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*for a sustainable future*

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INDUSTRIAL DEVELOPMENT BOARD

First Session

SUMMARY RECORD OF THE EIGHTEENTH MEETING

Held at Headquarters, New York,  
on Wednesday, 26 April 1967, at 3.10 p.m.

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Financial questions

PRESENT:

<u>President:</u>	Mr. TELL	(Jordan)
later,	Mr. LUBBERS	(Netherlands)
later,	Mr. BRADLEY	Argentina
<u>Rapporteur:</u>	Mr. MBAYE	(Guinea)
<u>Members:</u>	Mr. REISCH	Austria
	Mr. DELVAUX	Belgium
	Mr. PATRIOTA	Brazil
	Mr. VLADOV	Bulgaria
	Mr. ZOA	Cameroon
	Mr. ABELL )	
	Mr. PRADY )	Canada
	Mr. FIGUEROA )	
	Mr. MESCHI )	Chile
	Mrs. LOPEZ de GARCIA	Colombia
	Mr. INCHAUSTEGUI	Cuba
	Mr. SCHEJBAL )	
	Mr. GABRIEL )	Czechoslovakia
	Mr. SCHMIDT-HORIX	Federal Republic of Germany
	Mr. KAHILUOTO	Finland
	Mr. VIJUD )	
	Mr. GEORGE )	France
	Mrs. AGGREY-ORLEANS	Ghana
	Mr. DIABATE	Guinea
	Mr. CHADHA	India
	Mr. MERTONAGORO )	
	Mr. TAIHITU )	Indonesia
	Mr. ORDOOBADI	Iran
	Mr. PISANI MASSAMORMILE )	
	Miss FORCIGNANO )	Italy
	Mr. KOFFI	Ivory Coast
	Mr. ABE	Japan
	Mr. SAAD	Jordan
	Mr. AL-SHATTI )	
	Mr. KHANACHET )	Kuwait
	Mr. BODDETUS HOSANG	Netherlands
	Mr. OLUMIDE	Nigeria

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Mr. AHMED	Pakistan
Mr. FERNANDINI	Peru
Mrs. KODI KARA	Philippines
Mr. DUMITRESCU	Romania
Mr. RYABONYENDE	Rwanda
Mr. WARSAMA	Somalia
Mr. GUERECA	Spain
Mr. SAHLOUL	Sudan
Mr. BERGQUIST	Sweden
Mr. TURRETINI	Switzerland
Mr. BARPUYAWART	Thailand
Mr. ARCHIBALD )	Trinidad and Tobago
Mr. THOMPSON )	
Mr. ALTINEL	Turkey
Mr. ANANICHEV )	Union of Soviet Socialist Republics
Mr. LOBANOV )	
Mr. BADAWI	United Arab Republic
Sir Edward WARNER	United Kingdom of Great Britain and Northern Ireland
Mr. GOLDSCHMIDT )	United States of America
Mr. BLAU )	
Mr. STIBRAVY )	
Mr. MENDIOLA )	Uruguay
Mr. MONTERO )	
Miss CAMPBELL	Zambia

Observers for Member States:

Mr. DJOUDI )	Algeria
Mr. RAHMANI )	
Mr. HENSON	Australia
U BA YIN	Burma
Mr. MULONGO	Congo (Democratic Republic of)
Mr. MAKAYA-CASTANOU	Gabon
Mr. THOMAS	Liberia
Mr. BIBI	Libya
Mr. CARRANCO VILA	Mexico

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Mr. CHULDER (M)	Mongolia
Mr. EYENHELD	Norway
Mr. DEDIG	Senegal
Mr. LACROVIC (S)	Yugoslavia
Mr. J. J. BETHIKO	

Representative of specialized agencies:

Mr. ZMAK	International Labour Organization
Mr. JEN	Food and Agriculture Organization of the United Nations
Mr. WILLIAMS	International Monetary Fund

Representative of the International Atomic Energy Agency:

Mr. B. J. R.

Representative of the General Agreement on Tariffs and Trade:

Mr. HORTLING

Representative of other United Nations bodies:

Mr. H. BLAND	United Nations Development Programme
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Secretariat:

Mr. SEBEL-BRUMIN	Executive Director, United Nations Industrial Development Organization
Mr. SUIJANO CABALERO	Director, Technical Co-operation Division
Mr. GRIGORIEV	Director, Industrial Technology Division
Mr. BIRCKHEAD	Acting Director, Division for Administration and Finance
Mr. KROMERY	Department of Economic and Social Affairs
Mr. MULLER	United Nations Conference on Trade and Development
Mr. SYLL	Secretary of the Board

FINANCIAL QUESTIONS

Mr. S. HLOUL (Jordan) said that the difficulties experienced by UNIDO in preparing and implementing operational programmes were traceable to the lack of funds of its own. That lack was due, in particular, to the fact that UNIDO, being a new organization, was at a disadvantage in the competition that it had to undertake with the specialized agencies for UNDP funds. In addition, the funds contributed by donor countries were tied to the approval of their respective Governments. UNIDO's difficulties would be alleviated only if funds were placed under its direct control. In its resolution 2152 (XXI), the General Assembly had decreed that UNIDO should be an autonomous organization within the United Nations. No organization could be autonomous unless it had some financial resources under its direct control, as was the case with the specialized agencies. A pledging conference should be convened before the end of the year. By then, UNIDO would have been able to prepare an operational programme based on country requests, and the need for extra resources would be all the more pressing. The holding of the pledging conference did not exclude the use of other sources, and every Government was free to make its contribution in whatever manner it deemed most in line with its policy and its interests. However small the financial resources made available to UNIDO through a pledging conference might be, its hands would be strengthened not only vis-à-vis the other competing bodies, but also with regard to UNDP.

In view of the importance which the developing countries attached to industrial development projects, UNDP should give considerably more encouragement than it had so far done to requests for assistance in that field. The relationship between UNIDO and UNDP with regard to Special Industrial Services should also be reviewed, so as to give UNIDO a greater say in the matter of funds for the SIS. Requests for assistance submitted by some of the developing countries under the SIS Programme had been turned down on the recommendation of the Resident Representatives, without UNIDO's having any say in the matter. That state of affairs should be remedied if UNIDO was to be effective by fully utilizing the resources available. The Board could also recommend the General Assembly to ensure that the share of the resources under the regular programme of technical assistance set aside for industrial projects was placed under the direct control of UNIDO. The method of disposal of those funds would be defined in the financial regulations that the

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(Mr. Balthus, Sudan)

Board would adopt for all funds placed under its control. The foregoing recommendations were a minimum if UNIDO was to be in a position to act effectively and to realize the hopes placed in it by the developing countries.

Mr. FERNANDEZ (Peru) agreed that expenditure should be classified under two categories, one of which - expenses for administrative and research activities - would be borne by the regular budget of the United Nations. The Executive Director should be allowed some discretion in budgetary matters, and the Board might recommend that he should be authorized to transfer funds from one section of the budget to another. As far as voluntary contributions were concerned, the methods laid down in resolution 2152 (XXI), paragraph 23, were satisfactory. On the question whether the Board should recommend the Secretary-General to convene a pledging conference, his delegation's position was less categorical than that of the representative of the Sudan. Before committing itself to such a step - which it supported in principle - it would like to know the views of the major donor countries. In its view, financial questions should not give rise to problems which might obstruct the achievement of a speedy agreement.

Mr. Lubbers (Netherlands), Vice-President, took the Chair.

Mr. ANANICHEV (Union of Soviet Socialist Republics) said that the principal sources of financing were clearly defined in resolution 2152 (XXI), paragraphs 21-23; his remarks would relate mainly to expenses for operational activities. In that regard, the fundamental problem was to define the relations between UNIDO and UNDP. The relevant provisions of resolution 2152 (XXI) must be strictly applied; in other words, UNIDO must participate in the Programme on the same basis as other participating organizations. Hence, UNDP must make available to UNIDO the resources it needed for the execution of industrial projects in the developing countries. In practice, that would be possible only if UNDP radically changed its attitude to industrial development projects. It was unacceptable that so little of the financial resources of UNDP should be allocated to industrialization. It was common knowledge that UNDP had sufficient resources to undertake large-scale industrial development activities, which might even extend to investment proper. The Administrator of UNDP himself had said that it was for UNIDO to play the major role in industrial development, and that UNDP stood ready to co-operate to the



(Mr. Manichev, USSR)

maximum. Furthermore, UNDP had enormous unused resources, as was proved by the fact that for many years the contributions of the USSR to UNDP had not been fully utilized. All the foregoing observations applied equally to the regular programme of technical assistance, whose industrial projects should be transferred to UNIDO.

It was unthinkable that some countries which wished to contribute financially or to give less favoured countries the benefit of their experience should be excluded from international co-operation in the matter of industrial development. The USSR had long upheld in the economic organs of the United Nations the principle of truly universal international co-operation in the field of industrial development. It attached great importance to UNIDO's activities and declared its willingness to take part in its work and to make a voluntary contribution.

Mr. TELL (Jordan) noted with satisfaction the generous offer made by the USSR. He hoped that he was not prejudging the intentions of the Soviet Government in expressing the hope that its voluntary contribution would be paid to UNIDO direct. The developing countries had been gratified when, in the Ad Hoc Committee on UNOID, the donor countries had announced that their contributions would be paid to UNIDO direct. However, the United Kingdom delegation, which seemed to have accepted the principle of that method of financing, had later decided to pay its contribution to the Programme of Special Industrial Services, on the grounds that the form and activities of UNIDO had not been clearly defined. It was to be hoped that the Board would be able to define them at its current session, so that the funds intended for the SIS would be paid to UNIDO direct. In that case, it would be unnecessary to have a pledging conference.

It had been argued, in support of the SIS Programme, that it would enable requests for assistance to be met more quickly. He could himself cite an example where action under the SIS had taken twice as long as would have been the case if the request had been addressed to UNDP. Everyone was in favour of abolishing the automatic apportionment of financial resources among the various United Nations organizations. The SIS system was nothing more than a return to the procedure under which a country was forced to accept a project or programme, whether or not it suited it, with a resulting waste of resources which were already too small.

As the representative of the Sudan had pointed out, UNIDO was an autonomous organization and it should have financial resources of its own, in the same way as the specialized agencies. Contributions should be paid to it direct and should not

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English

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(Mr. Telli, Jordan)

to place in the name of any other organization. It was important also to avoid any prior earmarking of the funds for a specific field of action.

And funds should be distributed equitably among countries and should no longer be based on random requests, for such a method opened the door to certain influences. With regard to the note verbale from the Permanent Observer for the Federal Republic of Germany (ID/P/7, annex III), which stated that \$1 million of the Federal Republic's contribution to UNDP for 1967 was intended for UNIDO, he understood that that amount had been credited to the SIS Programme; he would like some explanation of that change in the earmarking of a sum originally destined for UNIDO.

Mr. AMEL (Pakistan) observed that in its resolution 2152 (XXI), the General Assembly had settled the question of the organization's finances. UNIDO's expenditure was classified under the categories of expenses for administration and research activities and expenses for operational activities. The former were to be borne by the regular budget of the United Nations, and the latter were to be met from the voluntary contributions made to the organization by member countries through participation in UNDP, or by the utilization of the resources of the United Nations regular programme of technical assistance. Voluntary contributions could be made, inter alia, through announcement at a pledging conference. It would therefore be in conformity with resolution 2152 (XXI) for the Board to decide to recommend to the General Assembly that such a conference should be convened, and he regarded that as necessary, since UNIDO must have larger resources of its own if it was to remain self-sufficient. The resolution also stipulated that voluntary contributions were to be governed by the Financial Regulations of the United Nations, except for such modifications as might be approved by the General Assembly on the recommendation of the Board. In that connexion, the Executive Director had perhaps been unduly cautious in proposing modifications. He had no doubt felt that such action was premature. Nevertheless, he had an important role in the matter, since the funds received under regulations 7.2 and 7.5 of the Financial Regulations would be used for purposes consistent with the policies, aims and activities of the United Nations and disbursements would be made by the Secretary-General of the United Nations in consultation with the Executive Director of the organization.

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(Mr. Imed Akhtar)

The resolution did not mention the Programme of Special Industrial Services. That programme had, of course, produced substantial results, and the fact that the funds available had not always been used completely was due to a lack of requests for assistance. Nevertheless, with the establishment of UNIDO, it appeared no longer possible for the programme to be financed under arrangements similar to those made before the adoption of resolution 2152 (XXI).

His delegation had expressed its concern in the General Assembly at a tendency to make UNIDO a subsidiary organ of UNDP. It had been reassured with the argument that, the greater UNDP's resources were, the greater would be the amounts devoted to activities in the field of industrialization. Yet at present there were only three UNDP projects involving UNIDO - a situation which some speakers attributed to the lack of requests for assistance. In reality, it was for UNDP to publicize the availability of assistance, for the needs were enormous. With regard to resources under the regular programme of technical assistance it would be desirable for the Board to recommend that the budgetary appropriation granted to UNIDO should be separate and that the Board should be allowed to administer it.

Mr. CH. DH. (India) thought that, in view of the specific provisions of General Assembly resolution 2152 (XXI) and the close relationship between the organization's autonomous nature and its ability to obtain funds direct, the Board should recommend the convening of a pledging conference, to enable those countries which desired to use that method of making contributions to UNIDO, to do so. If the programme of work for 1967 was not sufficiently directed towards operational activities, that was due to the obvious fact that the organization did not have enough resources of its own, and not to the lack of requests for assistance. The procedures for the approval of projects by the Governing Council of UNDP were cumbersome. The SIS Programme, designed for "trouble-shooting" purposes, had not met the expectations of the developing countries, because of the delays that the procedure of joint approval by the Executive Director of the organization and the Governing Council of UNDP entailed. If such delays were to be avoided, it would be necessary to ensure that UNIDO had resources of its own which could be used without going through so cumbersome a procedure of approval.

He agreed with the representative of Pakistan regarding the way in which the funds obtained through voluntary contributions should be administered, but he thought that it might be advisable for the Board to draw up directives in the

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(Mr. Chadha, India)

matter. The ad hoc committee which it was proposed to establish under draft resolution ID/B/L.7, might be given that task. It would also be desirable, as the representative of Pakistan had suggested, that the allocation under the regular programme of technical assistance should be administered directly by the Board. Lastly, as the representative of Peru had stated, the Executive Director should be allowed complete discretion to use savings effected in certain sectors to the best advantage.

Mr. Bradley (Argentina), Vice-President, took the Chair.

Mr. DELVAUX (Belgium) said that, in connexion with financial problems, the first question was whether UNIDO's activities in 1967 and 1968 would really be hampered by lack of resources. As far as expenditure relating to administrative and research activities was concerned, an allocation of approximately \$7 million had already been approved. With regard to operational activities, the appropriations under UNDP, the regular programme of technical assistance, and the SIS amounted to about \$15 million. Furthermore, as the secretariat was engaged in preparations for the International Symposium and the transfer of the organization to Vienna was imminent, there would inevitably be a slackening of activities. The convening of a pledging conference was therefore unnecessary. If an increase in expenditure on industrialization projects was anticipated, it would always be possible for the donor countries to increase their contributions by utilizing other procedures provided for in resolution 2152 (XXI), subject, of course, to the approval of their National Parliaments.

Mr. VERRIS (Netherlands) pointed out that, unless the Board held a resumed session, consideration of those expenses of the organization which were to be borne by the regular budget of the United Nations for 1968 would have to be left to the Fifth Committee. It was important also to set the date of the Board's next regular session in such a way that its deliberations would serve some purpose as far as the regular budget was concerned.

The Secretary-General's activities as mentioned in paragraph 2 of General Assembly resolution 2152 (XXI) are fairly obscure. The Secretary-General had explained in his report on the General Assembly resolution 2089 (LX), that he understood operational activities to mean activities directly connected with assistance in the

(Mr. Lubbers, Netherlands)

field. On the other hand, the operational activities listed in General Assembly resolution 2152 (XXI), operative paragraph 2 (a), in fact included research which would be carried out at UNIDO headquarters. In the opinion of his delegation, expenditure relating to research of that kind should be borne by the regular budget of the United Nations. The Netherlands representative in the Ad Hoc Committee on UNOID had already argued that the operational activities proposed in General Assembly resolution 2152 (XXI) meant something wider than field activities. In that connexion, he noted with satisfaction the efforts which had been made to build a definitely action-oriented organization, and he thought that the problem could be solved in a practical way if the Board drew up well defined directives concerning operational activities.

On the question of the financing of UNIDO itself, convening a pledging conference was one of the options laid down in resolution 2152 (XXI), unanimously adopted by the General Assembly. However, while some members of the Board considered it essential to hold such a conference, others thought that it was most important to make the machinery for the preparation and forwarding of requests more efficient. The convening of a pledging conference would be premature at the present time since it was much more urgent to transfer UNIDO headquarters in an orderly manner without thereby hindering or delaying current activities. Moreover, UNIDO would have considerable resources - and, consequently, considerable opportunities for action - for the next two or three years, especially under the Programme of Special Industrial Services. That Programme had not been "invented" by some donor countries in order to weaken UNIDO. In contributing \$1,660,000 during 1965 and 1966 to the SIS Programme, the Netherlands, which had thereby strengthened activities which it considered useful and necessary, had had no intention of refusing financial support to UNIDO. The execution of the Programme of Special Industrial Services should be continued. It was a useful supplement to UNDP, since it made it possible to allocate resources specifically to industrial development. In increasing its contribution to UNDP for 1967 by 25 per cent, the Netherlands had, moreover, insisted that industry should be given priority. Whatever might be the procedure for financing it in the future, UNIDO, without losing its autonomy, had an important role to play as an executing agency of UNDP.

Mr. ORDOOBADI (Iran) said he believed that, if UNIDO was to carry out the tasks entrusted to it by the General Assembly it must intensify both its

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(Mr. Ordoobadi, Iran)

operational and its research activities. It could not do so unless the manifestly inadequate funds available to it were increased. In that connexion, it would be useful to ask UNDP to intensify its activities in the industrial field and to recommend to the General Assembly an increase in UNIDO's budget. It was desirable to convene a pledging conference, which would undoubtedly make it possible to collect sufficient funds. The Executive Director should be authorized to utilize those funds with all the necessary flexibility. UNIDO might also, as suggested by the Executive Director, appeal to private sources of financing, as some specialized agencies did. In conclusion, he expressed the hope that the Programme of Special Industrial Services would be expanded to cover vocational training.

Mr. REISCH (Austria) pointed out that UNIDO's operational activities would be undertaken at the request of the countries concerned. The Sessional Committee was trying to work out general indications which would help recipient countries to formulate their requests. The Board was thus laying the foundations for an expanded programme of industrial development, in so far as it was helping to solve the most important current problems, namely, the formulation of economically viable requests. Indeed, it would be idle to consider the different procedures for financing operational activities without having a comprehensive picture of the situation with regard to requests, from the point of view of both quality and quantity.

As far as the sources of financing mentioned in General Assembly resolution 2152 (XXI) were concerned, UNDP funds had not been utilized to the fullest extent for industrial development. The number of projects and their quality were inadequate and the situation must be remedied.

He would like to know whether there was simply a lack of projects, or whether not all of them had been approved because they failed to meet UNDP's criteria.

The unexpended balance of the \$7 million contributed to the Programme of Special Industrial Services would enable a large number of interesting projects to be carried out in the near future. The Board would have to decide whether that programme should be continued; some delegations had not considered it to be in conformity with General Assembly resolution 2152 (XXI), which did not provide for joint administration of funds.

(Mr. Reisch, Austria)

Lastly, with regard to voluntary contributions, he pointed out that the parliaments of the donor countries wished to know the final destination of their contributions and the nature of the projects to which they would be allocated. It seemed premature to set the date of a pledging conference at the current session; contributions might, in any event, be offered in the meantime in accordance with Regulations 7.2 and 7.3 of the Financial Regulations of the United Nations. Before such a conference was convened, it was necessary to draw up general directives and a programme of work. His delegation in no way disputed the usefulness of voluntary contributions. Austria, which had contributed \$200,000 to the organization, had intended thereby to demonstrate its confidence in the future of UNIDO and in the Executive Director. In the future, however, it must have precise information on the nature and orientation of the organization's activities, which it was for the Board to define.

Sir Edward WERNER (United Kingdom) said that it had not yet been demonstrated that UNIDO either needed or could put to worth-while use for operational purposes funds other than those at present made available to it under UNDP and the Programme of Special Industrial Services. In the circumstances, he wondered what purpose would be served by convening a pledging conference. Admittedly, to make the most effective use of available resources, UNDP and UNIDO must be able to respond promptly and flexibly to requests from Governments, but both organizations were certainly capable of making the necessary adjustments themselves to ensure a prompt response. As far as the Programme of Special Industrial Services was concerned, it was regrettable that the representative of Jordan had seen the voluntary contributions announced by the Netherlands, Sweden and the United Kingdom at the twentieth session of the General Assembly as a tortuous stratagem which they had used to avoid providing funds for an organization that had not existed at the time and whose final structure still remained to be established. Whatever the representative of Pakistan might have said, the Special Industrial Services were in fact covered by General Assembly resolution 2152 (XXI). The United Kingdom's contribution to that Programme was in full accordance with Regulations 7.2 and 7.3 of the Financial Regulations of the United Nations.

Mr. HAMEL (Pakistan), speaking in exercise of his right of reply, said that his delegation had never maintained that the payment of the voluntary

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English

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(Mr. Ahmed, Pakistan)

contributions in question was not in accordance with Regulations 7.2 and 7.3 of the Financial Regulations. He was inclined to agree with the interpretation that the funds made available before the adoption of resolution 2152 (XXI) to UNDP under the Programme of Special Industrial Services should continue to be administered in close co-operation with UNIDO.


Mr. GOLDSCHMIDT (United States of America) stated that the United States would continue to make its contributions to UNIDO through the UNDP. He repeated the United States hope that UNIDO would get a major share of the UNDP operational funds when, through the work of IDB and the UNIDO secretariat, the developing countries brought in requests for work in the field of industry.

He indicated that movement back to historical percentages - either through special funds or special pledging conferences - would be a retrogressive action, which would saddle the planners and operators of recipient Governments with a fixed fund from which they must operate. He regarded the SIS fund as a special case where it had been sought to bring the industry field into some kind of parity with other fields. Unfortunately, the SIS Programme had not yet made that kind of contribution because of the lack of progress in developing projects.

He said that when UNIDO became operational, placed people in the field and received a background of requests, it would rank high in the division of UNDP funds as the recipient countries decided upon the particular types of projects they needed.

Any return to the system of pledging would amount to an effort to decide for Governments what they should do. It had for long been agreed that funds to help countries to resolve their development problems should be provided through UNDP and the Special Industrial Services. Financial resources were available to UNDP for the execution of industrial projects and, to his knowledge, no project of that kind had so far been rejected. There was a backlog of requests for assistance, many of which came within UNIDO's field of competence and could be entrusted to that organization.

The meeting rose at 5.45 p.m.







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