy of schedule 4A attached).

|   |                    |
|---|--------------------|
| Support cost reimbursement at 14 per cent | \$4 552 646        |
| Support cost reimbursement at 13 per cent | <u>\$4 222 979</u> |
| Reimbursement requested                   | <u>\$ 329 667</u>  |

It should be noted that the reimbursement for which UNESCO is eligible represents only 56 per cent of the full reimbursement figure. This means that the reimbursement requested does not fully compensate an agency whose overhead expenditure is some 80 per cent French franc-based. The resulting loss in purchasing power, approximately \$140,000 (0.80 X full reimbursement - \$329,667), will have been borne by the Regular Programme of UNESCO.

We would be most grateful if the Administrator could submit this request for compensation for losses sustained in respect of support cost reimbursements, as a result of currency fluctuation during 1990, to the Governing Council at its next session.

(Signed) D. C. DALY  
Comptroller

UNITED NATIONS DEVELOPMENT PROGRAMME  
 (Participating agency: UNESCO)

UNDP PROGRAMME SUPPORT COSTS FOR THE YEAR ENDED  
 31 DECEMBER 1990

|   | (United States dollars)                |  |
|---|--|--|
|   | Support costs at<br><u>13 per cent</u> | Support costs at<br><u>14 per cent</u> |
| I. <u>Computation of programme support costs at 13 per cent a/</u>  |  |  |
| Programme support costs relating to:  |  |  |
| IPF and cost-sharing, Special Programme Resources, LDC, SIS and IPF add-on funds:                         | a/<br>4 285 670                        | b/<br>4 615 337                        |
| Government cash counterpart contribution b/   | <u>4 194</u>                           | <u>4 194</u>                           |
| Subtotal  | 4 289 864                              | 4 619 531                              |
| Less:   |  |  |
| Programme costs relating to miscellaneous income refunded to UNDP   | (24 275)                               | (24 275)                               |
| Programme support costs waivers   | (38 955)                               | (38 955)                               |
| Programme support costs not due to agencies for Government execution as an associated agency              | 0                                      | 0                                      |
| Programme support costs - Differential of 13 per cent claimed versus 3.5 per cent on GCCC from prior year | <u>(3 655)</u>                         | <u>(3 655)</u>                         |
| Total programme support costs - 1990  | <u>4 222 979</u>                       | <u>4 552 646</u>                       |

a/ As per Governing Council decision 87/49, in which the Council reaffirmed paragraph 2 (c) of decision 80/44.

b/ At 3.5 per cent or as otherwise agreed.

|             |            |    |            |
|-------------|------------|----|------------|
| a/ Delivery | 32 966 694 | b/ | 32 966 694 |
|             | <u>.13</u> |    | <u>.14</u> |