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INDUSTRIAL DEVELOPMENT BOARD

First Session

SUMMARY RECORD OF THE TWENTIETH MEETING

Held at Headquarters, New York,
on Thursday, 27 April 1967, at 10.40 a.m.

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Observers for Member States:

Mr. RAHMANI	Algeria
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Mr. AMAR	International Labour Organisation
Mr. ATEN	Food and Agriculture Organization of the United Nations
Mr. PERINBAM	International Bank for Reconstruction and Development
Mrs. THOMAS	United Nations Educational, Scientific and Cultural Organization
Mrs. KALM	World Health Organization

Representative of the International Atomic Energy Agency:

Mr. NAJAR

Representative of the General Agreement on Tariffs and Trade:

Mr. HORTLING

Representatives of another United Nations body:

Mr. HARLAND)	United Nations Development Programme
Mr. GEOGHEGAN)	

Secretariat:

Mr. ABDEL-RAHMAN	Executive Director, United Nations Industrial Development Organization
Mr. BIRKHEAD	Acting Director, Division for Administration and Finance

/...

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Secretariat (continued):

Mr. QUIJANO CABALLIERO	Director, Technical Co-operation Division
Mr. MULLER	United Nations Conference on Trade and Development
Mr. SYLLA	Secretary of the Board

FINANCIAL QUESTIONS (continued)

Mr. OLUMIDE (Nigeria) said that if UNIDO's work programme was to be meaningful, Governments, particularly those of the developed countries, must be prepared to make adequate voluntary contributions to finance operations on the scale which the programme anticipated. The question of financing should therefore rank among UNIDO's top priorities. It was rightly recognized that the real impediment to rapid industrialization in many of the less developed areas was not ignorance of industrial programming techniques or other techniques for evaluating the respective merits of different projects but the lack of funds and bankable projects. His delegation thought that a pledging conference would constitute the most practical means of obtaining the funds required to finance operational activities. There could be no doubt that UNIDO would be a more effective organization if it had its own, independent source of financing. Moreover, funds accruing from a pledging conference could be used more flexibly than funds from other sources.

Attention had been drawn to the fact that large sums would be required once the technical assistance approach to industrialization was replaced by the actual execution of expensive research projects, feasibility studies and promotional activities. For example, one of the obstacles to rapid industrialization was the difficulty of obtaining expatriate management teams for specific industrial projects and the high cost of management. He wondered if at the early stages of a project UNIDO could not only assist in attracting the right type of management teams but also help to defray the costs in foreign exchange which the employment of such teams entailed. Hitherto the 50/50 ratio had been applied by the Special Fund in rendering assistance for the execution of detailed technical and economic feasibility studies and the evaluation of specific projects. UNIDO, through its independent source of funds, should be able to bear at least 80 per cent of the cost of such studies. He also wondered if it would not be possible for UNIDO to make short-term loans during the critical time when new industries which had run into difficulties lacked working capital pending possible financial reorganization, and to provide limited quantities of equipment with a view to removing bottle-necks which might jeopardize the development of particular industries in developing countries.

(Mr. Olumide, Nigeria)

When he had said in his statement on co-ordination that FAO should be allowed to continue that part of its programme which concerned industrialization because it had a large budget, he had had in mind the fact that an organization could not discharge its functions if it lacked sufficient funds. The crux of the matter, therefore, was the need to place adequate funds at UNIDO's disposal and he appealed to the developed countries to make generous contributions, whether through a pledging conference or otherwise, so that their expressed desire to see the developing countries advance economically could be realized.

Mr. VIAUD (France) said that as his delegation had consistently taken the position that funds intended for administrative purposes should not be used for anything else, it felt that research conducted by UNIDO should be financed from the regular budget when it was of a general nature and from voluntary contributions when it related to specific projects, which would come under the heading of operational activities. That was the condition under which his Government was willing to share the expenses that would have to be met through the regular budget if the Board felt that UNIDO should give research a prominent place in its programme of work.

He could not agree with the Peruvian representative that the need for flexibility would justify a decision to give the Executive Director the power to transfer funds from one section of the budget to another as he saw fit, for that would be contrary to the principles of sound financial management and to the decision taken by the General Assembly when at its twenty-first session it had approved the recommendations of the Ad Hoc Committee of Experts to Examine the Finances of the United Nations and the Specialized Agencies.

If UNIDO's operational activities were to be financed by voluntary contributions, in accordance with the wishes of the developing countries, the Organization would have to know the extent and the source of such contributions in advance. Yet while the developing countries insisted that UNIDO should thus be given financial independence the countries which were the prospective donors tended to withdraw to non-committal positions. Time should be allowed for a compromise solution to be worked out and he would therefore confine himself to a statement of his delegation's views on the question of the source of contributions to cover UNIDO's operational activities.

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(Mr. Viaud, France)

As operational activities would not involve the financing of industrial investment but were concerned with the pre-investment phase - perhaps including the implementation of pilot projects - they would constitute what might be described as "traditional" technical assistance activities and should therefore be closely linked to the work of UNDP. The argument that UNIDO would not be truly autonomous unless it had its own separate resources was disproved by the experience of FAO, which executed more than one third of the projects approved by the Special Fund with resources provided by the latter, yet retained its full autonomy. UNIDO would have a much clearer idea of the resources to be available to it over the next three or four years if its operational activities were financed mainly by UNDP than it would if it had to depend on voluntary contributions. Naturally it could expect that some of its resources would come from such contributions - his own Government, for example, was studying the possibility of making contributions in kind by offering fellowships, the services of experts, and assistance in organizing international gatherings concerned with the problems of industrial development. The fact remained, however, that France and many of the other industrialized countries were not yet in a position to state just what they would provide. In view of all those considerations, he thought it might be advisable not to try to decide on a definitive work programme until the Board's next session.

With regard to the question of the way in which voluntary contributions would be provided, he recalled that when voting in favour of General Assembly resolution 2152 (XXI) his delegation had made it clear that it was not thereby committing itself to participate in a pledging conference. Its position was that it should be left to Governments to decide not only what their contributions were to consist of but also the way in which they were to be announced, in accordance with the provisions of operative paragraph 23 of resolution 2152 (XXI).

The action which the Board could take now might perhaps include addressing a recommendation to Member States to take note of the provisions of resolution 2152 (XXI) and to decide as soon as possible what their contributions to UNIDO would be. At the same time it could recommend the technical assistance bodies to let UNIDO know the extent of the resources which might be approved in the next three years for pre-investment projects relating to industrial development. Finally, it could bring a recommendation concerning the ways in which UNIDO could participate

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(Dr. Vinod, France)

in the management and use of technical assistance credits under Part V of the regular budget. That part of the funds provided for under Part V which had formerly been used to finance operational activities in the field of industrial development ought to be eliminated and replaced by voluntary contributions: as Governments would not want the total amount available for technical assistance to be reduced, he was sure that such contributions would be forthcoming in amounts as large as, if not larger than, the amount eliminated.

As a pledging conference would hardly be successful if held immediately, since the question was a controversial one, it might be better not to take action on that proposal at the current session.

Mr. BADAWI (United Arab Republic) said that in the discussion on item 10 many speakers seemed to be trying to revert to positions which were no longer tenable now that the General Assembly had adopted resolution 2152 (XXI). In that resolution the Assembly had clearly accepted the principle that UNIDO, as an autonomous body, should have its own resources and that the way in which they would be made available to it would not depend on the prior approval of any other body. It had then gone on to specify that they could be made available in three ways: through a pledging conference or in accordance with regulations 7.2 and 7.3 of the Financial Regulations of the United Nations, or by both methods, taking into consideration the interests of the Governments concerned and of UNIDO. His delegation was convinced that if a balance was to be maintained between those interests a pledging conference would offer the best means of providing the resources in question, for it would enable UNIDO to know in advance what funds would be available to it during a given financial year or even biennium.

He could not agree with the calculation made by the representative of Belgium to the effect that UNIDO now had about \$20 million at its disposal. That figure did not differentiate between UNIDO's own resources and those of other bodies, or between UNIDO's role as an executing agency and its role as an autonomous body similar to the specialized agencies, which likewise played a dual role and had their own independent resources.

(Mr. Badawi, United Arab Republic)

He wished to associate his delegation with the constructive suggestions put forward on the previous day by the representatives of Jordan, Pakistan, India and Sudan and to indicate which of them seemed to his delegation to be of the greatest importance for UNIDO's immediate future. Firstly, UNIDO should elaborate its own financial regulations and the Board should therefore request the Executive Director to give priority to that matter and report on it at the Board's next session. Secondly, the Board should recommend the next session of the General Assembly to turn over to UNIDO that part of the regular programme of technical assistance which was earmarked for industrial development. Finally, a redefinition of the nature of Special Industrial Services' funds not only would make those funds available for ready use but also would be a first step towards placing the future relationship between UNIDO and UNDP on a firm basis.

Mr. WARSAMA (Somalia) said that the question of financing was crucial to the effectiveness of UNIDO's activities. The delegation of Somalia believed that the voluntary contributions referred to in paragraph 22 (a) of General Assembly resolution 2152 should be made at a pledging conference. It had been agreed that UNIDO should be an autonomous organization with its own finances, and the only question at issue was how such voluntary contributions, which could be in cash or in kind, should be made. Governments could make contributions in kind by such measures as placing experts at UNIDO's disposal, offering fellowships and undertaking certain feasibility studies on behalf of UNIDO; direct cash contributions pledged by Governments would enable UNIDO to have its own financial resources and to know in advance the amount of financing which would be available to it. There would, of course, have to be some flexibility in the utilization of those resources, as was recognized in paragraph 24 of General Assembly resolution 2152 (XXI).

The programme of Special Industrial Services was valuable and should be continued, since emergency situations would always arise and must be met promptly. However, the finances contributed to that programme should form part of the overall resources available to UNIDO, so that any surplus funds could be diverted to other purposes wherever possible. While UNIDO would certainly be an important executing agency of UNDP and would utilize resources allocated for technical

(Mr. Warsama, Somalia)

assistance under the United Nations regular budget, it must be in a position to administer resources contributed specifically for industrial development activities, and the most effective way of achieving its objectives would be to obtain those resources through a pledging conference.

Mr. Dumitrescu (Romania), Vice-President, took the Chair.

Mr. KALDEREN (Sweden) said that the present arrangements for financing the activities of UNIDO were provisional and were likely to remain so for some time. No work programme or detailed budgetary requirements had yet been prepared and it would only be possible to evaluate the organization's progress in about a year, following the establishment of its headquarters at Vienna and the holding of the International Symposium on Industrial Development. The programme of Special Industrial Services, too, was still experimental and could not be properly evaluated before another year had elapsed. Fortunately, UNIDO was not lacking in funds for the coming year, since regular allocations from the United Nations budget and the contributions made to the programme of Special Industrial Services would both be available. In that connexion, he noted that Sweden would shortly have paid its contribution of \$0.5 million to the trust fund for Special Industrial Services.

Nevertheless, it should be possible to envisage UNIDO's long-term financial structure. His delegation wished to see the new organization, like other action-oriented bodies in the United Nations family, develop into an agency utilizing considerable amounts of UNDP funds. In order to achieve a rational allocation of available funds in accordance with over-all priorities in the developing countries, it would be desirable for the main bulk of UNIDO's work to be financed through UNDP and the regular programme of technical assistance.

A problem might arise in the case of the type of activities now carried out under the programme of Special Industrial Services. That programme had come into being, on an experimental basis, in order to meet certain needs peculiar to the manufacturing industry which could only be handled in a flexible and imaginative way by using, for example, individual experts, teams of consultants and special training facilities. Where a local or international banking institution assumed responsibility for the financing of the investment concerned, such services were

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(Mr. Kälderen, Sweden)

provided if required, but if the ultimate source of financing was not definite or the capital was to be provided by a Government, assistance from an outside agency might be essential, and those services could best be provided by experienced international institutions which knew precisely what kind of expertise was required and where it could be found.

The progress report on the initial year of the programme of Special Industrial Services (ID/B/7) showed the value of the programme: there had been many requests for assistance, which had been promptly and adequately met. Acceptable administrative procedures involving the UNDP and other United Nations bodies had been worked out, commendable reliance had been placed on UNDP Resident Representatives for liaison with Governments, and the use of consultants and contracting consultants would ensure that the best available expertise was mobilized. The effectiveness of the programme could only be comprehensively evaluated after a further year, when a full report of its achievements could form the basis for a decision by the Board on a more sustained programme of such activities. In that connexion, UNIDO should avoid too great a commitment in individual enterprises whose difficulties did not seem capable of solution by international action.

The cost of such activities could not easily be foreseen, but their effectiveness should be measured by increased output, savings and profits rather than by the amount of money spent. A firm and realistic forecast of the demand for funds over the next few years could, however, be made after one year had elapsed, and would be based on the financial rules and practices of UNDP and the regular programme of technical assistance, which were rather flexible and appropriate for meeting the specific needs of industrial development. Special industrial services would increasingly be carried out by regular staff or consultants, and if additional funds were needed for operational activities they should be found from UNIDO's regular budget, which made provision for outside consultant services and travel costs.

Mr. SCHMIDT-HORIX (Federal Republic of Germany) noted that the financial provisions contained in General Assembly resolution 2152 (XXI) had given rise to great controversy and many delegations, including that of the Federal Republic of Germany, had made explicit reservations regarding the final text, particularly with

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(Mr. Schmidt-Horix, Federal
Republic of Germany)

relation to paragraph 23 (a). The Government of the Federal Republic of Germany still believed that UNDP should be the main source of financing for UNIDO's activities, and his delegation hoped that UNIDO would soon be able to increase its share of UNDP funds, which was not at present commensurate with the importance of its task. The Federal Republic of Germany fully recognized the urgent need to promote industrialization in the developing countries and believed that UNIDO should become an effective tool within the United Nations system. Since existing resources had not been exhausted, the effectiveness of the new organization depended not so much on the acquisition of additional funds as on an improvement in existing working methods, so that UNIDO would be able to present an increasing number of feasible projects in the industrial field which could be financed by UNDP and the programme of Special Industrial Services.

His delegation was therefore not in favour of a pledging conference, at least for the present. Such a conference would be premature, since the organization had only just been established and so far had no clearly defined work programme. After the initial experimental phase, during which the existing mechanism for financing the organization's activities would be adequate, UNIDO would receive many more requests for assistance from developing countries, and the Board could then reconsider the question of a pledging conference. At present, it would be almost impossible for his delegation to convince the competent governmental and parliamentary bodies of his Government that funds should be pledged directly to an organization just commencing its activities, which could at present be adequately financed through existing channels.

Referring to the comments of the representative of Jordan (ID/B/SR.18) on the letters of his Government contained in annex III of document ID/B/7, he recalled that those letters had been designed to clarify his Government's position regarding the distribution of a total amount pledged by the Federal Republic of Germany to UNDP. They had been written before the adoption of General Assembly resolution 2152 (XXI), and while there might be some possibility of their being misunderstood, the text was clearly intended to mean that his Government wished a part of the total amount pledged to be allocated to industrial development projects, and not that it should be pledged directly to UNIDO. Since the decision to treat the amount

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(Mr. Schmidt-Horix, Federal
Republic of Germany)

concerned as funds-in-trust under the programme of Special Industrial Services entirely met the intention of his Government, it had not considered it necessary to give further clarifications after the adoption of General Assembly resolution 2152 (XXI).

His delegation opposed the idea of holding a UNIDO pledging conference and appealed to delegations which supported that idea not to press it for the present. There would be little value in such a conference if the principal donor countries were unwilling to attend.

Paragraph II (C. 1.3) stated that the amount of UNDP funds allocated to industrial development was small in view of the length of time that the programme would exist. UNIDO, as a new organization, must endeavour to increase its share. Although there was general agreement on the importance of industrial development, it was noted to increase the number of requests for assistance in that field in developing countries, the proportion of requests to UNDP allocated to industrial development was in fact decreasing. That situation was due to a number of factors resulting from red tape and bureaucracy; and it was noted that the donor countries were unable to provide financial contributions to UNDP until donor funds were exhausted.

However, it was not true to say that available funds were sufficient and that there were insufficient requests for assistance in industrial development: for example, the funds contributed to the programme for Special Industrial Services could be used to finance the category II requests for which the technical assistance sector of UNDP at present had insufficient funds. Thus, the true situation was that available resources were in fact insufficient for over-all industrial development needs. Direct contributions to UNIDO were essential if the new organization was to achieve a real take-off and be able to administer its own funds. Those contributions could of course be made by letter or announcement, but otherwise a pledging conference was essential. In fact, UNIDO should have sufficient funds not only to meet requests from developing countries but also to encourage confidence in those countries that adequate resources were available and that long delays would not occur, as they often did at present.

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(The President)

Replying to the comments of the United Kingdom representative (ID/B/SR.18), he recalled that the United Kingdom delegation had often stated that it regarded aid to developing countries as an obligation rather than as charity. It was unfortunate that the United Kingdom delegation had seen fit to make its voluntary contribution to the programme of Special Industrial Services rather than to UNIDO itself.

He had not wished to question either the right of the Government of the Federal Republic of Germany to determine how it was to make its contribution or the wisdom of its decision. His comments on that Government's letters had been based on his understanding of the text, which seemed to him to imply that part of the contribution was to be made directly to UNIDO.

Mr. FRANZI (Italy) said he felt that some of the statements which had been made were based on a misunderstanding. He did not think that anyone had questioned the desirability of UNIDO's being administratively autonomous or having the funds necessary for operational activities under its own control. It was also agreed by all that the resources of the United Nations family for industrial development assistance should be steadily increased. The problem concerned the manner in which contributions to UNIDO should be made. There was no need for a confrontation between the major potential contributors and the developing countries. It was interesting to note that those States which did not favour a special pledging conference were the very States which had been foremost in making financial resources available to the Centre for Industrial Development - and now to UNIDO - for financing operational activities of its own.

If the Board was divided on the question of a pledging conference, there would be no purpose in a recommendation in favour of such a conference based on a majority vote. The Italian Government was considering the possibility of making a direct contribution to UNIDC; at the present stage in UNIDO's existence, the adoption by the Board of decisions not based on general agreement could only have a negative influence on Governments such as his own. If a pledging conference did not have the sympathy of the major potential contributors, it would not represent a stimulus to UNIDO's activities, as was hoped, and would serve no useful purpose. Rather than have a vote on the issue, it would be better to describe the situation in the report,

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(Mr. Franzi, Italy)

making clear that there was agreement that increased resources were needed for industrial development, that UNIDO must be administratively autonomous, and that adequate resources must be placed at UNIDO's disposal, in a manner which was acceptable, as far as possible, to the major donors. The report should register agreement rather than disagreement.

Mr. CHADHA (India) thought that there was a need for further clarification of the intentions of the General Assembly regarding the financial arrangements for UNIDO. Operative paragraph 22 of General Assembly resolution 2152 (XXI) mentioned three different sources from which the operational expenses of UNIDO were to be met. It was clear from the text of the resolution and from resolution 2089 (XX) that the Assembly intended that funds should be provided through all three of those sources. One of the sources mentioned was voluntary contributions made directly to the organization. Paragraph 23 set out two methods by which voluntary contributions could be made, and a Government could fulfil its obligation under the resolution by either method. If, however, a Government which was in a position to make contributions did so through the United Nations Development Programme and not directly to UNIDO by one of the methods mentioned in paragraph 23, that would, in his view, be in violation of the General Assembly's resolutions.

It had been argued that UNIDO had not yet demonstrated that it could effectively spend more money and that not enough sound projects had been forthcoming. But UNIDO could hardly prove itself to be effective until it had more funds. Similarly, the lack of sufficient projects was largely attributable to the absence of a specialized body such as UNIDO to promote such projects, and UNIDO could not start promoting such projects unless there were prospects of sufficient resources being available.

He had the impression that some delegations though not convinced that a pledging conference should be held in the immediate future, were not opposed to such a conference in principle. If that was the general view among the major donor countries, a harmonization of views seemed possible. He hoped that some way could be found to continue the dialogue and find a formula for a unanimous recommendation. He did not feel that a convincing case had been made against a pledging conference. The General Assembly had clearly intended UNIDO to have its own operational funds.

(Mr. Chadha, India)

To depart from that principle would be to violate the understanding on the basis of which the developing countries had agreed to the establishment of UNIDO rather than a specialized agency for industrial development. If Governments intended to make contributions to UNIDO, the procedure of a pledging conference would simply give their contributions some publicity and it was hard to see how there could be any objection to such a procedure.

With regard to the scope of the programme of Special Industrial Services, the Board had been told that contributions made in the past for that programme could be utilized for UNIDO activities. However, those contributions had been made prior to resolution 2152 (XXI), and the terms under which they had been made were not strictly in keeping with the provisions of that resolution. It had been pointed out that under paragraph 25, it read in conjunction with paragraph 23 (b), contributions made under paragraph 23 (b) were to be disbursed by the Secretary-General, in consultation with the Executive Director of UNIDO, for purposes consistent with the policies, aims and functions of UNIDO. Contributions which were not available for disbursement under UNIDO's control could not be regarded as contributions made directly to UNIDO.

Mr. KOFFI (Ivory Coast) recalled that, at the 14th meeting, during the discussion on co-ordination, he had drawn attention to the need for the establishment of an action programme, taking into account available resources and the activities of the specialized agencies. He had also mentioned the need for a concerted approach by the recipient countries. At the same time, the developing countries should be wary of imposing decisions by majority vote without taking into account the views of the developed countries. A crystallization of opposed positions was undesirable and there was no point in decisions adopted by a majority when that majority did not have the means to implement them. He agreed with the representative of Italy that some of the discussion seemed to have been based on a misunderstanding. In his own view, the discussion of financial questions could more usefully be concentrated on the question of procedures such as programme budgeting which would help to ensure the availability of adequate resources for UNIDO's activities. He was disappointed that none of the developed countries which had expressed reservations concerning the timeliness of a pledging conference had indicated that they were nevertheless ready to make voluntary contributions under paragraph 22 (a)

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(Mr. Koffi, Ivory Coast)

of resolution 2152 (XXI). He would have liked to hear those States make it clear that, while they were opposed to a UNIDO special pledging conference, they were not ruling out direct contributions, which might be announced, for example, at a UNDP pledging conference.

It was true that the immediate task ahead was to decide on organizational arrangements, to make preparations for the International Symposium on Industrial Development, and to go ahead with the projects planned for 1967. But one must think about 1968 and 1969 also. The resources allocated to UNIDO by UNDP would hardly be sufficient for effective operational activities by UNIDO. He wondered how the developed countries, most of which supported the idea of programme budgeting, considered that it could be carried out, unless the amount of resources which would be available - additional to resources provided through UNDP - was known. He would also be grateful if the representative of the Netherlands could clarify his remarks regarding the financing of research and operational activities.

Mr. BLAU (United States of America) said that he felt that his delegation's statement at the 18th meeting made clear the United States view on the question raised by the representative of the Ivory Coast. He thought it necessary, however, to reply to other statements that had been made. The Legal Adviser had indicated to the Ad Hoc Committee his view that, pending the draft which the General Assembly would adopt in (XXI) regarding the contribution of the United States to the Fund for the Development of the World, and under those provisions, the Secretary-General could accept trust funds which he considered were not inconsistent with the purposes of the United Nations. He could not delegate the administration of the funds to the staff of the Department. In the case of trust funds for special industrial development, the Secretary-General would ask the Commission for Industrial Development - that the line of the Director of UNIDO - to administer them in consultation with the Administrator of UNDP. Nothing in resolution 2152 (XXI) affected the authority of the Secretary-General to accept such funds or to entrust any Secretariat official with the task of administering them. It was argued that such funds were not contributions under the terms of resolution 2152 (XXI). He could only say that his delegation had made it clear in the Ad Hoc Committee on the United Nations Organization for Industrial Development, in the Committee for Industrial Development, in the Economic and Social Council and in the Second

(Mr. Blau, United States)

Committee of the General Assembly that, if the United States judged it appropriate, taking into account the budgetary and financial situation of UNIDO, to make further resources available to that organization, it would do so in the same form as it had done for the year 1966. It was for legal experts to decide whether those explicit statements formed part of the legislative history of General Assembly resolution 2152 (XXI) and signified that such contributions could be regarded as contributions under the terms of resolution 2152 (XXI).

The meeting rose at 1.10 p.m.





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