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Held at Headquarters, New York, on Tuesday, 16 March 2004, at 10 a.m.

Chairman: Mr. Kmoníček . . . . (Czech Republic)

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

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04-27202 (E)

The meeting was called to order at 10.15 a.m.

Agenda item 119: Review of the efficiency of the administrative and financial functioning of the United Nations (*continued*)

Implementation of the recommendations of the Office of Internal Oversight Services on the Investment Management Service of the United Nations Joint Staff Pension Fund (A/58/725)

1. **Ms. Bertini** (Under-Secretary-General for Management), introducing the report of the Secretary-General on the implementation of the recommendations of the Office of Internal Oversight Services on the Investment Management Service of the United Nations Joint Staff Pension Fund (A/58/725), said that the report outlined the progress made since her previous statement on the matter in October 2003, as well as the initiatives taken to streamline and enhance the overall efficiency of the Investment Management Service.

2. She recalled that, in her capacity as the representative of the Secretary-General for the Fund, she had engaged the consulting firm Deloitte & Touche to review the status of implementation of the audit recommendations of the Office of Internal Oversight Services (OIOS) and provide guidance on the way forward. The consultants had recommended that the United Nations should conduct a comprehensive review of governance and strategy and investment processes and operations.

3. She had decided that the exercise should proceed on two parallel tracks. With the exception of the fourth element, asset allocation, Track I — assessment of governance and strategy — had been deferred, as OIOS had undertaken a further audit of the governance of the Fund. However, Track II — investment processes and operations — had been set in motion. A request for proposal had been released in February 2004 to companies competent to conduct the review. The scope of the request for proposal demonstrated the commitment of the Secretary-General to address the audit issues not simply as they related to the specific recommendations of OIOS, but in a much more comprehensive manner that would bring about the adoption of good investment business practices in the Investment Management Service.

4. Effective 1 January 2004, all investment officers and investment assistants of the Investment Management Service who made investment decisions or had access to investment instruments and relevant accounting records were required to agree to conform to the professional code of ethics of the Association for Investment Management and Research (AIMR). In addition, they were required to submit on an annual basis, starting in 2004, the financial disclosure required under regulation 1.2(n) of the United Nations Staff Rules. She noted that, as the representative of the Secretary-General for the Fund, she too had complied with those requirements. The steps just described were immediate measures. However, in the long term, the development of a code of conduct for investment officers specific to the United Nations system was envisaged.

5. Another positive development was the strict use of competitive procedures in the procurement of services by the Investment Management Service, which had already resulted in obtaining better value for the Organization in terms of fees. In addition, a legal officer had been assigned temporarily to do a thorough review of all contracts to which the Investment Management Service was a party and to strengthen its documentation and procurement procedures.

6. A new Director of the Investment Management Service had recently been appointed and was expected to be on board by mid-May 2004. The candidate chosen would bring to the Service extensive experience in investment management and was a proven leader in prominent investment companies in various countries.

7. She trusted that the Committee would take note of the measures outlined in the report. The Secretary-General had set a premium on ensuring the streamlined and efficient operation of the Investment Management Service and she wished to assure members that she would oversee the progress of the initiatives taken very closely.

8. **Mr. Yamamoto** (Japan) said that his delegation supported the implementation of measures to improve the Investment Management Service. In order to achieve that goal, it was crucial to enhance both governance and strategy and investment processes and operations and to ensure that those two key aspects were linked. His delegation therefore welcomed the two-track approach that had been adopted. He noted with satisfaction the appointment of a new Director with extensive experience in investments. Lastly, he expressed the hope that the Under-Secretary-General

would work closely with the new Director, who would manage the day-to-day operations of the Service as it endeavoured to implement the recommendations of OIOS.

9. **Mr. Farid** (Saudi Arabia), noting that the market value of the Fund's investments currently stood at $26.3 billion, said that the issue before the Committee was a very important one. He welcomed the measures outlined in the report, which demonstrated that the reform of the Investment Management Service was proceeding on the right track. While the requirement that investment officers agree to conform to the professional code of ethics of AIMR was a positive step, his delegation looked forward to the adoption of a code of professional conduct.

10. **Mr. Repasch** (United States of America) recalled that his delegation had expressed dismay about the findings of the OIOS audit of the Investment Management Service, which had revealed substantial irregularities and poor management. He was pleased to note that those concerns had been addressed and that comprehensive action was being taken to improve the Service, although it would be interesting to hear the views of OIOS in that regard. Noting that a consulting firm had been hired to review the progress made in implementing the recommendations of OIOS and that another company was to conduct a more in-depth evaluation, he requested information on the cost of the services provided. Lastly, he asked why the appointment of the new Director had not been handled more expeditiously. In an organization with mandatory retirement, one might have expected the succession to be planned more efficiently.

11. **Ms. Bertini** (Under-Secretary-General for Management) said that, on her appointment in April 2003, she had been informed that the post of Director would become vacant in September. She had instructed that steps should be taken to advertise the post. However, it had first been necessary to write a job description; that was a time-consuming process and the vacancy announcement had not been circulated until the summer. Subsequently, her Department had been busy with other matters. While the delay in appointing the new Director was regrettable, she wished to assure the Committee that the Officer-in-Charge had done a good job in keeping the Service running and identifying issues that needed to be addressed. In that connection, she noted that the market value of the Fund's investments was close to the all-time high set in March 2000.

12. She had considered it essential to engage a reputable consulting firm to review the status of implementation of the audit recommendations of OIOS because of differences of opinion concerning some of the issues raised in the related report. The firm hired to conduct the review had received $27,500, which was not too much to pay for a clear picture of the progress made and the work that remained to be done. OIOS itself had welcomed the measures taken thus far.

13. The cost of the review of investment processes and operations was not known because the request-for-proposal process was not yet complete and the winning firm had still to be selected.

Agenda item 121: Programme budget for the biennium 2004-2005 (*continued*)

Capital master plan (*continued*) (A/58/729)

14. **Ms. Bertini** (Under-Secretary-General for Management), introducing the report of the Secretary-General on the status of possible funding arrangements for the capital master plan (A/58/729), said that on 20 February 2004, the host country Government had extended a provisional offer of a loan of $1.2 billion to the United Nations to finance the plan. The offer was subject to approval of the draft presidential budget by the United States Congress, which would lead to a formal offer by September 2004. The funding for construction must be available to the United Nations by late 2006. Interest, to be paid annually, would be at 5.54 per cent. Under the scenario used by the host country, payments would amount to approximately $2.5 billion, consisting of $1.2 billion in principal and $1.3 billion in interest.

15. As indicated in paragraph 7 of the report, the Secretary-General was recommending that the General Assembly should note with appreciation the intention of the host country Government to offer a loan, note that interest would be payable, call for further consultations with the host country authorities on the exact terms and conditions of the loan and request that other funding opportunities be explored.

16. In paragraph 25 of its resolution 57/292 on questions relating to the programme budget for the biennium 2002–2003, the General Assembly had appropriated $25.5 million for the first phase of the

design work for the capital master plan. Expenditure to date had been included as an annex to the current report. The Secretary-General would request appropriation of the remaining $26 million for the capital master plan design phase at the fifty-ninth session of the General Assembly.

17. **Mr. Saha** (Vice-Chairman of the Advisory Committee on Administrative and Budgetary Questions) said that the Advisory Committee had exchanged views on the issue on 5 March 2004. It was of the opinion that the funding arrangements for the capital master plan were a policy matter for consideration by the General Assembly. The Advisory Committee would revert to the question of the capital master plan at its spring and autumn sessions in the context of further reporting by the Secretary-General. It would take into account such policy guidelines as the General Assembly might wish to give in connection with the report under consideration.

18. **Ms. Stanley** (Ireland), speaking on behalf of the European Union, the acceding countries (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia), the associated countries (Bulgaria, Romania and Turkey), the stabilization and association process countries (Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia and Serbia and Montenegro) and, in addition, Iceland and Norway, noted with concern that the proposal by the host country Government, as outlined in document A/58/729, would more than double the cost of the capital master plan project. The United States, as the host country, had unique responsibilities towards the United Nations. Moreover, an understanding had been reached during the negotiations on the text of General Assembly resolution 57/292 that the United States offer would not take the form of an interest-bearing loan. The European Union believed that the United States should provide a substantial portion of the funding for the capital master plan. It also wished to encourage the Secretary-General to continue to explore other financing options, including the securing of private donations and the setting-up of a financial advisory board.

19. **Mr. Kennedy** (United States of America) said that he regretted the criticism of his Government's offer even before he had had a chance to present it. It was essential to understand that it was merely a proposal, as the United States Congress must approve the presidential budget plan. The Congress would take up the capital master plan funding proposal as part of the 2005 financial year budget discussions, which were expected to be finalized by 30 September 2004 for the fiscal year beginning 1 October 2004.

20. It was important to highlight and clarify some aspects of the proposal. Like all Member States, the United States Government would pay its regular assessed share of 22 per cent of the loan's principal and interest. That included a waiver of its past practice of not paying interest on United Nations loans. The United States Treasury would first raise a loan to cover the principal, and the interest to be paid by Member States would not go to the Government but rather to the investors who provided the principal. The Government would make no money on the loan and would in fact be paying approximately $6 million to guarantee it and insure against default.

21. The 30-year term, selected for illustration because it matched the term of the original loan for the construction of the building, consisted of a five-year grace period of interest-only payments to be followed by 25 years of payment of interest and principal. The term could actually be any lesser number of years, if Member States so decided. The amount of the loan was a maximum potential amount, including the baseline proposal and all scope options for the plan. Member States could decide to borrow the full or a smaller amount. His Government's proposal also assumed three equal distributions of $400 million in the first three years of construction, but the amounts drawn and when they were drawn would depend on the Organization's actual needs. The decisions of the Member States on the four distinct but related variables of the loan term, the interest rate, the loan amount and the disbursement plan could reduce overall loan costs.

22. The provisional offer had a maximum term of 30 years and a maximum interest rate of 5.54 per cent. Changing the term to 15 years, including a grace period, would reduce the interest rate to 4.760 per cent. The total of principal and interest would then be $1.615 billion, or almost $896 million less than a 30-year loan. Using a 20- or 25-year term would similarly reduce overall costs, though not as dramatically.

23. The loan amount of $1.2 billion was a maximum. A lesser figure would reduce the overall costs to Member States. Not choosing any scope options would bring the loan to $1.049 billion. The loan disbursement

plan had been based notionally on equal $400-million payments, three years in a row, but the capital master plan management had advised his delegation that only about $120 million would be needed in the first year. A longer trend of disbursements would reduce the loan cost.

24. His delegation urged the Committee to adopt a resolution welcoming the report of the Secretary-General on the provisional loan offer from the United States of America and to defer further discussion to the fifty-ninth session of the General Assembly, since the offer would remain provisional until the United States Congress acted on the presidential budget. The capital master plan design funds were sufficient to last the capital master plan programme management until the autumn, so no immediate action was needed. Any loan offer approved by the Congress would be valid until 30 September 2005 and the loan agreement would need to be signed by that date. It might be appropriate for the Secretary-General to explore other funding operations, since the upper limits of the loan were unknown. It should be recalled that piecemeal and reactive floor-by-floor or section-by-section renovation of the United Nations compound would cost a significant amount and disrupt the operations of the Organization and Member States.

25. When considering the efforts of the United States of America as the host nation, account must also be taken of the separate but related efforts of the city and state of New York to design and build a secure building on Robert Moses Park. Consolidating offices not currently within the United Nations compound into a new annex with rental rates below the commercial market rate would provide significant savings to the United Nations and Member States and improved security for those working in and visiting the new annex. At the end of the term of the bond used by the city and state to construct the building, the United Nations would own it and have free use in perpetuity of the land on which it stood. The overall package held considerable advantages.

26. **Ms. Sakata** (Japan) said that the capital master plan could have implications for the security of the Organization and the security and health of its staff. For that reason, her delegation supported General Assembly resolution 57/292 and believed that Member States must lose no time in dealing with the matter.

27. Japan viewed the proposal of the United States for financing the project as a commitment to support and promote the capital master plan, but it fell short of what had been expected from the host country. Although her delegation, and others, had had an oral briefing from the United States delegation, she was not sure if the Secretariat itself had received enough information from the host country regarding its proposal. For discussions to proceed properly, Member States must be briefed on all the details of the host country’s efforts and contribution, and on how its proposal had been arrived at.

28. **Mr. Mazumdar** (India) said that in its statement of 25 October 2002, during the fifty-seventh session of the General Assembly, his delegation had expressed concern that delays in implementing the capital master plan would produce a cost escalation of 3.5 per cent per year and had asked for the financing arrangements for the project to be concluded speedily. A year and a half later, the situation had not changed.

29. It had noted the provisional offer of a loan from the host Government and the amount, interest rate and term involved. In paragraph 29 of its resolution 57/292, the General Assembly had requested the Secretary-General to report to it at its fifty-eighth session on funding arrangements including, but not limited to, a financial package from the host country, and on other efforts to secure contributions from public and private sources. As the current report of the Secretary-General had not mentioned them, his delegation must assume that no such efforts had been made.

30. While India appreciated the intention of the host country to offer a loan, it hoped that the Secretary-General would be able to consult with its authorities to make the terms and conditions of that potential loan acceptable to all Member States. Pending such consultations, his delegation agreed with the recommendation that the General Assembly should again authorize the Secretary-General to explore other funding opportunities from public and private sources and to report to it at its fifty-ninth session.

31. **Mr. Iosifov** (Russian Federation) said that following the approval of the capital master plan, the main task for the General Assembly was to discuss its financing. His delegation welcomed the role of the host country in finding sources of funding. It had taken account of the reasoning behind the host country’s proposal and noted that it was provisional.

32. The United Nations had not just become part of the landscape of New York, it was also part of the city's economy. His delegation was grateful to the city and state of New York for the active part they were playing in the renovation of the Headquarters building and urged further collaboration with the host country to find the best financing solution for the capital master plan. Agreement on the recommendations contained in paragraph 7 of the report before the Committee would be a positive step.

33. **Ms. Wang Xinxia** (China) said that at the fifty-seventh session of the General Assembly, her delegation had advocated a well-planned and well-executed renovation rather than the piecemeal repair of the Headquarters building. It supported the capital master plan because renovation would improve security and benefit the staff.

34. The central issue was funding. A year and a half previously, China had spoken in favour of the solution used 50 years earlier for the original construction of the Secretariat building and had not changed its view since then. It noted that the host country had provisionally proposed a loan and hoped that the Secretary-General would discuss it with the host country authorities in order to come to a solution acceptable to all Member States. All other possible options must also be examined.

35. **Ms. Santos-Neves** (Brazil) said that the capital master plan must move forward because of its consequences for security and occupational health and because of the cost of piecemeal maintenance. Her delegation had noted the loan offer from the host country but was not sure how to address it, since it would remain provisional until approved by the United States Congress.

36. Neither the report before the Committee nor the previous report on the capital master plan (A/58/599) had suitably addressed the issues in paragraphs 26, 27, 28, 29 (a) and 29 (b) of General Assembly resolution 57/292. It seemed that no further efforts had been made to secure financing for the plan. Her delegation was disappointed and hoped that the next report on the subject would provide further details, comments and initiatives.

The meeting rose at 11 a.m.