



UNITED NATIONS
GENERAL
ASSEMBLY



Distr.
GENERAL

A/C.5/31/57
22 November 1976

ORIGINAL: ENGLISH

Thirty-first session
FIFTH COMMITTEE
Agenda items 57 and 92

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

PROGRAMME BUDGET FOR THE BIENNIUM 1976-1977

Establishment of the United Nations Industrial Development Fund

Note by the Secretary-General

1. At its 198th meeting on 30 April 1976, the Industrial Development Board recommended that a draft resolution on the establishment of the United Nations Industrial Development Fund be adopted by the General Assembly at its thirty-first session. The text of the draft resolution approved by the Board appears in part I, paragraph 64 of the report on the work of its tenth session 1/ and in annex I of this note.
2. At its resumed tenth session, the Board considered the terms of reference and rules for the functioning and administration of the Fund. At its 208th meeting during that session, 11 September 1976, the Board adopted, in principle, a text on "General Procedures Governing the Operations of the United Nations Industrial Development Fund". It also agreed to propose a text of the Financial Rules of the Fund, either for adoption by the Industrial Development Board or for promulgation by the Secretary-General, depending on a decision to be requested from the General Assembly. 2/ It was further the understanding of the Board that the resolution establishing the United Nations Industrial Development Fund, together with the General Procedures and the Financial Rules were to form a package.
3. The Secretary-General, having consulted with the Executive Director of UNIDO, herewith submits his comments on the draft proposals.

1/ Official Records of the General Assembly, Thirty-first Session, Supplement No. 16 (A/31/16), report of the Industrial Development Board on the work of its tenth session.

2/ Ibid., part II, pp. 38-49.

Historical background

4. The concept of a United Nations Industrial Development Fund is well documented in the reports submitted to both the Industrial Development Board and the General Assembly and dates from decision II (VII) taken by the Board on 14 May 1973, in paragraph 2 of which the General Assembly was requested to examine at its twenty-eighth session, inter alia, "the establishment of a United Nations industrial development fund comprising all the voluntary contributions to the United Nations Industrial Development Organization other than the United Nations Development Programme".

5. In the course of that session, the General Assembly adopted resolution 3086 (XXVIII), paragraph 3 of which requested the Secretary-General to prepare a report on the establishment of a United Nations Industrial Development Fund as envisaged in decision II (VII), paragraph 2, of the Board and to submit the report to the General Assembly at its twenty-ninth session. The report was duly prepared and submitted to the General Assembly at its twenty-ninth session as document A/9792.

6. At its twenty-ninth session, the General Assembly adopted resolution 3307 (XXIX) on the establishment of a United Nations Industrial Development Fund, the operative paragraphs of which read:

- "1. Takes note with appreciation of the report of the Secretary-General on the establishment of a United Nations industrial development fund;
- "2. Requests the Second General Conference of the United Nations Industrial Development Organization to consider the establishment of an industrial development fund to be financed on the basis of voluntary contributions, including the basic guidelines for its functioning."

7. At the Second General Conference of UNIDO, the subject of an Industrial Development Fund was discussed, and the importance attached to its establishment is reflected in section V, Institutional arrangements, paragraphs 72 and 73, of the Lima Declaration and Plan of Action on Industrial Development and Co-operation, which read:

"72. The establishment of an Industrial Development Fund is crucial to both increasing the resources of UNIDO and enhancing its autonomy and ability to meet, promptly and flexibly, the needs of developing countries. The Fund should be established through voluntary contributions to UNIDO and existing voluntary funds under UNIDO's authority would be consolidated as part of the new Fund. The terms of reference and the rules for the functioning and administration of the Fund shall be established by the Industrial Development Board taking full account of the Report of the Secretary-General of the United Nations as contained in document A/9792. They should provide for sufficient flexibility so as to increase the possibility of obtaining further voluntary contributions.

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"73. In particular, the Industrial Development Fund should enable UNIDO to:

- (i) Participate in the implementation of the Declaration and Programme of Action on the Establishment of a New International Economic Order, adopted at the sixth special session of the General Assembly, in so far as they relate to industrial development;
- (ii) Implement the recommendations of the Ad Hoc Committee on Long-Range Strategy for UNIDO;
- (iii) Implement field projects, particularly those of non-traditional nature, with special attention to the needs of the least developed among the developing countries, land-locked countries and the island developing countries;
- (iv) Intensify its activities in the development and transfer of technology;
- (v) Intensify its programmes aimed at establishing and/or intensifying co-operation among developing countries and between developing and developed countries;
- (vi) Strengthen its promotional activities."

8. Due consideration has also been given to the establishment of an Industrial Development Fund within the context of the draft constitution of a specialized agency for industrial development. Article 14 reads:

"In order to increase the resources of the Organization and to enhance its ability to meet promptly and flexibly the needs of developing countries, there shall be established an Industrial Development Fund which will be financed through voluntary contributions. The Director-General shall administer this Fund in accordance with the financial regulations of the Organization."

9. The establishment of an Industrial Development Fund was reaffirmed through the endorsement of the Lima Declaration and Plan of Action by the General Assembly at its seventh special session in resolution 3362 (S-VII) of 16 September 1975.

10. By resolution 3402 (XXX), the General Assembly took note of the initial action taken by the Industrial Development Board in connexion with the establishment of the Industrial Development Fund and requested the Board to report on the matter to the General Assembly at its thirty-first session.

Draft resolution

11. The draft resolution for consideration by the General Assembly on the establishment of the Fund provides in section III, paragraph 1, that the Industrial

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Development Board would establish the rules for the functioning and administration, as well as supplementary terms of reference, of the Fund. Certain delegations interpreted this to place upon the Board the duty of establishing the financial rules for the Fund. Such an interpretation would mean that the General Assembly would, in effect, be transferring the responsibility for establishing the financial rules of the Fund from the Secretary-General to the Industrial Development Board.

12. Other delegations, however, held that financial rules were excluded from the scope of the wording "the rules for the functioning and administration of the Fund". In view of these differing interpretations and views, the Board assumed that the General Assembly would first deal with the question of who was to promulgate the financial rules before it took action on the consensus draft resolution on the establishment of the United Nations Industrial Development Fund.

13. In this connexion, attention is called to United Nations financial regulation 10.1, which states that the Secretary-General shall establish financial rules and procedures. Moreover, under Articles 97 and 98 of the Charter of the United Nations, the Secretary-General has normally promulgated the financial rules and procedures required to implement the financial regulations established by the General Assembly. Accordingly, the Secretary-General suggests that the objectives of the Board might be accomplished without making any specific reference in the draft resolution to rules for functioning and administration of the Fund. If this provision were to be deleted, the Secretary-General would, in due course, promulgate the necessary financial rules for the Fund. The Secretary-General therefore suggests that section III, paragraph 1, of the proposed General Assembly resolution be changed to read as follows:

Section III, paragraph 1

"The Industrial Development Board (hereinafter referred to as the Board) shall establish the terms of reference for the functioning and administration of the Industrial Development Fund and shall provide general policy guidance with a view to ensuring that the resources of the Fund are employed with maximum efficiency and effectiveness in pursuance of the purposes of the Fund."

14. The Secretary-General wishes to record his understanding that the purpose of the Fund, as stated in section I of the draft resolution, and the Guiding Principles and Functions, as set forth in section II, relate to activities beyond the scope of the programmes authorized by the General Assembly under the regular budget and that, while the Fund is intended to enhance and supplement such programmes, the resources of the Fund should not be used to finance posts or activities which should appropriately be justified under the regular budget.

Publication of Financial Rules for UNIDF

15. As noted above in paragraph 2, the Industrial Development Board decided that the Financial Rules should be promulgated as a part of a package, together with the

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resolution establishing the UNIDF and the General Procedures. Accordingly, if the General Assembly concurs in the recommendation in paragraph 13, the Secretary-General will promulgate appropriate financial rules in time to permit them to be published as a part of the desired package. He will ensure, of course, that the financial rules are consistent with and carry out the approved financial regulations of the General Assembly.

General Procedures

16. With respect to the General Procedures, the Secretary-General, after consultation with the Executive Director of UNIDO, finds the draft proposed by the Industrial Development Board acceptable with two minor exceptions. A copy of the draft text is provided in annex II to this note.

17. Article V of the draft provides that "within the framework of the United Nations Industrial Development Fund, trust funds may be established by the Executive Director". The intent here appears to be the earmarking of certain contributions to the Fund for specific purposes, a sound practice followed in regard to many large trust funds of the United Nations. But earmarking as such does not and should not constitute the setting up of a new trust fund. To do so would result in the undesirable anomaly of establishing trust funds within trust funds. The Secretary-General, therefore, suggests the substitution of the words "subaccounts" for "trust funds" in the draft, with the balance of the wording of this article remaining the same. The text would then read:

Article V

"Within the framework of UNIDF, subaccounts may be established by the Executive Director for specified purposes consistent with the policies, aims, and activities of UNIDF, in accordance with regulation 7.3 of the Financial Regulations of the United Nations. The purpose and limits of each subaccount shall be clearly defined. The Financial Rules shall apply to any subaccount established under this article."

18. While in agreement with the intent of the text proposed by the Board for article VI, paragraph 13, the Secretary-General believes that a clearer explanation of the process of reimbursement for support service is desirable. The following text is recommended:

Article VI, paragraph 13

"Programme support and administrative services for the implementation of projects of the UNIDF programme shall be provided by the various units of the UNIDO secretariat as appropriate. Reimbursement for such services from UNIDF resources shall be at the rate of reimbursement to executing agencies currently applied by UNDP."

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Annex I

DRAFT RESOLUTION RECOMMENDED BY THE INDUSTRIAL DEVELOPMENT
BOARD AT ITS TENTH SESSION (FIRST PART), 20-30 APRIL 1976

"The General Assembly,

"Recalling its resolution 3086 (XXVIII) of 6 December 1973, in which it requested the Secretary-General to prepare a report on the question of the establishment of a United Nations industrial development fund,

"Recalling also its resolution 3307 (XXIX) of 14 December 1974, in which it requested the Second General Conference of the United Nations Industrial Development Organization to consider the establishment of an industrial development fund to be financed on the basis of voluntary contributions, including the basic guidelines for its functioning,

"Taking into consideration the provisions on the United Nations Industrial Development Fund contained in section V (Institutional arrangements), paragraphs 72 and 73, of the Lima Declaration and Plan of Action on Industrial Development and Co-operation, which were endorsed by the General Assembly at its seventh special session in resolution 3362 (S-VII) of 16 September 1975,

"Recalling further its resolution 3402 (XXX) of 28 November 1975, in which it requested the Industrial Development Board to report on the matter to the General Assembly at its thirty-first session,

"Decides to establish a United Nations Industrial Development Fund, to be managed by the United Nations Industrial Development Organization in accordance with the provisions set forth below:

I

PURPOSE

"The purpose of the United Nations Industrial Development Fund is to increase the resources of the United Nations Industrial Development Organization and enhance its ability to meet, promptly and flexibly, the needs of the developing countries. It shall supplement the assistance provided by means of the resources of the United Nations and the United Nations Development Programme directed towards the achievement of accelerated and self-sustained growth of the developing countries in the industrial field.

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II

GUIDING PRINCIPLES AND FUNCTIONS

"1. The United Nations Industrial Development Fund shall be used in conformity with the purposes and principles of the Charter of the United Nations, and with General Assembly resolution 2152 (XXI) of 17 November 1966, establishing the United Nations Industrial Development Organization.

"2. The Lima Declaration and Plan of Action on Industrial Development and Co-operation shall serve as the fundamental guidelines for the preparation of programmes financed by the Fund. In particular, the Fund should enable the United Nations Industrial Development Organization to:

"(a) Participate in the implementation of the Declaration and Programme of Action on the Establishment of a New International Economic Order, adopted by the General Assembly at its sixth special session, in so far as they relate to industrial development;

"(b) Implement relevant provisions of resolution 3362 (S-VII) adopted by the General Assembly at its seventh special session;

"(c) Implement the recommendations of the Ad Hoc Committee on a Long-Range Strategy for the United Nations Industrial Development Organization;

"(d) Implement field projects, particularly those of non-traditional nature;

"(e) Intensify its activities in the development and transfer of technology;

"(f) Intensify its programmes aimed at establishing and/or intensifying co-operation among developing countries and between developing and developed countries;

"(g) Strengthen its promotional activities;

"(h) Strengthen its industrial information systems;

"(i) Take concerted action and special measures to assist the least developed countries.

III

ROLE OF THE INDUSTRIAL DEVELOPMENT BOARD AND THE EXECUTIVE DIRECTOR OF THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

"1. Without prejudice to section IV below, the Industrial Development Board in establishing the rules for the functioning and administration as well

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as supplementary terms of reference of the United Nations Industrial Development Fund, shall be guided by the provisions of the present resolution. The Board shall also provide general policy guidance with a view to ensuring that the resources of the Fund are employed with maximum efficiency and effectiveness in pursuance of the purposes of the Fund.

"2. The Executive Director of the United Nations Industrial Development Organization shall, taking into account the need for appropriate co-ordination with the United Nations Development Programme, prepare and submit annually to the Board the programme of the Fund, with details of the projects and other activities to be undertaken. At the same time, he shall submit a plan incorporating estimates of resources and expenses for the following two years, including provision for programme support costs and administrative costs of the Fund and for transfers to and from reserves.

"3. The Industrial Development Board shall approve the programme of the Fund and shall exercise effective control over its constituent activities, apportioning the resources available, taking into account the estimates of the Executive Director, for such activities. The Board shall authorize the necessary allocation of funds to cover the following main categories:

- (a) Expenditure on programme activities;
- (b) Contingency margin for expenditure on projects to meet emergency needs;
- (c) Allocations, if any, to other units of the United Nations, the specialized agencies and the International Atomic Energy Agency.

"4. The Industrial Development Board shall approve projects within the resources as apportioned for programme activities of the Fund and shall allocate funds for such projects accordingly. The Board may delegate this authority to the Executive Director, within limits and in such categories as it may establish.

IV

FINANCIAL ARRANGEMENTS

"1. The United Nations Industrial Development Fund shall be financed by voluntary contributions, which may be accepted from Governments, intergovernmental and non-governmental organizations and other non-governmental sources, in currencies chosen by contributors, for purposes consistent with those of the Fund. The available resources placed under the authority of the United Nations Industrial Development Organization from voluntary contributions will be integrated and become part of the Fund. Voluntary contributions by Governments may be made, at their option, either:

- "(a) By pledges on an annual basis or for a number of years; or

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"(b) In accordance with regulations 7.2 and 7.3 of the Financial Regulations of the United Nations; or

"(c) By both of these methods.

"Other contributions may be accepted in accordance with regulations 7.2 and 7.3.

"2. The voluntary contributions shall be governed by the Financial Regulations of the United Nations except for such modification as may be approved by the General Assembly on the recommendation of the Board.

"3. The Fund shall be administered in accordance with the Financial Rules of the United Nations Industrial Development Fund."

Annex II

The Board, at its 208th meeting, on 11 September 1976, decided to adopt, in principle, the following text:

"GENERAL PROCEDURES GOVERNING THE OPERATIONS OF THE
UNITED NATIONS INDUSTRIAL DEVELOPMENT FUND

"The Industrial Development Board

"Adopts the following general procedures governing the operations of the United Nations Industrial Development Fund:

SECTION I

INTRODUCTION

"The United Nations Industrial Development Fund was established by the General Assembly under resolution (XXXI) (hereinafter referred to as "the resolution"). The present general procedures are formulated in pursuance of section III, paragraph 1, thereof, which provides that the Industrial Development Board shall formulate such general procedures as are necessary to govern the operations of the Fund.

"Article I

"Definitions

"For the purposes of these general procedures, the following definitions shall apply:

- "(a) "UNIDF" means the United Nations Industrial Development Fund;
- "(b) "UNIDO" means the United Nations Industrial Development Organization;
- "(c) "Board" means the Industrial Development Board of UNIDO;
- "(d) "UNDP" means the United Nations Development Programme;
- "(e) "Government" means the Government of a State which is a member of the United Nations or of a specialized agency of the United Nations or of the International Atomic Energy Agency which participates in UNIDF (as a donor or a recipient or both);
- "(f) "The Secretary-General" means the Secretary-General of the United Nations or a member of the staff to whom he has delegated his authority or responsibility;

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- "(g) "The Executive Director" means the Executive Director of UNIDO or a member of the staff to whom he has delegated his authority or responsibility;
- "(h) "The Controller" means the Controller of the United Nations or his authorized delegate;
- "(i) "Contribution" means any voluntary contribution to UNIDF irrespective of source;
- "(j) "Donor" means any Government or other organization or individual who makes a contribution to UNIDF;
- "(k) "Project document" means the formal document describing the purpose and plan of activities and the financial provisions of a UNIDF project on the basis of which that project is approved;
- "(l) "Financial resources" means funds available to UNIDF from all sources, including but not limited to contributions, except counterpart contributions from recipient Governments;
- "(m) "Counterpart contributions" means the amounts contributed to projects by recipient Governments for the cost of specific services and facilities as set out in project documents;
- "(n) "Financial Rules" means the Financial Rules of the United Nations Industrial Development Fund;
- "(o) "Allocation" means the authority from the Executive Director to incur commitments and make expenditures under these rules for purposes specified in the allocation;
- "(p) "Commitment" means the legal obligation to make a future expenditure from the resources of UNIDF;
- "(q) "Expenditure" means the disbursement of funds of UNIDF by the Executive Director directly in full or partial liquidation of a commitment."

SECTION II

RESOURCES OF THE UNITED NATIONS INDUSTRIAL DEVELOPMENT FUND

"Article II

"Financial resources

"The financial resources of UNIDF shall be derived from voluntary contributions, and other sources as defined in the Financial Rules.

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"Article III

"Pledges

"1. Governments may pledge contributions to UNIDF at any time.

"2. Contributions may be pledged either on an annual basis or for a number of years. Whenever possible, Governments are urged to pledge their contributions for a number of years. While Governments may pledge contributions to the Fund at any time, they are urged to do so on the occasion of the Pledging Conference.

"3. At the request of the Board, the Secretary-General shall convene a Pledging Conference, at which Governments may announce their contributions to UNIDF.

"Article IV

"Management of resources

"The resources of UNIDF shall be acquired, authorized, administered, used and disposed of in conformity with the Financial Rules.

"Article V

"Trust funds

"Within the framework of UNIDF, trust funds may be established by the Executive Director for specified purposes consistent with the policies, aims and activities of UNIDF, in accordance with regulation 7.3 of the Financial Regulations of the United Nations. The purpose and limits of each trust fund shall be clearly defined. The Financial Rules shall apply to any trust fund established under this article."

SECTION III

APPROVAL AND IMPLEMENTATION OF THE FUND PROGRAMME

"Article VI

"Responsibilities of the Board and of the Executive Director

"1. The Board shall provide general policy guidance with a view to ensuring that the resources of UNIDF are employed with maximum efficiency and effectiveness in pursuance of the purposes of UNIDF.

"2. The Executive Director shall submit to the Board each year a programme for UNIDF for the following year. This programme shall be developed subject to such guidance as may have been provided by the Board. The programme activities shall be presented in sufficient detail and shall include estimates of expenditure according to types of activity.

"3. In submitting his programme proposals, the Executive Director shall:

"(a) Provide estimates of the anticipated resources of the Fund;

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- "(b) Propose the sums to be transferred to or from reserves;
- "(c) Specify the amounts to be set aside for programme support and administrative costs; and
- "(d) State the resources consequently estimated to be available to finance projects.

"4. The formulation of the programme shall be so undertaken as to provide a margin of flexibility in the final choice of projects to be implemented in a given financial year.

"5. The programme submission shall be accompanied by a plan containing estimates of future resources and their proposed apportionment. This plan shall cover two years, that of the programme and the following year.

"6. The Board shall approve the programme and authorize the allocation of funds in the manner prescribed in section III, paragraph 3, of the resolution.

"7. The Board shall exercise effective control over the constituent activities of UNIDF. To this end, it shall ensure that systematic evaluations are undertaken of individual projects and of the programme of the UNIDF.

"8. The UNIDO secretariat shall formulate on a continuous basis such projects as are necessary to accomplish the programme activities of the Fund approved by the Board within the limits of the resources available to the Fund.

"9. Any Government seeking assistance from UNIDF shall submit a request in writing to the Executive Director providing detailed information of the kind of assistance required, the objectives hoped to be achieved and the services and facilities which it expects to be able to contribute. Such Government shall provide a time-table and shall identify the governmental entities responsible for the project.

"10. In respect of each project, the UNIDO secretariat shall prepare a project document for approval in accordance with section III, paragraph 4, of the resolution. The objectives which a project is designed to achieve shall be identified therein, as shall be the follow-up action expected to be taken consequent on the completion of the project. The establishment of a basis for such follow-up action may in appropriate cases be a suitable objective for a project.

"11. The project document shall:

- "(a) Describe all financial, technical, managerial and other resources required for the successful implementation of the project;
- "(b) Include a work plan and any special arrangements applicable to the execution of the project;
- "(c) Contain a budget estimate showing the financial implications of the project in its entirety and including a statement, where applicable, of

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the counterpart contribution to be made by a recipient Government, as well as its amount, timing and form.

"If the project is expected to be implemented during more than one financial year, separate estimates shall be prepared for each such period.

"12. Following approval, project documents shall be signed by representatives of the recipient Government, where required, and of the Executive Director. The approved documents, including the budget estimates and work plans, shall be the basis of allocating funds for the activities concerned.

"13. Programme support and administrative services for the implementation of projects of the UNIDF programme shall be provided by the various units of the UNIDO secretariat from UNIDF resources at the rate of reimbursement to executing agencies currently applied by UNDP.

"14. The Executive Director shall submit annual and, where appropriate, special reports to the Board on the implementation of the UNIDF programme in all its aspects and with emphasis on the concept of performance reporting."
