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held on
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at 10.30 a.m.
New York

# SUMMARY RECORD OF THE 6th MEETING

Chairman: Mr. ABDALLA (Sudan)

Chairman of the Advisory Committee on Administrative and Budgetary Questions: Mr. MSELLE

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The meeting was called to order at 10.35 a.m.

AGENDA ITEM 98: FINANCIAL REPORTS AND ACCOUNTS, AND REPORTS OF THE BOARD OF AUDITORS (continued) (A/36/480; A/C.5/36/L.3)

(a) UNITED NATIONS DEVELOPMENT PROGRAMME (A/36/5/Add.1);

(b) UNITED NATIONS CHILDREN'S FUND (A/36/5/Add.2);

(c) UNITED NATIONS RELIEF AND WORKS AGENCY FOR PALESTINE REFUGEES IN THE NEAR EAST (A/36/5/Add.3);

(d) UNITED NATIONS INSTITUTE FOR TRAINING AND RESEARCH (A/36/5/Add.4);

(e) VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES (A/36/5/Add.5);

(f) UNITED NATIONS FUND FOR POPULATION ACTIVITIES (A/36/5/Add.7)

1. Mr. SAFFO (Board of Auditors), replying to questions raised by the representative of the Philippines at the 5th meeting, said that at its nineteenth and twentieth sessions held in 1977 and 1978 the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency had discussed the development of comprehensive (or "value-for-money") auditing and had generally agreed that that was the proper approach. At the current stage three things needed to be done, namely training audit staff who did not possess the necessary comprehensive auditing skills, developing the relevant audit programmes, and amending the financial regulations of those organizations whose external audit mandates did not extend to the auditing of programme effectiveness. In order to avoid any possible overlap with the evaluation of programmes and activities which the Joint Inspection Unit (JIU) was periodically called upon to undertake, appropriate procedures would have to be developed to co-ordinate the efforts of the Board of Auditors with those of JIU.

2. As to the lack of harmonization in the format and content of the financial statements contained in the six reports under review, at the request of the Panel of External Auditors, the Consultative Committee on Administrative Questions (CCAQ) had set up a working party to study the question. The group had held an initial session in October 1979 and a second session in 1980 in the course of which it had agreed that financial statements would be issued under a uniform title, would have a common structure under which narrative material would be presented together at the beginning, to be followed by the certification and/or audit opinion, the financial statements, and then the notes on those statements. The contents of the financial report would follow the same pattern for all organizations, the statements would contain a summary of significant accounting policies and, finally, the sequence of the financial statements would be uniform, showing first the status of appropriations, then income and expenditure, and finally the statement of assets and liabilities. In addition, the working party had revised the CCAQ glossary of

(Mr. Saffo)

financial and budgetary terms and had reviewed the significant features of the accounting policies followed by United Nations organizations with a view to reaching a common position. The Board of Auditors and the Panel of External Auditors were pleased with the progress made so far in harmonizing financial statements, and hoped that the goal of full harmonization would be pursued.

3. With respect to the United Nations Institute for Training and Research (UNITAR), in the audit for the year ended 31 December 1980 the Board of Auditors had identified extrabudgetary resources, cash management, procurement systems, capital assets, expendable and non-expendable property, utilization of consultants, use of ad hoc experts and other temporary assistance, payroll, travel, and the internal audit as problem areas. Some of those areas had been covered, others would be examined during 1981.

4. Mr. LUCAS (United Nations Institute for Training and Research), replying to the questions raised by the representative of the United States at the 5th meeting, stressed that in its resolution 35/53 B the General Assembly had decided to provide a grant-in-aid to cover the deficit for 1980. As he had already pointed out, the deficit for 1981 had been cut to $312,000. Salaries had increased by 31 per cent to $1.2 million as a result of 10 to 15 per cent salary adjustments for Professional and General Service staff. A further increase of some $100,000 was a result of filling posts which had been vacant in 1979, including that of the Assistant Director of Training. Travel costs had indeed shown major increases, not least because of the number of seminars that had been held. However, some of the costs had been offset by using funds from the rouble account. The apparent increase of 118 per cent in the cost of hospitality was largely a result of a change in coding; previously hospitality costs had been charged to individual projects and had not therefore shown up as a single amount. Another charge to hospitality was the cost of luncheons and similar functions in connexion with the meetings of the Board of Trustees.

5. He could assure the representative of the United States that since assuming responsibility for financial management in April 1981, he (Mr. Lucas) had given a negative answer to requests for funds on several occasions and the Executive Director had held a meeting to explain the reasons to the Institute's senior staff.

6. The apparent reduction in receipts from the leasing of part of the Institute's premises resulted not from a reduction in rent, but from the fact that the World International Property Organization was no longer occupying the space which had been let to it at a rent of $400 per month.

7. The Institute had taken legal advice with respect to tax exemption on the whole building and, with the approval of the Committee on Contracts, which had been obtained just a couple of weeks previously, the agent had now been asked to find a tenant. It was hoped that there would be an additional income of $100,000, once the space was let.

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8. Mr. TOMITA (United Nations Fund for Population Activities), replying to the questions raised by the representatives of India and Bangladesh, said that the United Nations Fund for Population Activities (UNFPA) was still encountering certain difficulties in obtaining project delivery reports, primarily from its field officers. To improve that situation, timely submission was being urged on all executing agencies. Furthermore, it was intended to strengthen the project management infrastructure at headquarters to ensure timely and regular implementation of project reviews and of the annual country reviews. In that connexion, the Executive Director had submitted a request to the Advisory Committee for the upgrading of the management level of the Programme Division. That had met with a favourable response and had subsequently been approved by the Governing Council of the United Nations Development Programme (UNDP) at its June session.

9. On the basis of the recommendations of the Board of Auditors, UNFPA had also taken steps, in consultation with UNDP, to establish its own internal audit capacity. It was believed that all those measures would go a long way towards remedying the weaknesses in project management mentioned in the report of the Board of Auditors (A/36/5/Add.7). On the subject of a management information system to ensure accurate financial forecasting and adequate cash flows, he was happy to report that UNFPA was participating fully in the new computerized general ledger financial reporting system of UNDP, which would be fully operational on 1 January 1982. That system would cover all UNFPA accounting activities, with the exception of those projects executed by United Nations specialized agencies. It would make possible much closer monitoring of expenditure on projects directly executed by Governments, improved administration of field offices, and day-to-day monitoring of cash flows. The Executive Director had appointed a senior financial adviser to review the current arrangements for financial reporting on projects executed by specialized agencies, and it was hoped that consultations would result in practical measures to ensure adequate financial reporting to improve UNFPA project management.

AGENDA ITEM 106: SCALE OF ASSESSMENTS FOR THE APPORTIONMENT OF THE EXPENSES OF THE UNITED NATIONS: REPORT OF THE COMMITTEE ON CONTRIBUTIONS (continued) (A/36/11 and Add. 1)

10. Mr. ABRASZEWSKI (Poland) observed that the report of the Committee on Contributions on its forty-first session (A/36/11 and Add. 1) represented a serious, genuine effort at an in-depth study of new ways and means of increasing the fairness and equity of the scale of assessments, pursuant to paragraph 2 of General Assembly resolution 34/6 B. A thorough study of the report had led his delegation to the conclusion that the existing principles for measuring capacity to pay were sound and should be maintained.

11. At its thirty-fourth session the General Assembly had asked the Committee on Contributions to study a number of specific issues, and his delegation had duly noted the conclusion contained in paragraph 4 of the report that further detailed examination was deemed necessary.

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(Mr. Abraszewski, Poland)

12. Once again, the Committee on Contributions had been unable to agree on criteria for defining excessive or extreme variations in the individual rates of assessment between two successive scales. Based on its study of the examples provided, his delegation shared the view of those members of the Committee who had found the setting of the percentage limit too mechanistic and arbitrary and likely to lead to a distortion of the capacity to pay. As far back as the thirty-first session, the General Assembly had taken the view that the mitigation of extreme variations should not result in any essential departure from the principle of capacity to pay (resolution 31/95 A). In sharing the concern about the negative impact of the applications of a percentage limit, his delegation cautioned against any hasty solution which might weaken that basic principle.

13. The interesting findings on the question of other economic and social indicators to supplement data on national income as a measure of capacity to pay should permit the Committee to arrive at workable solutions even though, for lack of comparable statistics for all Member States, it would be impossible to use them in a systematic way at the current stage. As the Committee on Contributions had stated, they would be useful to some extent in reviewing individual cases and his delegation supported the request made by the Committee to the Statistical Office to produce and update data on selected indicators such as external public debt, international reserves, and export earnings. However, it believed that insufficient weight had been given to access to convertible currencies as a factor in determining the capacity to pay of a given State. The Committee should look closer into that matter since the national currencies of the vast majority of Member States were not freely convertible; ultimately a way had to be found to take real account of payments difficulties in determining the contributions of Member States. Likewise, more attention should be devoted to the impact of external indebtedness on the availability of convertible currencies. He hoped for some kind of assurance that, in its next review of the scale in 1982, the Committee on Contributions would give due regard to the position of countries which devoted a substantial portion of their foreign earnings to the servicing of the external public debt.

14. It was somewhat disappointing that the Committee had been unable to agree on a revision of the low per capita income allowance formula to bring it into line with changing economic indicators. A coherent approach to the role played by the low-income allowance formula was lacking, and the Committee had not even been able to produce specific options which could be further clarified or resolved through political debate. Nevertheless, it was obvious from the information contained in the report that the prevailing $1,800 per capita income limit was no longer valid in the light of the substantial devaluation of the dollar which had taken place since the establishment of that limit. If the fundamental purpose of the low per capita income allowance formula was to be preserved, there was no doubt that the dollar limit should be revised upwards to somewhere between $2,000 and $2,500.

15. A further disappointment was the failure of the Committee on Contributions to recommend an agreed formula on the length of the statistical base period. Indeed, it had not even given its preferences. His delegation had long been among those

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advocating a five-year base period as an appropriate way of striking a balance between mitigation of sharp variations in rates of assessment and the need to retain as close a relationship as possible with current economic realities. The longer the base period, the less the scale of assessments reflected those realities. For example, the scale for 1980-1982 had been based on data which did not go beyond 1977.

16. The Committee's valuable findings on topics such as national wealth, the effect of price changes on the comparability of national income statistics, and comparability of the two systems of national accounts might be useful in its future work.

17. In paragraph 68 of the report, the Committee had given assurances that the written representation submitted by his country would be dealt with at its next session. For a number of years his country had been objecting to the method of converting national income data from the national currency into United States dollars. Its position that a coefficient of 33.2 zotys to the dollar should have been used in the calculation of the assessment had been presented at length in five consecutive letters to the Committee on Contributions. When the scale had last been reviewed, that exchange rate coefficient had been used only for the data covering the years 1976 and 1977. The scale of assessments for the period 1980-1982 was the result of a laborious compromise, which his country had accepted on the understanding that in calculating the next scale full justice would be done; he reaffirmed that position.

18. In Poland's latest representation, the attention of the Committee on Contributions had been drawn to a number of new phenomena in the socio-economic situation of the country which had adversely affected its capacity to pay. He hoped that during its 1982 session the Committee would accede fully to his Government's repeated requests and take Poland's current socio-economic situation into consideration. He would welcome some comments by the Committee on Contributions on that issue.

19. In full awareness of the complexity of devising periodic scales of assessment for 156 Member States, his delegation had every sympathy with the Committee on Contributions and its staff in their difficult task, and was grateful for their dedicated service to the Organization and to Member States.

20. Mr. TAKASU (Japan) said that since 1974 his country's assessed contribution to the regular budget had been the third largest, and it currently amounted to almost 10 per cent of the total. If account was taken of voluntary payments to other United Nations organs, Japan's contribution was the second highest; it had totalled $US 348 million in 1980. Moreover, Japan consistently paid its contributions promptly.

21. That effort should be viewed in the context of the severe financial difficulties experienced by his Government, which was currently planning administrative and financial reforms to achieve fiscal health. It did not intend

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(Mr. Takasu, Japan)

to review its contributions to the United Nations solely in the light of its present domestic financial constraints, as it had an unshaken faith in the United Nations and a high regard for the Organization's activities. On the other hand, his Government was keenly interested in ensuring that United Nations budgets were streamlined as far as possible, and wanted its contributions to be utilized solely for essential activities. Otherwise it would be increasingly difficult for it to justify the substantial financial role it had assumed.

22. The primary task must be to scrutinize the total budget to determine whether it was being kept at the minimum necessary level, and his delegation would elaborate on that point in due course. For the moment, however, it would concentrate on whether the present system of determining assessments accurately reflected Member States' true ability to pay and corresponded to their status in the United Nations. His delegation did not share the view that discussion of the system of assessment would be better left to the Committee on Contribuitons. That Committee's function was to discuss the subject from the technical point of view, under the guidance and direction of the Fifth Committee and the Assembly.

23. Since the inception of the Organization, expenses had been apportioned broadly according to the principle of capacity to pay, which Japan supported. The existing system for calculating that capacity, however, had considerable shortcomings, and so, in turn, did the scale of assessments. The scale of assessments should be based on the comprehensive capacity of a nation to pay, taking into account - besides national income - such economic factors as accumulated wealth, and social indicators reflecting each Member's stock of wealth and real ability to contribute to the Organization. For countries whose economies had grown rapidly over a short period, the increase in national income had resulted in an extremely sharp rise in their assessments. His own country's assessment had nearly tripled in the past 10 years. Yet, the "newly developed" countries tended to have insufficient accumulated wealth, and had to allocate more of their national income to social capital formation, the improvement of infrastructure, and so forth, than did the longer established developed countries. The latter, provided their national income remained at the same level, were in a better position to contribute to the Organizaton.

24. It was unfair, therefore, that increases in national income should alone determine a country's capacity to pay. To avoid sharp fluctuation in individual countries' assessments, the Assembly had decided in 1976 to extend the base period used in calculating assessments from three years to seven; the report of the Committee on Contributions indicated (A/36/11, paras. 43-46) that the extension had resulted in a considerable improvement. His delegation hoped for further improvements to mitigate sharp changes in countries' assessments. The extension of the base period, although valid in itself, was not a sufficient safeguard against excessive variations between successive scales, and the Committee on Contributions should accordingly continue its discussion on imposing limits on permissible variations between successive scales, taking fully into account the effects on Member States of sudden changes in the scale of assessments. In addition, the Committee should accord special treatment to Members whose national income appeared to rise or fall sharply with dramatic fluctuations in their currencies.

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(<u>Mr. Takasu, Japan</u>)

25. The extension of the base period to seven years was no substitute for a system which based the calculation of real capacity to pay on accumulated wealth as well as national income. His delegation appreciated the difficulties of introducing economic and social indicators as additional measures of countries' capacity to pay. It did not recognize as legitimate the argument that, since insufficient comparative data were available in the case of some Member States, no systematic measurement of comprehensive capacity to pay was possible. If there were enough data to compare the accumulated wealth of a substantial number of Member States, such indicators ought to be introduced as supplements, even if not immediately for all countries, to rectify the present, unfair, system.

26. It would be totally incorrect to conclude, from the discovery of the remarkable consistency between rankings based on <u>per capita</u> national income and rankings based on the composite indicator (A/36/11, para. 20), that the national income index adequately represented the economic reality of a nation. The seven indices selected by the Committee for Development Planning and used in the composite indicator had been selected in order to identify least developed countries, not as additional criteria for measuring capacity to pay. There was clearly a need to find criteria which measured that capacity. Moreover, the consistency found was in the relative rankings of Member States; actual statistics must be considered in determining countries' rates of assessment.

27. His delegation hoped that the Committee on Contributions would study the matter in depth in 1982, and requested the Secretary-General to provide all necessary data and assistance for making the concept of accumulated wealth a factor in determining the scale of assessments. Should the Committee on Contribuitons not agree on a new formula which included supplementary indicators at its following session, a further extension of the base period from seven years was the very least that should be done to make the scale of assessments fairer, pending the establishment of a system based on comprehensive capacity to pay.

28. It was unfair to determine capacity to pay in the same way for countries with different systems of national accounts. It was also wrong not to adjust the methods of converting from one national accounting system to the other simply because no conversion formula was yet agreed on by all parties. The Secretary-General should continue his study of the comparability of the two systems of national accounts and, if possible, provide additional suggestions that would help the Committee on Contributions to agree on a formula for comparing the two systems.

29. His delegation fully understood the importance of the preferential treatment accorded to low-income countries. Within the framework of capacity to pay, however, the financial responsibility of each Member State should be made to correspond to the role it was permitted to play in the United Nations. Every member of the General Assembly had an equal right to participate in its discussions, and each had one vote. But rights conferred obligatons. Under the principle of collective financial responsibility, all Members should pay at least a minimal share of the Organization's expenses, and the sense of participation and shared

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(Mr. Takasu, Japan)

responsibility in the Organization would be strengthened if such financial obligations were fully discharged. His delegation thus had fundamental reservations about the idea of extending the scope of the current formula for low per capita income countries. For example, the proposal to raise the per capita income limit above $1,800 would chiefly benefit middle-income countries without relieving the burden on poorer countries, and that his delegation would find extremely difficult to accept. It was, however, willing to discuss any measures that might offer relief solely to those developing countries which were really in need.

30. His delegation fully supported the conclusion of the Committee on Contributions that the interpretation of the latter part of Article 19 of the Charter should be as strict as possible, as well as its recommendation (para. 70) on the rates of assessment for the new Member States.

The meeting rose at noon.