



STATEMENT ON BEHALF OF THE GROUP OF 77 AND CHINA BY MS. KAREN LOCK, PERMANENT MISSION OF SOUTH AFRICA TO THE UNITED NATIONS, ON AGENDA ITEM 126: UNITED NATIONS PENSION SYSTEM, IN THE FIFTH COMMITTEE OF THE GENERAL ASSEMBLY (New York, 10 November 2006)

Mr. Chairman,

I have the honour to speak on behalf of the Group of 77 and China on agenda item 126.

2. The Group of 77 and China wishes to thank Mr. Warren Sach, the Controller, Mr. Vladimir Yosifov, Chairman of the United Nations Joint Staff Pension Board, and Mr. Rajat Saha, the Chairman of Advisory Committee on Administrative and Budgetary Questions (ACABQ) for introducing the various reports under this item.

3. The Group of 77 and China believes that improvements in the United Nations Pension System should be implemented in such a way that they benefit existing participants and retirees. With that in mind, it is important that current participants and retirees, as well as Member States have a clear understanding of the aims, structure, functions and the activities of the Fund. An essential principle and strength of the UN Pension System must also be its transparency and accountability.

4. The Group appreciates the improvements made to the report of the Pension Board and trusts that further improvements as requested by the ACABQ would be considered. We support the view that it would be beneficial to receive an Executive Summary of the Fund's performance and the effects of global economic developments on that performance. It would also be useful if key developments concerning the performance of the Fund, in particular difficulties experienced during the period under review, could be highlighted. We, furthermore, concur that future reports should include detailed information provided by the Administration of the Fund and Pension Board for not implementing the recommendations of the Board of Auditors. The Group, however, expects that the recommendations of the Board of Auditors will be implemented expeditiously.

Mr. Chairman,

5. Turning to the recent performance of the Fund, the Group notes with appreciation that Fund investments have yielded an increase of \$6,529 million reflecting a significant improvement in assets. While we appreciate efforts by the Fund to act on its commitment to engage in wide geographical diversification when investing, we believe that further efforts are required to invest in developing countries so as to ensure the attainment of this objective. For example, it appears that Latin America, as an area for investment is losing favour with the Fund. Investments in this region, meeting the criteria of safety, profitability, liquidity and convertibility, can serve as a spur for economic growth and job creation.

Mr. Chairman,

6. As of March 2006, Fund assets amounted to \$33 billion, yet despite these huge sums only a small team of managers has been given the responsibility to oversee the assets. Expecting one individual to be accountable for an investment portfolio amounting to over \$15 billion in one instance or \$9.5 billion in another seems to be presenting a high risk to the Organisation.

7. On a related matter, it would be prudent to clarify the delegation of authority from the Secretary-General, as the sole custodian of the Fund, to his "Special Representative" to conduct business on behalf of the Secretary-General. We believe that issues relating to the governance of the fund should be reviewed, given that the Fund has evolved and grown since it was first instituted in the early days of the United Nations. The Group intends to pursue this matter during the informal consultations.

8. In this context, we seek clarification as to why these responsibilities have not been assigned to a team of first-rate managers? These huge sums would entail huge responsibilities and should be treated as such. However the report unfortunately conveys the impression that they are being treated in a somewhat casual manner.

9. In addition, the Secretary-General's report points to passive management of the \$1.3 billion real estate portfolio. We would appreciate a clarification as to the reasoning therefore, as well as an elaboration as when and what will be done to correct this apparent irregularity. This situation raises a question as whether or not suitably qualified and experienced managers will be sourced in the immediate future to deal with this substantial portfolio. Competitive remuneration packages should serve as a magnet for such managers.

10. The Group of 77 and China is concerned by indications that due to a lack of staff in the Risk and Compliance Section of the Investment Management Service (IMS), the Fund suffered a loss of \$8.7 million. We are also very concerned by indications that no accountability mechanism seems to have been in place to ensure that disciplinary action is taken against the individual responsible for the significant loss and we would appreciate receiving an explanation of this aspect.

11. In the context of these challenging circumstances, the Group fully supports the recommendation of the ACABQ that the administration should act expeditiously to fill all existing vacancies in the Secretariat of the Fund, especially those in the IMS, which has been faulted for its "lax" monitoring performance. As proposed, it would be helpful for investment managers to be subject to regular, independent performance reviews to upgrade the quality of their work and also ensure that adequate accountability is observed. We urge that appointment of these vacancies will be done in a prompt manner and with due respect to the principle of equitable geographical distribution.

12. The Group believes that there are important matters regarding the investment management strategy of the IMS that should be clarified. The Group is concerned about the determination of the IMS to judge its equities portfolio in accordance with criteria used for North American equities. The claim is that the North American equities are "difficult to outperform". However, the report also refers to the "chronic underperformance" of these equities in one part but then appears to favour indexing the Fund's equities with the North American equities in another because such a decision would have resulted in "lower risk and higher return". We would appreciate a clarification of these two seemingly contradictory positions. We will also appreciate a clarification on alternatives to the North American equities to serve as benchmarks.

13. It also strikes the Group as odd that no benchmarks were established for small-capitalization equities, even though the Fund's equity portfolio incorporates such equities. We would appreciate further clarification of this aspect.

Mr. Chairman,

14. The Group wishes to register its concern at the conduct of the Representative of the

Secretary-General, in this case the Under-Secretary-General for Management who, without consulting the relevant parties, namely the Pension Board or the General Assembly, took the decision to work out a new formulation for the Fund's strategic asset allocation and its performance benchmark. We believe that it was improper for the Representative to disregard established procedures and to make such decisions without due consultation. As highlighted by the ACABQ, these actions were in direct violation of the Investment Manual. This raises serious concerns with regard to the exercise of delegation of authority and accountability mechanisms. It is imperative that that corrective measure is taken immediately and it would be pertinent to receive clarification concerning the actions that have been taken to deal with this matter.

15. The Group of 77 and China concurs with the Advisory Committee that before any decisions to effect further significant changes in investment policy are taken, comprehensive, clear and convincing information should be presented to the Pension Board. The information *inter alia* should indicate the level of tolerance for the risks involved in making such changes. This is another important and crucial aspect that seemingly has been ignored in this instance.

16. Turning to an important related matter, it would be helpful if some light could be shed on the actuarial dimension of the Fund's operations because of the critical role that actuarial valuations play in determining whether current and estimated future assets of the Fund will be sufficient to meet its liabilities. On that basis, some insight should be provided into the assumptions that result in valuations. Moreover, there should be greater transparency in selecting the consulting actuary who does the valuation of the Fund every three years.

Mr. Chairman,

17. The Group of 77 and China is concerned by the lack of action taken by the Board in response to the request by the General Assembly in 2004 to provide information on "the special situation of pensioners living in countries having undergone dollarization, and on possible proposals to attenuate the adverse consequences arising there from". Ecuador was specifically identified as the only country in which dollarization process led to an abrupt macroeconomic transition, and, as such, it was regarded as a case worthy of deep analysis.

18. The Group of 77 and China consequently is concerned that, nearly two years after its initial request, the Board has only now tasked its CEO to visit Ecuador for further analysis. The Group looks forward to expeditious action by the Board to complete its work on this matter. In this context, we expect an elaboration of measures to reduce the adverse consequences of the dollarization process on retirees and beneficiaries living in Ecuador.

19. In conclusion, Mr. Chairman, the Group of 77 and China is concerned by indications that many beneficiaries are facing reductions in their compensation due to banking transfer fees. We note that the decision to centralize the banking services in banks located in the United States, resulted in undue fees collected by third banks from the compensation of the beneficiaries. The Group would appreciate a clarification of this matter, as well as a reflection of remedial measures.

I thank you.