

GENERAL AGREEMENT ON

TARIFFS AND TRADE

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REPORT OF THE COMMITTEE ON BUDGET, FINANCE AND ADMINISTRATION

INTRODUCTION

1. The Committee on Budget, Finance and Administration met on 8 December 1992.

2. The Committee was chaired by Mr. A. Szepesi of Hungary and the membership of the Committee was as follows:

Australia	India	Singapore
Brazil	Israel	Spain
Canada	Italy	Sweden
Chile	Jamaica	Switzerland
Colombia	Japan	United Kingdom
France	Korea, Rep. of	United States
Germany, Fed. Rep.	Malaysia	Venezuela
Hong Kong	Netherlands	Zaire
Hungary	Nigeria	

3. Denmark and Turkey were represented by Observers. When ITC matters were discussed, the meeting was also attended by members of the Secretariat of the International Trade Centre (UNCTAD/GATT).

4. The Agenda in document GATT/AIR/3381 was adopted with the addition under GATT Secretariat, item 3, Other Business of CONTRACTING PARTIES' Representatives on the ICITO/GATT Staff Pension Committee.

I. INTERNATIONAL TRADE CENTRE UNCTAD/GATT

5. The Committee returned to a discussion begun in October 1992 (document L/7105, paragraphs 17-23) on the Financial Report and Audited Financial Statements for the Biennium ended 31 December 1991 and Report of the Board of Auditors (A/47/5-Supplement No. 5). It was noted that two United Nations' documents related to the Report of the Board of Auditors:

- (i) Report of the Advisory Committee on Administrative and Budgetary Questions (A/47/500); and
- (ii) Report of the Secretary General on the Administrative System of the International Trade Centre (A/47/460)

were now available in all three languages. In addition, the ITC had prepared two other documents: the Audit System of the International Trade Centre UNCTAD/GATT (CRP(92)16) and ITC's Comments on the Observations and Recommendations contained in document A/47/5-Supplement No. 5 (CRP(92)18), in order to facilitate the work of the Committee.

6. At the beginning of the meeting, Mr. R. Makil, Officer-in-Charge of the ITC, circulated to the members of the Committee a formal statement (see Annex). In introducing the item, he said that the observations made by the auditors could be grouped into four main categories: (i) financial control and management issues; (ii) selection and administration of project staff; (iii) management of technical cooperation projects; and (iv) policy questions dependent upon decisions of the parent organizations. He said that he would concentrate on the first two categories, on which delegations had expressed particular interest.

7. With regard to financial control and management issues, Mr. Makil said that the ITC had no difficulty in accepting the Auditors' recommendations. He emphasized that instances of over-payment and misuse of air tickets were brought to the auditors' attention by the ITC itself and that steps had been taken to recover the relevant amounts. Internal systems and control procedures had been reinforced to prevent such things happening in the future. He added that he had asked the ITC internal auditors to make an assessment of the effectiveness of these internal systems and procedures.

8. Concerning the selection and administration of project staff, Mr. Makil said that the auditors' comments dealt only with project staff and consultants funded from trust funds and UNDP projects. Furthermore, the comments related basically to some eighteen Headquarters project staff, who have approximately eight months of core funding from their specific projects, with the rest coming mainly from field projects. This approach has been in use for some years and its implementation has not posed any major problems. In the future, this system of funding may no longer be necessary when the Global Fund and Consultative Committee are established.

9. Members thanked the representative of the ITC for his replies. They underlined the importance they attached to the audit and follow-up action and noted that, in many instances, the ITC had already undertaken the necessary follow-up. A member indicated that it would be useful to know the advice of the internal auditors' with regard to the effectiveness of existing control systems.

10. Several members expressed concern about short-term staff, including their use to meet longer-term needs. Some members felt there was a danger that the organization might feel a moral responsibility towards short-term staff employed for several years, in that such staff may develop certain career expectations.

11. Mr. Makil responded that it had recently been decided to recruit for such project positions only senior specialists with long years of experience who would hence not be interested in careers with the ITC.

12. Members felt that it was important to keep issues related to the ITC under review, to become more involved in the formulation of the ITC's budget, and to undertake closer co-operation with the other parent Organization, the United Nations, through its various bodies.

13. In summing up the discussion, the Chairman said that GATT has a special responsibility and interest in the smooth and efficient functioning of the ITC and that the Budget Committee should keep the relevant issues under constant review. The current discussions had been greatly facilitated by the papers prepared by the ITC as well as by the openness with which the ITC was prepared to respond to the concerns of the Committee.

14. The Committee took note of the statement of the Officer-in-Charge, the reports discussed, and agreed with the Chairman's suggestions to:

- (i) ensure that questions on the ITC, with possible new developments, should be taken up by the Committee at its next meeting;
- (ii) strengthen the future role of the Committee in the preparation of ITC budget estimates;
- (iii) investigate the possibility of establishing direct contact between the Budget Committee and its counterpart UN body with regard, inter alia, to ITC budget estimates; and
- (iv) reiterate the concern of the Committee to the Council concerning the unfilled senior management posts in the ITC and urge all parties concerned to make a determined effort to resolve the situation.

GATT SECRETARIAT

II. PERFORMANCE AGAINST 1992 GATT BUDGET
(CRP(92)17)

15. It was recalled that the Secretariat would produce that a Performance Against Budget report as at 31 October 1992 (CRP(92)17).

16. A member of the Secretariat said that for 1992 overall budgetary savings of some 2.5 million Swiss francs were foreseen. A major part of the savings was due to the fact that the dollar rate budgeted for salaries and contributions to the Pension Fund was higher than the actual rates in 1992. In addition, salary increases for General Service staff and post adjustment increases for Professional staff were in the event lower than foreseen. Finally, some posts had remained vacant and others were filled at a level lower than anticipated.

17. With regard to printing, an anticipated savings of some 100,000 Swiss francs resulted from changes to the 1992 edition of International Trade.

18. With regard to the overexpenditures foreseen, it was mentioned that for missions, the tempo of the current negotiations necessitated greater travel than had been foreseen and that changes in the local telephone tariff system of the Swiss PTT resulted in costs greater than budgeted under Common Services.

19. It was noted that any budgetary savings at the end of the year would be included in the Surplus Account and that, after taking account of contributions in arrears, if there were a positive balance, the Budget Committee would be consulted on its use.

20. Members welcomed the report and found it useful. A member said that he was glad that an overall budgetary savings was foreseen and reiterated his delegation's interest in control procedures, particularly with regard to discretionary spending.

21. The Committee took note of the report.

III. CASH SITUATION AS AT 30 NOVEMBER 1992
(CRP(92)19)

22. A member of the Secretariat introduced document CRP(92)19 and said that the cash situation was better than when last examined as at 30 September. She said that this was primarily the result of the rate of receipt of current year contributions which stood at almost 94 per cent of total assessments, as opposed to 85 per cent at the same date in 1991 and 88 per cent in 1990.

23. The Committee took note of the report.

OTHER BUSINESSIV. CONTRACTING PARTIES' REPRESENTATIVES ON THE ICITO/GATT
STAFF PENSION COMMITTEE

24. The Chairman recalled that the three-year term of the member and alternate member (Messrs. John Clarke and Munir Ahmad, respectively) would expire on 31 December 1992. Both had agreed to continue to serve for another term of three years beginning on 1 January 1993, should the Contracting Parties so decide.

25. The Committee recommends that the Council designate Mr. Clarke and Mr. Ahmad as member and alternate member representing the CONTRACTING PARTIES on the ICITO/GATT Staff Pension Committee for a further three-year term from 1 January 1993.

POINT FOR DECISION: Paragraph 25

ANNEX

GATT COMMITTEE ON BUDGET, FINANCE AND ADMINISTRATION

Statement by Mr. Raju Makil, Officer in Charge of ITC

Tuesday, 8 December 1992

Mr. Chairman, I would like to start on a personal note. The Audit Report in front of us refers to the biennium ending on 31 December 1991. Since I was appointed as Officer-in-Charge only from 1 May 1992 I was neither in charge of the ITC nor the Division of Administration during the period covered by the Auditors' Report. In fact, I did not have any dealings with the auditors since there were no observations concerning the division which I was directing. I have therefore no axe to grind, and no reason to take a defensive stand. In other words I am as objective and open-minded as you are about the comments and criticisms made by the auditors. What I would like to do is to go through the observations and recommendations of the auditors and to share with you ITC's comments and views on the matter. Hopefully, this will allow all of us to have a more balanced perception of the situation.

Before going into the details, I would like to make one or two general comments about the ITC. ITC as you know was established by the GATT in 1964, and since 1968 is operating as a joint subsidiary organ of the GATT and the United Nations, the latter acting through UNCTAD. In 1964, we started with a total budget of US\$50,000; in 1991 our total resource utilization from all sources and funds was approximately US\$55 million. Even during the last half-a-dozen years the resources more than doubled from US\$25.6 million in 1985 to US\$55 million in 1991. I would like to believe that this phenomenal growth is an indication of the relevance and usefulness of ITC's work, and the international community's confidence in the organization.

An important characteristic of the ITC is the predominance of extra-budgetary resources. To begin with we did not have any extra-budgetary resources at all, but now, about two thirds of our total resources are coming from this source. In fact, the introduction of many new activities during recent years was not financed from the regular budget but from extra-budgetary sources. Here again I would like to point out that 90 per cent of the extra-budgetary resources are given to ITC on a project-by-project basis. In other words, the trust funds and UNDP resources do not go into one global ITC fund. Each project has to be prepared, submitted and approved by the concerned funding agency and the recipient country. In 1991 we had 260 projects at different stages of implementation. Unlike assessed contributions there is no guarantee of the continuation of these projects. In fact, most of the projects are approved from year to year. Even projects which are funded for a number of years have a finite duration. All this will have very serious implications on the day-to-day operations of our technical co-operation activities and it is difficult to apply to such activities the procedures and practices which could be followed with respect to activities financed from regular budget resources.

Turning now to the document entitled "ITC's Comments on the Observations and Recommendations Contained in the Financial Report and Audited Financial Statements for the Biennium ended 31 December 1991 and Report of the Board of Auditors" dated 23 November 1992, you will notice that we have systematically covered all the observations made by the auditors in their summary and findings contained in paragraphs 7-25 of their report which can be seen in pages 8 and 9 of their report. Wherever there has been an auditors' recommendation or ACABQ comment with respect to any of these observations, we have indicated them underneath the relevant observation. Finally, we have indicated against each observation ITC's comments, which also include the information on the follow-up action which has been, or will be, taken.

The observations made by the auditors can be broadly divided into four categories, namely: financial control and management issues; selection and administration of project staff, the management of technical co-operation projects; and, finally, policy questions which are dependent on decisions by our parent organizations. I shall, in this introduction, give some general comments with respect to each of these categories, and, in this context, also refer to some of the other comments made by the auditors which are not included in their summaries or recommendations.

Starting with the financial management issues, you will notice that we in the ITC have no difficulty in accepting the recommendations made by the auditors, even though in certain cases we will have to receive directives or instructions from the United Nations before we can take follow-up action. In this context, I might say that there have been cases in which our internal control system did not prevent over payments and misuse of air tickets. I would like to point out that in all these instances the misuse and over payment were brought to the attention of the auditors by the ITC Administration itself and steps have been taken to recover the amounts. Moreover, we have taken steps to reinforce control procedures and systems to prevent such things happening in the future. I have also asked the internal auditors to look at ITC systems and procedures dealing with such matters to make an assessment about their effectiveness.

The second category deals with the project personnel. Here I may say that ITC has two categories of personnel: the regular staff financed from the regular budget contributed jointly and equally by GATT and the UN; and project staff and consultants funded from trust funds and UNDP projects. The auditors' comments deal with one of these categories, namely the project staff. In view of the tenor of the report I would like to point out that we have a rather complex system for the selection of project staff. First of all, we have to obtain the clearance of the recipient governments for every consultant or adviser sent to a country. For this purpose, our normal procedure is to submit a list of three candidates with their personal history forms and a job description and even this list of submission is selected after rigorous scrutiny. A selection panel, consisting of equal numbers of management representatives and staff representatives, and chaired by the Deputy Executive Director, has to clear the submission of all assignments for six months and above. As we have pointed out in our comments, this selection panel system is not mandatory

under the United Nations regulations, but was introduced in the ITC mainly to ensure that the highest standards are followed in the selection of project staff. In this context I would also point out that during 1991 we recruited candidates for over 700 assignments, and I hope this figure will enable you to see things in a certain perspective and balance.

The Auditors' Report tends to give the impression that project personnel are appointed before funding is obtained, but their observations do not tell the whole story. There may be certain situations in which ITC has not physically received the funds, but in all such cases we have a very good idea about where the funds are coming from. Since we have been working with our major donors for a considerable period of years, their word is as good as cash, and the fact that the funds have not been transferred is not a big problem.

As I pointed out earlier, most of the new activities recommended by the UNCTAD/GATT Joint Advisory Group on ITC (JAG), and requested by the governments, have been funded from extra-budgetary resources. We have been trying in the ITC to stretch every dollar to get the maximum return possible. For instance, in order to respond to requests from the JAG and countries, we have adopted an innovative way to launch new programmes and activities. In certain cases, instead of using twenty-four months' resources to recruit two advisers for twelve months each, we recruit three advisers by giving them each eight months of core funding from these twenty-four months and funding the rest from resources of individual projects requiring their services. From our years of experience we know that their services will be required for such individual projects. These practices serve three useful purposes. First, it enables us to recruit a larger number of specialist advisers than otherwise. Secondly, we are able to respond promptly to requests from individual projects in the field. Thirdly, these practices also ensure that the advisers' work is closely related to the practical realities in the field.

The third category of observation relates to technical co-operation management. Since our detailed comments are given under the various observations, I will only point out that we have a rather elaborate system of evaluating our projects and programmes. Every project of any considerable size is subject to joint evaluation by the ITC, the funding agency and the recipient countries. In addition, an independent evaluation of each of our programmes is carried out every year by outside consultants and their report is reviewed by a technical meeting as well as by the JAG. Finally, each Programme Manager is obliged to carry out a self-evaluation of major programmes. All these evaluations are carried out by recognized experts in trade promotion and are reported one way or the other to our JAG which, as you know, has a mandate of giving technical guidance and direction to ITC. I would dare to suggest that such evaluations perhaps give a more balanced picture of ITC's projects and programmes. Of course, this is not to say that I disagree with the ACABQ's observation or comment that there is room for improvement in order to provide more effective technical assistance. In fact, many ideas have been discussed within ITC and the JAG for improving the present situation, and I would, in this connection, particularly refer to the proposal to set up a Global Fund and

Consultative Committee. This was first proposed by Sweden early in 1990 and a Working Group appointed by the JAG in 1991 has endorsed this proposal, and the Group's recommendation was agreed to by the Technical Meeting held early this year and will be further considered by the JAG in its next meeting to be held in April 1993. Hopefully, the system will come into operation during the latter half of next year and this will go a long way in further improving our technical co-operation activities.

The fourth category of observations deals with policy issues falling within the purview of the parent organizations. The topic of the application of UN Regulations, Rules and Administrative Instructions features prominently in the Board's Report and in the General Assembly document A/47/460 entitled "Administrative System of the ITC - Report of the Secretary General". It is important at the outset to avoid any possible misunderstanding on this point. ITC complies fully with the United Nations Regulations and Rules, both financial and staff. It is at the level of the administrative procedures that ITC can be seen to differ from the detail of the corresponding administrative instructions issued by the United Nations. An example is the Secretary-General's bulletin dealing with the designation of staff members performing significant functions in financial management, personnel management and general administration. This bulletin entrusts the United Nations administration in New York with the authority to designate such staff members. The bulletin also states that in the performance of such functions, staff members so designated are responsible to UN administration as well as to the head of their respective department or office. Such an arrangement is incompatible with the agreement between GATT and UN for the administrative arrangements of ITC. This matter is under discussion between the UN and the GATT.

Mr. Chairman, before concluding I would like to draw your attention to the observations and recommendations made by the auditors regarding vacancies in the top management contained in paragraph 9 of their findings and the related recommendation at paragraph 6(a), I would say that we fully share the concerns expressed by the auditors and the ACABQ. As I pointed out during the last meeting of the Budget Committee held on 16 October, three of the six management level positions in the ITC have been lying vacant for a very long period of time. The post of Executive Director has been lying vacant for over seven months; and the post of Director of the Division of Administration has been lying vacant for more than one year. You will understand that it is difficult for an organization that is already very slim to function properly with so many top level posts left unfilled. You are all aware of the reason for the delay in the appointment of the Executive Director and therefore I will not go into that matter. I will only point out that the other two posts are equally important for the efficient running of the ITC. For example, the Deputy Executive Director, who is also the Director of Operations, has been responsible for internal co-ordination and supervision and for reconciling differences of opinion between operational divisions and the Administration. To conclude, we fully share the views expressed by the auditors and ACABQ that such a large number of vacancies at the top management level weakens the organization considerably and may have negative consequences on the Centre's performance; and we do hope that all these posts will be filled without further delay, as recommended both by the Board and the ACABQ.