

UNITED NATIONS
DEVELOPMENT
PROGRAMME



UNDP

Distr.
GENERAL

DP/472
1 April 1980

ORIGINAL: ENGLISH

GOVERNING COUNCIL
Twenty-seventh session
June 1980
Agenda item 4 (c)

PROGRAMME IMPLEMENTATION

Investment follow-up

Note by the Administrator

At its twenty-sixth session, the Governing Council requested the Administrator to carry out investment development studies. ^{1/} Attached is the study on UNDP and Pre-investment which was prepared and submitted to the Administrator by Sir Robert Jackson. The Administrator is making it available to the Council for background information. The Administrator's comments on the report are contained in DP/479.

^{1/} See Official Records of the Economic and Social Council, 1979, Supplement No. 10, (E/1979/40, chap. XXI, decision 79/10).

UNDP AND PRE-INVESTMENT

Report prepared by Sir Robert Jackson

LETTER OF TRANSMITTAL

Bangkok

3 March 1980

My dear Administrator,

Following the twenty-sixth meeting of the Governing Council, you asked me to undertake a study of the United Nations Development Programme's experience in the field of pre-investment with a view to modifying existing policies and procedures so as to improve the mobilization of capital for investment in the developing countries.

My report is attached. I wish to thank you for providing me with a further opportunity to review one of the most difficult problems with which UNDP has been confronted ever since its inception.

Yours sincerely,

(Signed) R. G. A. Jackson

Mr. Bradford Morse
Administrator
United Nations Development Programme
New York

CONTENTS

	<u>Page</u>
SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS	7
I. INTRODUCTION	11
A. Terms of reference	11
B. The substance of the report	11
C. The general approach to the problem	11
D. The guiding principle	12
E. Historical background	12
F. How the expression "pre-investment" is used today	12
G. Statistics	12
II. THE PRESENT PROGRAMME	13
A. Analysis	13
B. Four groups of executing agencies	18
C. The three major problems	21
D. What is being done by UNDP and UNDS	22
III. THE FIRST MAJOR PROBLEM: LINKING PRE-INVESTMENT TO INVESTMENT	23
A. Difficulties in linking pre-investment to investment	23
B. Some suggestions for improving the linkages between pre-investment operations and investment	25
C. Comments	30
IV. THE SECOND MAJOR PROBLEM: THE DECLINE IN UNDP'S PRE-INVESTMENT ACTIVITIES	31
A. Some reasons for the change in the balance of the programme	31
B. Should this change be accepted?	32
V. THE THIRD MAJOR PROBLEM: COUNTRY PROGRAMMING - PRECEPT AND PRACTICE	35
VI. THE NEW CROSSROADS	37
VII. SEVEN BUILT-IN CONSTRAINTS	38
VIII. THE FUTURE OF THE PROGRAMME IN RELATION TO PRE-INVESTMENT AND INVESTMENT FOLLOW-UP	41

CONTENTS (continued)

	<u>Page</u>
IX. THE DEFINITION OF PRE-INVESTMENT	43
X. ACKNOWLEDGEMENTS	43

Annexes

- I. Operational definitions of pre-investment projects
- II. Potential sources of capital

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Conclusions

It is not possible to make a statistically accurate and system-wide comparative study of experience in pre-investment and investment follow-up because, with the passing of time, the word "pre-investment" has come to have different meanings at different times for the different organizations that make up the United Nations Development System (UNDS). It is possible, however, to observe certain trends by analysing data now available. Three general conclusions emerge:

First: Despite strenuous and sustained efforts on the part of all concerned, a significant percentage of pre-investment projects financed by UNDP have not led to investment;

Second: The proportion of UNDP's resources devoted to projects intended to attract capital investment has declined to a marked degree. (Some executing agencies have, however, secured considerable funds for pre-investment projects from sources other than UNDP);

Third: Those two trends partly derive from the fact that the original concept of the United Nations Development Co-operation Cycle (UNDCC), and specifically of country programming, in the Capacity Study has, in practice, fallen short of its objectives.

Recommendations

Policy issues requiring consideration by the Governing Council

1. The Governing Council should critically review UNDP's mandate in pre-investment in the light of the findings of this study. If the conclusion is to reaffirm - and reinforce - UNDP's role in this critical area, such a decision must be supported by clear policy directives for the reversal of the current decline in pre-investment activity, bearing in mind the constraints enumerated in the report and the specific recommendations which follow.
2. The Governing Council of UNDP and other interested governing bodies should support the recommendation of CCSQ (OPS) to ACC that a set of "appropriate definitions" be drawn up to describe "pre-investment and (related) investment activities", and should urge that this work be given priority.
3. As a fundamental step in attempting to correct the decline, the respective and interrelated roles of the Governments of the developing countries, on the one hand, and of the Administrator, on the other, should be clearly defined and understood by all concerned. The country programme reflects an act of national sovereignty on the part of the Government, and agreement by UNDP to finance a particular project denotes an act on the part of the Administrator for which he is accountable to the Council.

4. The allocation of UNDP's resources should be reviewed, bearing in mind the critical importance of attracting a much higher level of capital investment into the developing countries, particularly the least developed.
5. Again, as another basic step designed to correct the decline, the present system of country programming should be modified so as to ensure that resources are used to the best advantage, that IPFs are not permitted to become firm financial commitments, and that each programme has a high degree of flexibility, thus permitting its continuous adjustment to changing political and economic conditions.
6. A further prerequisite would be to ensure that the maximum of authority is delegated to the field (and regional) offices as soon as possible. Such a policy would be in the interests of the developing countries because it would encourage them to assume more responsibility for their own development. It would also accelerate action, reduce overheads, and provide an incentive for officials serving in the UNDS to assume greater responsibilities. The functions of headquarters should be reduced to the minimum essential to ensure the efficient management of resources.
7. By the same token, everything possible should be done to increase the execution of projects by national Governments.
8. The operations of the United Nations Capital Development Fund (UNCDF) should be expanded as rapidly as it can demonstrate its capacity to utilize additional funds effectively.
9. The operations of the United Nations Revolving Fund for Natural Resources Exploration (UNRFNRE) which has great potential, should be kept under close review and action taken to support and expand its work if it develops successfully.
10. The feasibility of establishing a pre-investment revolving fund, or an investment support fund, in order to carry promising projects (especially in the least developed countries) to the appraisal stage should be re-examined.
11. Full support should be given to the Administrator in evolving a system-wide information system in co-operation with all other interested organizations in UNDS. This would not only contribute greatly to the efficient use of UNDP's resources generally, but would also significantly improve the availability of information on projects with investment potential, as well as on possible sources of finance.
12. An appropriate recommendation should be made to the Secretary-General with a view to providing the Department of Technical Co-operation for Development (given its wide responsibilities for the development of natural resources and of energy) with adequate staff in the field of pre-investment and investment follow-up, so that the work of its professional experts could be used in the same effective manner as in other organizations, e.g. FAO. If this were done, consideration should also be given to the Department's relationship with IBRD and regional banks.

Programming

13. Where necessary, action should be taken to ensure that the vital dialogue between the Government, on the one hand, and the resident representative on behalf of the Administrator, on the other, is conducted in such a way that optimum use is made both of the country's resources and those provided by UNDP, and that full weight is given to UNDP's pre-investment mandate and capability.
14. In this process, Governments and resident representatives should be encouraged to place increased emphasis on specific projects and surveys of natural resources that are likely to attract capital.
15. Governments and resident representatives should devote special care to the identification of projects, particularly those with a potential for attracting investment, and ensure that all such projects enjoy firm government support and priority. Given the scarcity of financial resources, projects involving unreasonably high risks or of low priority should not be undertaken.
16. In the case of pre-investment projects, special care should be taken to "pin-point" primary responsibility for the project in a particular department of the Government and also within the UNDS.
17. Pre-investment projects should be kept under very careful review, and if a stage is reached where one appears to have a reasonable chance of attracting investment, the Government should consider initiating an "investment review" which, amongst other things, could, under favourable circumstances, enable further work to be carried out in co-operation with the potential investor. Such an arrangement would eliminate the duplication in effort that now usually takes place.
18. In addition, a systematic mechanism of periodic review of all pre-investment projects, both completed and ongoing, should be established at the field level (basic) and at the headquarters of the executing agencies or of UNDP. The essential elements would be a mandatory annual review, with specific provision, inter alia, for the review and follow-up of all pre-investment projects, and annual reports by the resident representatives based on the review. A main objective would be to ensure that any completed projects which failed to attract investment earlier, but later became viable as a result of changed political or economic conditions, are opportunely revived.
19. Much greater care should be taken in evaluating projects in the field of pre-investment, so that reasons for success or failure could be recorded systematically. This work should only be carried out by officials professionally qualified to do so.
20. In large-scale projects - either those specifically intended to attract investment, e.g. multipurpose schemes, or extensive surveys of natural resources - consideration should be given to appointing a "generalist" with appropriate experience to manage all aspects of the undertaking from project preparation to the mobilization of capital.

Administration

21. In promoting a larger share of investment-oriented activities through a deliberate policy of delegating the maximum of authority to the field (and regional) level, and limiting the functions of Headquarters to the minimum required to achieve the optimum use of human and financial resources, it is essential that all levels of the administration should at all times manage their responsibilities with specific objectives in mind, and ensure that those objectives are clearly defined and achieved
22. UNDP recruitment policies should be more flexible, and permit the appointment of men and women who have demonstrated their ability, especially in the developing countries, to develop resources successfully and to mobilize capital.
23. Even with maximum decentralization, it is essential that those minimum functions that are retained at Headquarters with regard to pre-investment projects should be performed by officials who have themselves served in the field for extended periods, and who thus have had direct experience of the conditions and practical problems affecting investment at the ground level. They should also be reasonably well acquainted with sources of capital, and their requirements.
24. If officials are appointed for political reasons they should also be qualified for the particular appointment; this is essential in the case of any assignment involving investment.
25. UNDP should strengthen its field offices in such a way that they can discharge successfully whatever functions that headquarters may delegate to them, especially those related to pre-investment or investment follow-up. Field offices should be "tailored" carefully so as to respond effectively to the particular needs of each developing country.
26. In order to identify and prepare pre-investment projects as competently as possible, UNDP should provide financial assistance as necessary to executing agencies not represented at the field level so as to enable them to make their full contribution to this process.
27. UNDP should do everything possible to simplify its procedures, especially for pre-investment projects and where the least developed countries are concerned, and, in seeking this objective, should consult with other organizations (e.g. OECD, the Commonwealth Secretariat) who are engaged in the same task.
28. UNDP should do its best to ensure that all staff members directly concerned with pre-investment activities have a sound knowledge of potential sources of capital. Consideration should be given to running special training courses for resident representatives and deputy resident representatives, perhaps in co-operation with appropriate financial institutions such as the World Bank.

I. INTRODUCTION

"Seek the sources and not the shapes." The Upanishads

A. Terms of reference

1. Following the 26th meeting of the Governing Council, the Administrator asked me to undertake "a study of UNDP's experience in the field of pre-investment with a view to improving existing policies and procedures so as to enhance the mobilizing of investment as a result of its activities". The detailed terms of reference identified four main problems and emphasized that special attention should be paid to the position of the least developed countries:

First: Can UNDP's role in mobilizing investment be reinforced?

Second: Is the share of IPF resources at present directed to pre-investment projects an adequate reflection of the objectives of UNDP?

Third: (implicitly) Can more be done to attract investment into current projects and into any completed in the past which may now have become viable?

Fourth: Can the present definition of pre-investment activities be broadened "so as to encompass any investment that could be attributed to UNDP-financed programmes of technical co-operation?"

2. These terms of reference can be summarized in one sentence: "Can UNDP do more to mobilize capital investment for the developing countries, particularly the least developed?" I was asked to complete the study by 31 March 1980.

B. The substance of the report

3. After accepting the assignment I was asked to limit the report to 28 pages. 1/ Such a restriction makes it impossible to do justice to such a critically important and complex subject. This document is, therefore, at best a summary. There is no room for detailed analysis, reasoned arguments, or the submission of supporting evidence. Naturally, however, any conclusions and judgements are based on careful and detailed analyses which can be provided either orally or in writing if the Governing Council so desires.

C. The general approach to the problem

4. Inevitably, a report such as this must concentrate on difficulties and impediments, but I have always endeavoured to adopt a positive approach, recognizing

1/ Of a Governing Council document, i.e. about 15,000 words. The preparation of the report was also influenced by my assumption of a new and urgent assignment for the Secretary-General from 1 December 1979.

the many accomplishments of the UNDP and the UNDS, 2/ and the continuous efforts of Governments and officials 3/ to improve performance. Any criticisms are impersonal - they refer to endemic problems, 4/ some of which are older than many of the people now grappling with them.

D. The guiding principle

5. As in preparing other reports, my guiding principle has been to ensure that the financial resources entrusted to UNDP are used for the maximum benefit of the people in the developing countries.

E. Historical background

6. In order to save space, it is assumed that the reader is well informed about UNDP and UNDS and their evolution in recent years. Detailed explanations are not given except where essential.

F. How the expression "pre-investment" is used today

7. Originally "pre-investment" meant the preliminary steps leading to capital investment in "relatively large projects" 5/ most of which in practice were concerned with natural resources. Subsequently, however, it was also applied to projects designed to develop human resources, and with the passage of time the term has come to have different meanings for different authorities. This problem of definition is part of the terms of reference, and is dealt with in section IX. In the rest of the report, "pre-investment", unless stated otherwise, is used in its original sense. This does not imply, however, any lack of appreciation of the vital importance of investing in human resources, or in scientific and technological activities, etc.

G. Statistics

8. Any statistics related to pre-investment or investment follow-up must be treated with great caution.

First: "Pre-investment" has been interpreted differently by different authorities at different times.

2/ The United Nations Development System represents UNDP and all the specialized and executing agencies co-operating with it.

3/ Any reference to an official naturally includes women equally as men.

4/ And not confined to UNDS: most Member States are concerned with them, and so are organizations such as OECD, EEC, the Commonwealth Secretariat, etc.

5/ General Assembly resolution 1240 (XII).

Second: Constantly changing rates of exchange and inflation have caused distortions.

Third: Evaluation has been very uneven.

Fourth: The United Nations system as a whole does not have at its disposal an efficient information system. 6/

9. Despite these reservations, sufficient evidence is now available to analyse the programmes financed by UNDP with reasonable confidence; to observe certain trends; and to draw general conclusions about the substance and effectiveness of the programme.

II. THE PRESENT PROGRAMME

"Some seeds fell by the wayside ... but others fell into good ground and brought forth fruit." St. Matthew xiii., v. 21 and 23.

A. Analysis

10. The analysis in this section is based on material contributed from a wide range of sources - by all the organizations within the UNDS concerned with the problems of pre-investment and investment follow-up, by many Governments, by multinational institutions (such as OECD, EEC, the Commonwealth Secretariat, etc.) and by individuals with specialized knowledge of these problems. The specialized agencies were most helpful, and while each of their contributions was extremely useful, I should like to make special mention of those provided by FAO, WHO, the Department of Technical Co-operation for Development (DTCD), and ILO. As a result of the work undertaken by the agencies, it was possible to analyse (at least in general terms) several hundred individual projects.

11. The statistical part of the analysis draws heavily on data (so far unpublished) provided at my request by the Management Information Service of UNDP. For the purpose of comparative analysis, the UNDP programme 7/ is reviewed in this section in two seven-year periods, viz: 1965-1971 inclusive and 1972-1978 inclusive.

12. For the first period, in order to facilitate the analysis, it has been assumed that all Special Fund projects were essentially pre-investment in character. While it is appreciated that not all of them were pre-investment projects in the strict sense of the term, as now defined, it is impossible, at this point in time, to distinguish those which conformed to the later definition from those more general

6/ See paras. 100 to 103 below.

7/ UNDP was established in the mid-1960s as a result of a merger of the Special Fund (SF) and the Expanded Programme of Technical Assistance (EPTA), although each programme initially maintained separate accounts and records.

in nature. Statistically, the situation is even more complicated in the post-1971 period. For one thing, the distinction between Special Fund and EPTA projects was superseded by that of large-scale and small-scale projects. Some (but not all) of the large-scale projects corresponded to those that formerly comprised the SF programme. UNDP now treats a project costing \$150,000 or more as a large-scale project irrespective of its nature. ^{8/} The executing agencies do not necessarily follow this criterion.

13. To complicate matters still further, the concept and scope of pre-investment have undergone several changes since 1971. As a result, the word "pre-investment" no longer figures in official UNDP statistics. Instead, a new definition of an investment-oriented (I-0) project, with its many ramifications, is now applied in classifying UNDP-assisted projects of the pre-investment type. A brief technical note on the subject is given in annex I.

14. As a result of these and other related factors, the number and cost of pre-investment projects and the proportion of UNDP resources allocated to such projects during the 1965-1971 and 1972-1978 periods are, strictly speaking, not comparable. For the same reasons - especially in the absence of a uniformly accepted definition of pre-investment - a statistically accurate and system-wide comparative study of experience in pre-investment and investment follow-up appears to be impossible. What is possible, however, is to observe certain trends by analysing data now available.

15. According to the data provided by UNDP (see table 1) 1,023 Special Fund (SF) projects were approved during 1965-1971 at a total cost of \$1,015.3 million, or an average of about a million dollars for each project. Actual expenditures (disbursements) on SF projects during this period varied from 55.0 per cent (in 1966) to 77.4 per cent (in 1971) of UNDP's total expenditures on all projects, the average for the seven-year period being 68.8 per cent (see table 2).

16. During 1972-1978, 10,703 UNDP projects were approved of which 3,550 (or one-third) were large-scale, but only 470 (or 4.4 per cent) were investment-oriented (I-0) projects. In terms of cost, however, the large-scale projects accounted for 92.3 per cent, and the I-0 projects 14.5 per cent of UNDP's resources (see table 3).

17. The decline in the number of I-0 projects from year to year during this period and particularly in the proportion of UNDP resources allotted to such projects, is clearly in evidence (since 1974) in table 3.

18. Of the 470 I-0 projects, 113 (i.e. about one-fourth), costing \$81.0 million, are reported to have generated investment commitments to the tune of \$5.8 billion during the seven years to 31 December 1978, giving an average annual investment ratio of 1:71 (see table 4). It should be noted, however, that the ratio has

^{8/} The corresponding figure for the years 1972-1974 was \$100,000 or more.

TABLE 1. Number and cost of Special Fund projects approved during 1965-1971

<u>Year</u>	<u>Number</u>	<u>Cost</u> <u>(\$ million)</u>
1965	106	106.9
1966	133	163.4
1967	122	125.8
1968	150	140.2
1969	155	135.9
1970	161	139.3
1971	196	203.8
	<u>1 023</u>	<u>1 015.3</u>

Source: UNDP/MIS

TABLE 2. Expenditure on Special Fund (SF) and Technical Assistance (TA) projects during 1965-1971

<u>Year</u>	<u>SF</u> <u>Projects</u>	<u>TA</u> <u>Projects</u>	<u>Total</u>	<u>SF as</u> <u>per cent of</u> <u>total</u>
		(million US dollars)		%
1965	55.7	42.5	98.2	56.7
1966	72.1	58.9	131.0	55.0
1967	88.2	50.7	138.9	63.5
1968	111.0	64.6	175.6	63.2
1969	134.2	42.3	176.5	76.0
1970	155.8	51.3	207.1	75.2
1971	192.0	56.0	248.0	77.4
	<u>809.0</u>	<u>366.3</u>	<u>1 175.3</u>	<u>68.8</u>

Source: UNDP/MIS

TABLE 3. Share of investment-oriented (I-0) projects in the total of UNDP-assisted projects approved during 1972-1978

Year of approval	All projects		Large-scale projects <u>a/</u>		Investment-oriented (I-0) projects <u>b/</u>		(3) as percent of (1) (%)	(4) as percent of (2) (%)	(5) as percent of (1) (%)	(6) as percent of (2) (%)
	No.	Cost c/ (\$'000)	No.	Cost c/ (\$'000)	No.	Cost c/ (\$'000)	(7)	(8)	(9)	(10)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1972	1 697	388 218	493	364 663	107	96 304	29.1	93.9	6.3	24.8
1973	1 655	429 744	611	401 836	95	84 134	36.9	93.5	5.7	19.6
1974	1 792	389 964	613	361 975	103	68 257	34.2	92.8	5.7	17.5
1975	1 922	315 911	405	271 538	62	42 641	21.1	86.0	3.2	13.5
1976	660	166 614	216	157 460	21	14 065	32.7	94.5	3.2	8.4
1977	1 321	434 547	515	404 419	39	39 274	39.0	93.1	2.9	9.0
1978	1 656	493 925	697	456 273	43	34 638	42.1	92.4	2.6	7.0
Total	10 703	2 618 892	3 550	2 418 164	470	379 313	33.2*	92.3*	4.4*	14.5*

Source: UNDP/MIS

* Average

a/ Costing \$100,000 or more for the years 1972-1974 and \$150,000 or more for the years 1975-1978.

b/ Relates to projects which carried out micro-type pre-investment studies such as identification studies, pre-feasibility studies, field engineering and design, etc., for one or more specific investment projects/programmes.

c/ UNDP contribution only; net of cost sharing.

TABLE 4. Investment commitments generated as a result of UNDP-assisted investment-oriented (I-0) projects approved during 1972-1978

Year of approval	Investment oriented (I-0) projects <u>a/</u>		I-0 projects <u>a/</u> which generated investment commitments		Investment commitments generated by I-0 projects <u>c/</u> (\$'000)	(3) as percent of (1) (%)	(4) as percent of (2) (%)	Ratio of (4) to (5)
	No.	Cost <u>b/</u> (\$'000)	No.	Cost <u>b/</u> (\$'000)				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1972	107	96 304	29	23 308	2 764 330	27.1	24.2	1:119
1973	95	84 134	23	17 276	833 720	24.2	20.5	1:48
1974	103	68 257	24	11 449	1 561 430	23.3	16.8	1:136
1975	62	42 641	24	20 342	453 340	38.7	47.7	1:22
1976	21	14 065	2	459	30 040	9.5	3.3	1:65
1977	39	39 274	7	6 359	118 160	17.9	16.2	1:19
1978	43	34 638	4	1 838	12 350	9.3	5.3	1:7
Total	470	379 313	113	81 031	5 773 370	24.0*	21.4*	1:71 <u>d/</u>

Source: UNDP/MIS

* Average

a/ See foot-note 2/ in table 3.

b/ See foot-note 3/ in table 3.

c/ As of December 1978.

d/ See foot-note to para. 18.

varied considerably from year to year - from a high of 1:136 in 1974 to a low of 1:7 in 1978. 9/

19. I should like to draw attention to one important point before leaving this quantitative analysis. Table 5 (and the corresponding Chart) indicate the number and cost of ongoing "survey" projects at the end of each year during 1967-1978, as well as their corresponding percentages of the total number and cost of all ongoing large-scale projects during the same period. Survey projects have been selected for analysis because they are usually, by their nature, of a pre-investment character and, forming the bulk of the total pre-investment activities financed either by the Special Fund or UNDP, provide a reasonable degree of comparability between the two periods under study. It will be observed that, whereas the survey projects accounted for about one-third of the total Special Fund programme during 1967-1971, there was a steady decline in such projects during 1972-1978 in relation to the UNDP-assisted large-scale projects. 10/ In terms of percentage, the survey projects accounted for 37.3 per cent of all SF projects ongoing at the end of 1967 but only 9.9 per cent at the end of 1978. The same general (and declining) trend is also observed in terms of resource allocation - 35.7 per cent in 1967 compared to 11.3 per cent in 1978.

20. The implication of this development is obvious. The survey of natural resources paves the way for individual project identification and the formulation of specific project proposals, and then, where appropriate, for feasibility studies which are intended to lead to capital investment. If the pipeline of survey projects is on the decline, it is no wonder that the number of pre-investment or investment-oriented projects and subsequent follow-up activity should also reflect a downward trend.

B. Four groups of executing agencies

21. When analysing the programme in terms of investment activities, I found it useful to divide the executing agencies into four broad groups. 11/ I regret greatly that my brief comments cannot do justice to their work, but I hope that it will be possible at a later date to prepare a summary of important points made to me during our discussions, and others contained in their valuable written submissions, which could be made available to anyone interested in these problems.

9/ Under normal circumstances, there is a time lag between completion of a pre-investment project and possible investment commitments. This perhaps explains the low investment ratio in respect of projects approved during the last two or three years.

10/ This observation stands irrespective of the size of a large-scale project (\$150,000 or more; \$400,000 or more; \$1 million or more).

11/ This arrangement has no implications in terms of their importance as institutions.

TABLE 5. Number and cost of "Survey" projects in relation to all UNDP-assisted large-scale projects a/ ongoing during 1967-1978

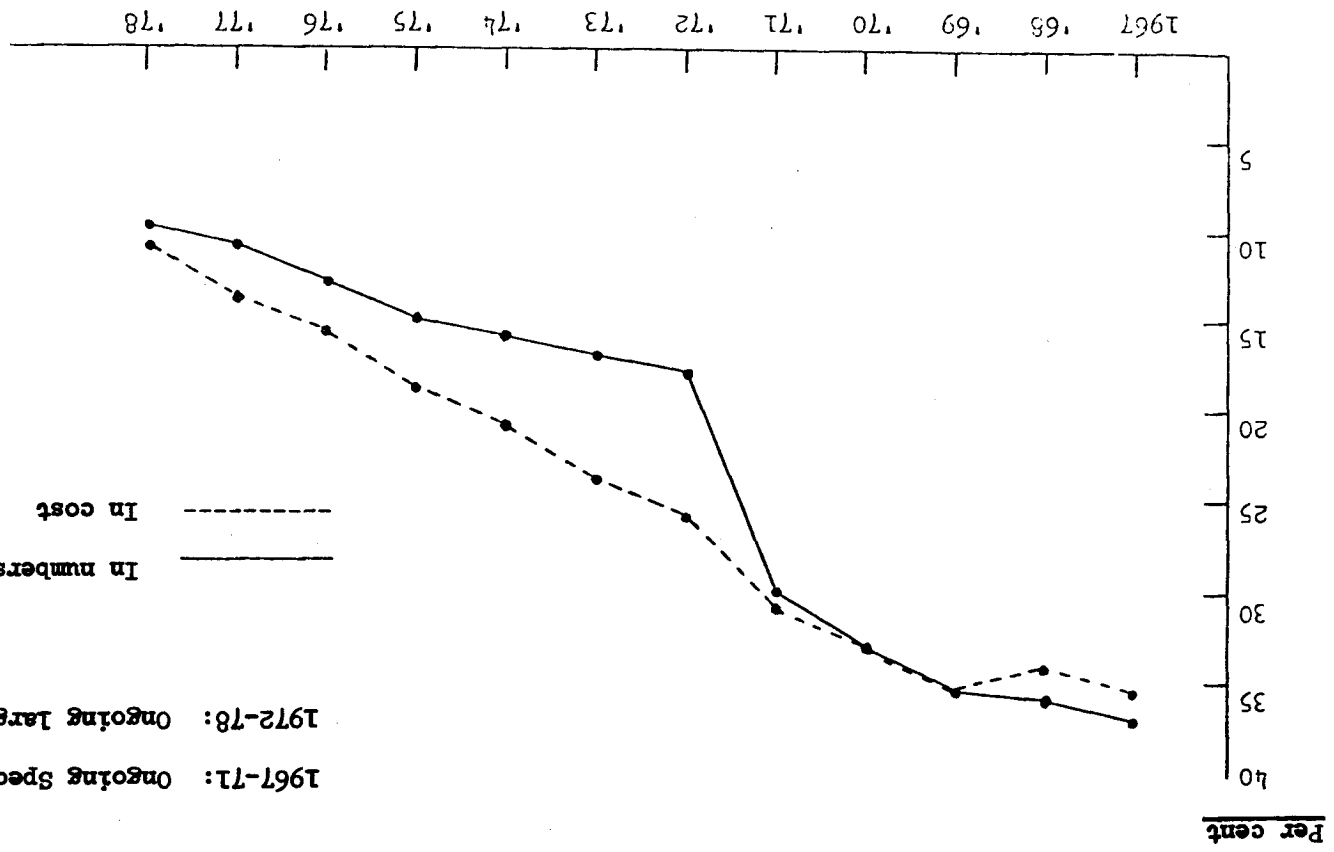
Ongoing at the end of:	Survey Projects		Large-scale Projects		(1) as percent of (3) %	(2) as percent of (4) %
	No.	Cost (\$ million)	No.	Cost (\$ million)		
(1)	(2)	(3)	(4)	(5)	(6)	
A. 1967-1971 (Special Fund Programme)						
1967	247	247	662	691	37.3	35.7
1968	270	268	749	782	36.0	34.3
1969	298	301	835	854	35.7	35.3
1970	298	299	904	910	33.0	32.9
1971	307	316	993	1 015	30.2	31.2
B. 1972-1978 (since the inception of Country Programming)						
1972	461	427	2 512	1 638	18.4	26.1
1973	490	430	2 828	1 776	17.3	24.2
1974	484	400	3 073	1 876	15.8	21.3
1975	348	313	2 285	1 673	15.2	18.7
1976	328	287	2 461	1 812	13.3	15.8
1977	254	240	2 286	1 749	11.1	13.7
1978	258	238	2 619	2 115	9.9	11.3

Source: UNDP/MIS.

a/ For 1967-1971, all SF projects. For 1972-1978, large-scale projects as indicated in table 3, foot-note a/.

1967-71: Ongoing Special Fund projects
 1972-78: Ongoing large-scale projects

— In numbers
 - - - In cost



Survey projects as per cent of all large-scale projects

First, the "majors". FAO is very well equipped to handle pre-investment projects. In contrast, DTCD, with its vital responsibilities in natural resources and energy (and not forgetting public administration and planning) does not as yet enjoy the comparable facilities, and linkages with the World Bank, that would permit the very capable work of its professional staff to be followed up effectively. Its representation at the country level requires urgent attention. UNIDO will never be fully effective until it is an independent institution, realistically financed, and effectively staffed (particularly at the field level). WHO has an exceptionally clear understanding of pre-investment projects and the problems of mobilizing capital - all it requires is an allocation of UNDP's resources commensurate with its responsibilities. The possibility of UNDP itself executing certain projects (e.g. multidisciplinary) was contemplated in the capacity study. UNDP's Bureau of Special Activities (BSA) can make an important contribution if its efforts, especially at the field level, are carried out in co-operation with all other interested elements of the UNDS. UNESCO understands the pre-investment field very well - as with WHO, the basic problem is finance.

Second, the World Bank Group and the regional development banks. These institutions are specially designed to mobilize capital; they are, for the most part, well staffed, and less inhibited by the constraints affecting the pre-investment activities of the rest of UNDS. 12/ Given well-prepared pre-investment projects at the right time, they are well placed to secure the necessary capital, and, given the general shortage of such projects, will welcome all that UNDS can provide.

Third, the "specialized specialized". IAEA, ICAO, IMCO, ITU and WMO are excellent examples. Well staffed, specialized, compact, they are exceedingly well suited for pre-investment work, particularly at the regional and global levels.

Fourth, the other "partners". These institutions are steadily moving into projects that will require capital. ILO (which also has a direct interest in community development and the investment of pension funds) has devoted much thought to the problem of investment (and its great implications for employment) and will undoubtedly play an increasingly significant role in this field. 13/ UNCTAD continues to have a very active interest in all aspects of investment.

C. The three major problems

22. An analysis of available information leaves three clear impressions of the present programme financed by UNDP where it is related to "pre-investment" operations.

12/ See sect. VII below.

13/ ILO is, of course, a "major" specialized agency in every way, and is included in this group only because of its present scale of activity in the field of pre-investment.

First, despite strenuous efforts, a high percentage of pre-investment projects have not led to investment;

Second, the proportion of UNDP's resources devoted to projects intended to attract capital investment has declined to a marked degree (this trend is not reflected equally in all executing agencies, some having secured funds for pre-investment projects from sources other than UNDP), and

Third, the original concept of country programming and the UNDC in the capacity study has, in practice, fallen short of its objectives, 14/ particularly in relation to the pre-investment role of the UNDP programme.

23. These can be regarded as the "three major problems" and are discussed in the following sections, but, in order to put them in perspective, I shall first review briefly the many initiatives now being taken by UNDS to remove these impediments.

D. What is being done by UNDP and UNDS

24. Ever since UNDS began to evolve, continuous efforts have been made to find ways and means of expanding investment in developing countries. The World Bank Group and the regional development banks, which have specific responsibilities in this field, have never ceased in their endeavours. The same can be said of UNDP with its special mandate in relation to pre-investment, and all the executing agencies concerned with this vital problem.

25. At the present time, three other studies are being carried out which will have a direct bearing on the pre-investment activities of the UNDS.

First, the report being prepared for the General Assembly by the Director-General for Development and International Economic Co-operation on "policy issues pertaining to operational activities for the development of the United Nations system". 15/

Second, the work of the ACC's CCSQ (OPS) on "Linkages between Technical Co-operation/Pre-Investment Activities and Investment", 16/ which is being carried out in harmony with this study.

Third, the work of the same Committee in assessing the present County Programming procedure.

26. These studies will undoubtedly provide valuable recommendations, and my own work should be seen as simply another contribution to a process which will continue so long as poverty exists.

14/ See "A study of the capacity of the United Nations development system" (DP/5), vol. I, sect. V. (hereinafter referred to as "the Capacity Study").

15/ ACC/1979/72, dated 26 September 1979.

16/ ACC/1979/60, dated 7 September 1979.

III. THE FIRST MAJOR PROBLEM: LINKING PRE-INVESTMENT TO INVESTMENT

"And say which grain will grow and which will not". Shakespeare, Macbeth.

A. Difficulties in linking pre-investment to investment

27. Some of the difficulties in linking pre-investment projects to investment - the first of the three major problems - that were described to me in the course of my inquiries are set out below:

28. First: on the part of UNDP and UNDS,

(a) UNDP's lack of investment capital under its direct control; 17/

(b) Poor project preparation (including project design and terms of reference for consultants), execution, and follow-up;

(c) Lack of a systematic mechanism of review and follow-up of investment-oriented projects at the three levels of the UNDS involved: field, executing agency headquarters, and UNDP headquarters;

(d) In many cases an (often striking) lack of information about experience with comparable projects in other countries which have resulted in success or failure; 18/

(e) "Agency selling" of unsuitable projects; 19/

(f) Failure to "pin-point" responsibility from the outset for dealing with the investment element in a project. While the basic responsibility rests with the Government, UNDP and UNDS have an important supportive role, and many potential investors complain that there are now "too many cooks" 20/ approaching them about the same project;

17/ It is significant that UNDP and UNDS have a good record of mobilizing capital when the project is executed by the World Bank or one of the regional development banks. This confirms the professional and technical competence of the specialists (e.g. geologists, foresters, doctors, etc.) serving in UNDS.

18/ "Failure" must be interpreted with care. A project which fails to attract investment when the pre-investment phase is completed may well become viable at a later date when economic or political conditions have changed. Furthermore, a "failed" project may well provide experience that justifies the expense, e.g. Sir Geoffrey de Haviland and the "Comet" jet aircraft.

19/ Although one must deplore this ancient sin, it is impossible not to feel sympathy for the specialized agencies whose "budgets" (in the true sense of the word) must always remain unrealistic so long as the equally ancient confrontation between "assessed" and "voluntary" contributions continues. The current handling of "overheads" also encourages "agency selling". (See para. 40)

20/ See para. 42 below.

(g) Failure to involve at the earliest appropriate stage the sources of capital that may ultimately be involved (see also j);

(h) Lack of information (particularly at the field level) about the full range of potential sources of capital and how to tap them; 21/

(i) Dependence for investment on a single lending agency whose programme priorities are frequently altered (often as a result of changes of personnel);

(j) Inflexibility and inadequacy of UNDP financial input when additional studies are required to satisfy the potential investor;

(k) Quality of staff employed, either by UNDS or by outside contractors;

(l) Specific instances of ineffective management at the levels of headquarters and/or the field;

29. Second, on the part of developing countries,

(a) Failure, from the identification of a pre-investment project onwards, to ensure that it makes sense in economic terms, and is within the country's absorptive capacity;

(b) Changes in local political and economic conditions;

(c) Changes in government priorities (at any time throughout the pre-investment phase);

(d) Insufficient involvement of key government departments, particularly those of finance and planning;

(e) Insufficient commitment and failure to follow up by responsible government departments;

(f) Difficulties in meeting conditions required by external investors, especially when legislation and reforms are involved;

(g) Ecological and environmental factors not taken into account sufficiently when designing the project; 22/ and

(h) Vulnerability to climatic conditions, e.g. periodic droughts, etc., thus leading to changes in priorities for the use of capital.

21/ See paras. 100 to 103 below.

22/ This is very often the case with multipurpose projects and big mining schemes.

30. Third, international factors also influence the situation. Here are a few:

- (a) The current instability of the world monetary system;
- (b) Uncertain exchange rates;
- (c) Great fluctuations in interest rates;
- (d) Inflation;
- (e) Uncertainty in relation to commodity prices; and
- (f) The rising cost of energy.

31. Some of these difficulties have also influenced the decline in the "pre-investment" content of UNDP's operations as a whole (see sect. IV.A below).

B. Some suggestions for improving the linkages between pre-investment operations and investment

32. As I have said, the current study is part of a continuing process and the following observations and suggestions are submitted in that spirit.

33. First, it must never be forgotten that projects receiving support from UNDP are national projects, and as such are the basic responsibility of the Government concerned in exercise of its national sovereignty. This is now generally recognized and represents one side of a coin.

34. Second, the real test of the accountability of the Administrator is not limited simply to adherence to official financial procedures; of equal importance is the actual use of UNDP's resources. Here again, the decisive level of action is at the field level where the resident representatives act for the Administrator. This is the other side of the coin and is of equal importance to the Government's role. The failure to recognize this fundamental factor in all developing countries at all times is one of the primary reasons for the present unsatisfactory state of country programming (see sect. V below) which, in turn, affects all pre-investment activities.

35. Third, it follows from both of the preceding considerations that throughout the life of a pre-investment project - as for all projects - the decisive level of operations must be at the country level, and all action concentrated accordingly. Although progress has been made in this direction, much more needs to be done.

36. Fourth, the quality of staff employed at the field level will be an equally decisive factor in relation both to programming and individual pre-investment projects.

37. Fifth, UNDP should provide whatever financial assistance is necessary to executing agencies not yet represented at the field level in order to ensure that

/...

the combined resources of the UNDS 23/ are at all times brought to bear on specific pre-investment programmes and projects at that level.

38. Sixth, UNDP should assign officials where they will be used to the most advantage. Wherever there is reasonable hope for development, the best staff should be sent to the least developed countries where poverty is greatest, and human needs are most intense.

39. Seventh, a wise development strategy will place great emphasis on careful surveys of natural resources (soil, water, minerals, energy, etc.) 24/ from which individual projects likely to attract investment can be selected subsequently.

40. Eighth, in the identification of pre-investment projects, the greatest care should be exercised from the outset. 25/ Both UNDP and UNDS should resist involvement in projects which do not enjoy high priority and firm support from the Government, those to which reasonable forethought has not been given, schemes which are obviously not viable, or represent unacceptably high risks (which no overseas investors would accept), or projects which clearly reflect "agency selling" (in the traditional use of that word). 26/ Failure to do this in the past explains why many projects have not attracted investment. Equal care should be taken to ensure that only well-qualified and experienced officials participate in the identification and formulation of pre-investment projects. Unless they are well thought out at the early, critical stages (always keeping in mind the point at which potential investors should be involved), it is virtually certain that they will either fail or require expensive revisions. This may appear to be stating the obvious. The answer is that failure to adhere to these basic principles in the past explains why many pre-investment studies have proved to be virtually useless.

41. Ninth, project execution. In the spirit of NIEO and TCDC, and recognizing the continuing progress in many developing countries, pre-investment projects should be

23/ Great care being taken to associate the smaller (but not less important) elements in UNDS, such as UNEP, etc., so that they can contribute their knowledge and experience.

24/ Always keeping in mind the possibility of labour-intensive projects. The emphasis on surveys of natural resources does not imply any reduction in the importance of projects that strengthen a Government's administrative machinery, particularly finance and planning, and/or technical services directly related to the project.

25/ When selected and considered viable, manifold opportunities will exist for the training of national manpower to operate and maintain the project when completed. The IBRD and regional banks have for some time been moving successfully into this field of technical co-operation (or "investment in human resources").

26/ Nothing but good, however, can come from agencies "selling" sound projects, and applying the benefit of their experience in other countries.

executed to the maximum by Governments, and they should be prepared to assume this responsibility to a much larger extent than at present. (This suggestion is related to virtually all of the preceding proposals.) It would be better for UNDP to take some risks in doubtful cases rather than adhere to conservative policies. Government execution does not mean that the role of the specialized agencies would be diminished, 27/ it would simply represent an exchange of relative roles and an acknowledgement of the country's steady progress in the management of its economy. (When national consulting firms were employed in this process, they would need to possess a competence acceptable to UNDP.)

42. Tenth, "pin-pointing" responsibility for specific functions. In the case of pre-investment projects, from the earliest moment of project identification onwards, the respective responsibilities of each participant - normally the Government, the specialized agency and UNDP - should be "pin-pointed" as precisely as possible, and with particular reference to the investment element. Only by this means will the presence of "too many cooks" be eliminated. 28/

43. Eleventh, at some stage during the "pre-feasibility" and "feasibility" phases (which can extend from project identification and project formulation to a particular point during the phase of project execution) it will become apparent whether there is a good prospect that the project could attract investment. If overseas investment is involved, what might be termed an "investment review" of the project should then be made, the Government's position being well prepared in advance. 29/ This could well be described as "the moment of truth", for at this point the Government will be faced with the critical policy decision of where to seek capital. It is axiomatic that any overseas investor or investors will insist on making his/their own appraisal of the project, and there is every reason to initiate this process as soon as possible; then, if feasible and appropriate, the Government and the executing agency should proceed in partnership with the potential investor until the pre-investment phase is completed and, if all goes well, smoothly translated into the phase where investment is mobilized and construction commences. At present, a large number of pre-investment projects are executed to the ultimate point of a terminal report which, if attractive, is then analysed by a potential investor who, invariably, and understandably, will go back over much of the same ground in making his own appraisal. 30/ Clearly this duplication is a serious waste of time and money, and should be eliminated. But while it is certainly essential to associate the intended source of finance as early as possible with a pre-investment project, the issue is far from simple in practice, for such a procedure may limit

27/ JIU/REP/78/3, para. 59.

28/ See para. 28 (f) above.

29/ The practice in some countries of organizing a local consortium of donor Governments, which meet regularly, can facilitate this process, and should be extended.

30/ This duplication would not occur if UNDP had two legs, i.e., capital at its disposal. It is much less likely to occur when the executing agency is the World Bank or one of the regional development banks.

the Government's options in seeking capital from different sources on terms and conditions which it may eventually deem to be more politically or economically acceptable. This problem - the "basic dilemma" - was described at some length in the Capacity Study 31/ - and is still every bit as real as 10 years ago.

44. Twelfth. This suggestion is directly related to the preceding and subsequent suggestions. If the procedure for an "investment review" were to be accepted, it is clear that several possible subsequent courses of action could arise. 32/ The ideal would be the smooth and uninterrupted transition from pre-investment operations into capital investment. However, a situation could easily arise where potential investors were unwilling to co-operate at that time, but the Government might still wish to proceed to what is generally referred to as the stage of the terminal report. If the project had been well thought out and executed, this may prove to be a prudent course of action for, given the ever-changing world economic situation, it might suddenly become a viable proposition. 33/ This consideration leads on to the next suggestion.

45. Thirteenth. In addition to a specific "investment review" of individual projects as timely and appropriate, a systematic mechanism of periodic review of all pre-investment projects, both current and completed, should be established at the field level - the most essential - and at the headquarters of the executing agencies and of UNDP, according to their respective functions and responsibilities.

(a) Field level. An annual review of the country programme should be mandatory and should include specific provision for review and follow-up of all completed pre-investment projects which have not yet attracted investment, as well as for those which are expected to finish during the coming year. The outcome of this review should be summarized in an annual report by the resident representative, submitted both to the executing agency and to UNDP headquarters.

(b) Executing agency. On the basis of this information, the executing agency should maintain a constant record of the totality of the pre-investment activities for which it is responsible. It should monitor changes in world (as opposed to national) political or economic conditions that might improve the viability of completed projects that have not so far attracted investment, and ensure that they are immediately communicated to the field.

(c) UNDP headquarters should aggregate the information provided by the field to the executing agency in reports to the Governing Council annually on the over-all picture.

46. Fourteenth, evaluation. Much greater emphasis should be placed on the systematic evaluation of pre-investment projects by professionally qualified

31/ DP/5, vol. II, chap. V, paras. 204-211; see also DP/320, para. 20.

32/ DP/5, vol. II, chap. V, paras. 204-211.

33/ This has been my own experience, especially in dealing with large-scale mineral and energy projects.

officials. In one sense, this function is a continuous process for it is directly related to the demonstrated feasibility (or not) of the project. There is another sense, however, in which evaluation is most important, and that is in building up, and refining in the light of experience, a clear record of reasons why certain projects have succeeded, and why others have failed. 34/ At the present time, there is an unfortunate lack of this kind of information (except in pretty general terms) for there is a human tendency to move on to other things when an enterprise has succeeded, and an equal propensity to forget real failures as soon as possible. The present study may have stimulated a movement to spend more time on evaluation (performed by competent officials) and it should be encouraged.

47. Fifteenth, management. In the case of both large-scale surveys and major pre-investment projects, the quality of management is normally decisive. In the past, UNDS has usually appointed the senior technical official as the "Project Manager" (now more often referred to as the Chief Technical Adviser). Such an arrangement can work, but my own preference, especially where any substantial capital would be needed to make the project a reality, is to appoint a "generalist" in charge of the entire project - a person commanding the respect of the Government, knowing how to get the best out of first-class professionals, economists, technicians, etc., and, if possible, possessing entrepreneurial skill - the ability to "sell" the project to policy-makers and hard-headed investors and, at the same time, to safeguard the Government's interests. Such people are not common, but they can be found, and they are worth their weight in gold. Once found, they should be required to make a firm commitment from the outset to see the project through to a successful conclusion; continuity of effective management is of critical importance.

48. Sixteenth, knowledge of potential sources of capital. It is imperative that the developing countries, resident representatives, and all those in UNDS concerned with investment, should have at their disposal accurate and up-to-date information about potential sources of capital. Some general comments on this subject will be found in annex II.

49. Seventeenth. Increased effectiveness in follow-up investment depends on the availability of increased resources, both human and financial. One suggestion made in recent years was the establishment of a "pre-investment revolving fund", first proposed to the twenty-fourth session of the Governing Council by the Administrator in 1977 35/ and later reviewed in more depth, at the request of the Council, in a special paper on investment follow-up submitted to its twenty-fifth session. 36/ At that time opinions among members of the Council about the merits of such a facility were rather divided, and the proposal was not pursued further. It has latterly been resuscitated, however, by the CCSQ (OPS) in its own study on this subject, 37/ in the slightly modified form of an "investment support fund" which

34/ Projects which have not attracted investment but have provided genuine experience in how not to do things should not be regarded as complete failures.

35/ DP/261, "Role and activities of the United Nations Development Programme", para. 85.

36/ DP/320, para. 36 et seq.

37/ ACC/1979/60, paras. 49 to 51.

would provide extra IPF resources to supplement pre-investment work with an already demonstrated investment potential, with the full participation and co-financing of the potential investor. In view of the decline in pre-investment activities and related investment follow-up noted in the present report, I believe the Governing Council would be well advised to devote renewed consideration to the creation of a facility of this kind. Such an arrangement is likely to prove particularly beneficial to the least developed countries which have only limited access to existing sources of capital.

C. Comments

50. The fundamental thrust of all these suggestions is to do everything possible to mobilize more investment in the developing countries as effectively and economically as possible. Significant progress, however, will never be made until all concerned accept the fundamental principle that the decisive level of operations is within the country itself, and limit the role of headquarters accordingly.
51. It follows that if the suggestions were to be accepted, they could only be implemented successfully if the necessary authority were delegated to the field level by UNDP and the executing agency. This principle also applies to regional projects.
52. All the suggestions have some relationship to the balance between pre-investment and traditional technical co-operation within UNDP's operations as a whole, and should be kept in mind when reading the next section IV.
53. They are also intimately related to the present procedures for country programming, and are taken up again in section V.
54. Most of the suggestions are related to matters within the present authority of the Administrator and the executing agencies, but several issues require careful consideration by the Governing Council, and are dealt with in section VIII "The future of the programme in relation to pre-investment and investment follow-up".
55. Finally, it is most unlikely that substantial improvements can be achieved by the usual efforts of Governments and institutions to solve basic problems by "tinkering" with them. The problems discussed in this document are fundamental to the future success of UNDP's work - the solutions lie in effective country programming, higher standards of staff, and improved management at all levels. These problems are reviewed later in the report.

IV. THE SECOND MAJOR PROBLEM: THE DECLINE
IN UNDP'S PRE-INVESTMENT ACTIVITIES

"Thou art weighed in the balances, and found wanting." Daniel iii, v.25.

A. Some reasons for the change in the balance of the programme

56. Let us now examine the second major problem: the marked decline 38/ in the number of pre-investment (or investment-oriented) projects financed by UNDP. During the study many reasons were given to me for this change. Here are some of them:

57. First, the Governments of many developing countries are now to an increasing degree independently planning and executing pre-investment projects designed to attract both foreign and domestic capital (see also seventh reason below).

58. Second, institutions with capital to invest are increasingly initiating pre-investment projects themselves, because today, generally speaking, there is much more capital available than good projects to use it.

59. Third, donor Governments and financing institutions (such as IFAD, the OPEC Fund, etc.) are underwriting pre-investment projects executed by some specialized agencies, e.g. FAO etc. 39/

60. Fourth, pre-investment projects with reasonable chances of success are becoming increasingly difficult to identify.

61. Fifth, ministries want quick results for political reasons. UNDP wants to spend its funds quickly in order to justify its efforts to mobilize new contributions. Traditional technical co-operation projects are nearly always quicker and simpler to initiate; good pre-investment projects require much more time to identify and to prepare. 40/

62. Sixth, the procedures applied by UNDP/UNDS in preparing and executing pre-investment projects are complex and time-consuming: developing countries often find it more convenient to seek a different source of assistance (this has special significance where the least developed countries are concerned. 41/

38/ See table 3.

39/ The first three developments are to be welcomed in that the fundamental objective is to alleviate poverty in any way as quickly as possible.

40/ Inevitably "quality" is thus sacrificed to "quantity".

41/ Recognizing this difficulty, certain donor Governments, as well as OECD and the Commonwealth Secretariat, are doing all they can to make their procedures as simple as possible.

63. Seventh, although UNDP provides its assistance on a "grant" basis, many developing countries consider that this advantage is outweighed by the fact that it is usually quicker (and sometimes ultimately cheaper) to initiate action from the outset with the institution that is most likely to provide the investment.

64. Eighth, despite the appeal of "grant" assistance, some developing countries consider UNDP to be an expensive institution because it frequently requires higher local expenditures, and is usually less flexible in covering local costs than other similar programmes.

65. Ninth, "UNDP/UNDS is slow and it doesn't follow through." 42/

66. Tenth, some Governments prefer to use UNDP for low-priority projects as a result of their experience at the time of the 1975 financial "crisis".

B. Should this change be accepted?

67. There is general agreement that the balance of UNDP-financed projects has changed substantially during the 1970s, characterized by a marked reduction in projects 43/ that could lead to capital investment. When asked whether this trend should be accepted, many experienced people felt that there was no alternative. Here are some verbatim quotations:

"You can't buck the machine." 44/

"Real change is politically impossible."

"The Consensus gave UNDP a wonderful opportunity to harmonize the UNDS but it failed to grasp it, and the financial crisis of 1975, combined with the establishment of new funds, seriously damaged its ability to lead the system, and it is now in danger of becoming one more funding institution."

"Since the Consensus and the introduction of country programming placed the onus for determining development priorities for the use of UNDP funds squarely on governments, the declining trend in pre-investment activities presumably reflects the latter's own preference." 45/

68. Many other reasons for accepting the change were also advanced; almost always with regret, for it is generally recognized that today the developing countries are not receiving the full potential of technical co-operation that UNDS is capable of providing for them.

42/ There is ample evidence to substantiate this complaint by Governments. However, an equally strong case can be made that Governments themselves are just as much at fault. See para. 99 below.

43/ See table 3.

44/ See para. 96 below. The Consensus refers to General Assembly resolution 2688 (XXV) of 11 December 1970.

45/ See para. 84 (e) below.

69. The majority, however, felt strongly that the change should not be accepted, citing many reasons for their views. Here are some of them.

70. First, the needs of many of the developing countries, particularly the least developed, are so desperate that maximum priority should be given to the "productive development" of their natural resources in order to generate income, while also doing everything possible to maintain a reasonable degree of investment in their human resources and build up local institutions. Those who hold these views also commented that

71. Second, if it were possible to make an objective analysis, it may well be that in recent years the total of all (traditional) "technical co-operation" (e.g. institutional support, experts, etc.) from all sources has been disproportionate to the effort put into investment-oriented activities, i.e. the reverse side of the coin represented by the study. 46/

72. Third, in the developing countries there is clearly an over-all shortage of good projects suitable to attract overseas capital, and UNDP/UNDS should do much more to encourage countries to identify and prepare them. 47/

73. Fourth, thus the argument that the declining trend reflects the cumulative preferences of Governments would seem to be gainsaid by the many expressions of concern in legislative bodies about the inadequacy of resources available through the UNDS for pre-investment activities, in relation to the needs of developing countries, e.g. General Assembly resolutions on multilateral development assistance for the exploration of natural resources. 48/

74. Fifth, the UNDS is uniquely equipped to make impartial surveys of all natural resources (land, water, minerals, energy, forests, fisheries, etc.) which can lead on to individual pre-investment projects. It is equally qualified to assist governments in strengthening their administrative and planning machinery 49/ as well as their local institutions, and all these assets should be used with the maximum effect in helping Governments - in the widest sense - to survey their natural resources most carefully so that domestic and overseas capital can be attracted. This argument applies with equal force in the highly specialized fields of industry, civil aviation, telecommunications, shipping, etc.

75. Sixth, the world food situation alone demands that UNDP's resources should be used in full recognition of its vital importance (e.g. for land, water and fisheries surveys, etc.).

46/ Some believe that the total amount of traditional technical assistance now available to some developing countries is beyond their capacity to absorb it, let alone meet the local costs.

47/ Rural development, feeder roads, small irrigation projects, and small-scale industries are among the potential areas of future development and, therefore, of investment.

48/ Resolutions 32/176, 33/194 and 34/201. See also para. 84 (e) below.

49/ This is especially important in the case of the least developed countries.

76. Seventh, the world energy problem is having a devastating effect on most developing countries, especially the least developed, and UNDS should do everything possible to help them to develop new or alternative sources of energy and, in particular, to conserve energy.
77. Eighth, the debt problem of the developing countries is now so vast that UNDS should place great emphasis on income-producing projects and thus do something, even if relatively modest, to alleviate this enormous burden.
78. Ninth, the problem of unemployment and underemployment represents a vast human tragedy and contains the seeds of widespread political instability. UNDP's programmes should recognize this fundamental problem, and encourage the development of projects that will both attract investment and create jobs.
79. Tenth, the objectives of both NIEO and TCDC will not be well served if UNDP does not play a leading, and preferably the leading, role in the field of pre-investment.
80. The two major problems - linking pre-investment and investment, and the decline in UNDP pre-investment activities - are, of course, interrelated and both find expression in the precept and practice of country programming - the third major problem which is dealt with in the next section of this report.

V. THE THIRD MAJOR PROBLEM: COUNTRY PROGRAMMING -
PRECEPT AND PRACTICE

"And (strange to tell!) he practic'd what he preach'd." John Armstrong.

81. The fundamental solutions to the problems of linking pre-investment projects to investment, and of achieving a satisfactory balance in the substance of UNDP's operations, will, in my opinion, be forthcoming only if the United Nations Development Co-operation Cycle (UNDCC) is carried out effectively on the lines laid down in the Capacity Study. This represents the third major problem. (Once more it is frustrating that the constraint of space makes it impossible to deal with this decisive issue properly.)

82. In general, the Consensus (on which I have never before commented publicly) is a fairly good reflection of the Capacity Study, but there are some omissions 50/ mainly because the Governing Council never completed consideration of the Study. 51/ The situation has been made more difficult because the Consensus itself has been applied with only moderate effectiveness.

83. The basic message - the concept - of the Capacity Study was, and remains, the fact that the war against poverty can only be waged successfully at the field level, where the will of the people in each nation should prevail. The Consensus recognizes this fundamental truth.

84. In practice, over the last decade, however, the following defects have appeared: they are all interrelated, and lie at the root of the first two major problems analysed in the preceding sections and which are the main objective of this study:

(a) Field offices have not been strengthened to the standard necessary to secure the objectives of the Governing Council, including the discharge of new and increasing responsibilities; 52/

(b) The maximum of authority has not been delegated, even on a selective basis, to resident representatives capable of accepting it; 53/

(c) The frontier of national sovereignty has not been understood. National sovereignty is supreme in terms of the country programme, but the decision whether or not to accept a specific project is the responsibility of the Administrator on behalf of the Governing Council, and represents an expression of his

50/ These omissions have major implications for all those concerned with "restructuring", and with the "operational efficiency" of the system, since both issues are directly related to the concept of country programming.

51/ See preamble to General Assembly resolution 2688 (XXV).

52/ See para. 104.

53/ The views of the Governing Council on this vital issue are expressed very clearly in para. 63 of the annex to the Consensus. See also JIU/REP/76/10, paras. 75 to 79.

accountability. The failure to recognize fully these two independent, but complementary, roles, is the key to practically all of UNDP's troubles with country programming: 54/ and has particularly affected pre-investment activities:

(d) As a result of this fundamental misconception, projects have been accepted simply because they have been included in a country programme. The initial, critical dialogue between the Government, on the one hand, and, on the other, the resident representative supported by all the interested agencies in the UNDS, has often been absent, except where certain capable resident representatives have taken the initiative and consequently produced good projects representing the effective use of both the nation's and UNDP's resources:

(e) There is clearly something wrong in a situation where the number and value of pre-investment projects included in country programmes are steadily declining while Governments are clamouring in global fora for more resources to be devoted to such purposes: 55/

(f) Another result of this misconception of roles is that, to all intents and purposes, the indicative planning figures have become firm financial commitments. This development is a direct contradiction of the Consensus (annex, para. 14) and at one stroke destroys the essential element of flexibility in programming:

(g) Evaluation of projects has been uneven, and not systematic:

(h) An effective information system has not been introduced. 56/

85. Those basic weaknesses have been compounded by:

(i) The absence of systematic annual reviews of country programmes (which should not only survey the current activities, and project the detailed programme one year ahead, but also pay particular attention to the follow-up arrangements for projects completed in earlier years, as well as those due to be completed in the coming year); and the failure to "roll" IPFs, both of which are essential elements in the UNDC: 57/

(j) The generally held view that UNDP, since the financial crisis, has concentrated more on financial management than on programme management.

86. The ten factors described above represent the forces - combined with the quality of staff and of management - that will determine whether or not satisfactory solutions are found to the current problems of linking pre-investment projects to investment, and of adjusting the substance of UNDP's operations as a whole. This basic problem is taken up again in section VII.

54/ See paras. 33 and 34 above.

55/ See paras. 67 and 73 above.

56/ See paras. 100 to 103 below.

57/ Given the inevitable political and economic changes in every country in the world, I have never been able to understand how UNDP could programme effectively without reviewing the situation in each country annually, and adjusting IPFs accordingly.

VI. THE NEW CROSSROADS

"In my beginning is my end." T. S. Eliot.

87. If UNDP continues to evolve according to the pattern of the last decade, available evidence indicates that its pre-investment role will continue to diminish. 58/ Is this what Member States want? "Business as usual", or a "New Deal"?

88. Ten years ago, I wrote that there was a "very real danger that the centre of gravity for pre-investment work could be pulled away from UNDP". 59/ Regrettably (especially from the point of view of the developing countries), this prediction has come true, and to restore the organization's pre-eminent position would now require Member States to make major policy changes.

89. The three major problems related to pre-investment dealt with in this study are primarily influenced by UNDP's present programming procedures, and the quality of its management at all levels. But if they are to be handled realistically, they must also be considered not only against the background of UNDP's current operations, but also in full recognition of several basic constraints which now inhibit the effectiveness of the United Nations system as a whole. Seven of them are described in the next section.

90. It is reasonable to assume that most Member States will wish to see UNDP restored to its special role in the pre-investment field envisaged by the General Assembly resolutions establishing the Special Fund and UNDP itself (and by so doing almost certainly ensure that its resources are used more effectively), but before initiating any action they should be quite clear about the fundamental difficulties they would face in attempting to bring about substantial changes. They should not attempt to arrest the present trends in the current programme (which reflect the combined actions of both Member States and UNDP) unless they are prepared to adopt new policies - which, on past experience, would arouse powerful opposition - and to ensure that those new policies were implemented effectively.

91. Member States now face a real dilemma. "Business as usual" almost certainly means a diminishing role for UNDP in one of its primary reasons for existence. A genuine "New Deal", however, would undoubtedly provoke controversy, and the reasons for it would spring from any or all of the first six constraints described in the next section.

58/ This comment does not of necessity apply to several of the major executing agencies nor to the development banks within the United Nations system.

59/ DP/V, vol. I, sect. IV.

VII. SEVEN BUILT-IN CONSTRAINTS

" ... where whoso gazes,
Faints, entangled in their mazes". Shelley.

92. It would be unrealistic not to acknowledge that at least seven built-in constraints not only inhibit the operational efficiency of the UNDS as a whole, particularly UNDP, but also have a direct and specific bearing on UNDP's work in the fields of pre-investment and investment follow-up. They are all interrelated, and to be fully understood would require a comprehensive explanation which regrettably cannot be compressed into this review. Here they are in summary form.

93. First, the constitutional factor

The United Nations and its component parts, on the one hand, and the specialized agencies, on the other, are all independent institutions with separate governing bodies. Co-operation cannot be legally enforced; it can only be voluntary, and is frequently influenced by political factors which seriously reduce its effectiveness at the Headquarters level. This state of affairs provides another compelling argument for maximum delegation to the field level, where co-operation is much easier because it is fostered by the immediacy of the needs of the developing country. It is strengthened still further if the right officials are appointed there.

94. Second, the political factor

In recent years, the United Nations system has become increasingly subject to political pressures at all levels and operational efficiency has suffered accordingly. This is especially so when governing bodies intrude into matters of administrative detail which should not be their concern, and fail to concentrate on issues of policy. An additional, and highly important, factor (rarely paralleled in a national government), is the active political relationship which, over the years, has evolved between representatives of Governments and individual staff members in the secretariats. The latter now represent a powerful political influence in their own right, that may be wielded either positively or negatively.

95. Third, the human factor

The United Nations system, a most intricate network composed of representatives of over 150 Governments, more than 30 international institutions, and an internationally recruited staff - it has no parallel elsewhere in the world - is an exceptionally "human" institution. It is here that we find, for understandable reasons, the most powerful opposition of all to change. Machiavelli, as usual, stated it with perfect perception.

"It must be considered that there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things. For the reformer has enemies in all those who profit

by the old order, and only lukewarm defenders in all those who would profit from the new."

Here is the real answer to the failure to delegate authority - which is power - to the field level. It also explains the sad fate of nearly all the endless reports that have advocated genuine improvements in the United Nations system.

96. Fourth, the "Machine"

This is the administrative structure of the UNDS-UNDP and some 30 executing agencies. There is general agreement that it represents the most complex administrative organization in the world, and its evolution is directly related to the political pressures to which reference has been made. Experience during the last 10 years has confirmed the views expressed in the Capacity Study, and I venture to repeat four sentences that have never been seriously challenged:

"The 'Machine' now has a marked identity of its own and its power is so great that the question must be asked: 'Who controls this "Machine"?' So far, the evidence suggests that governments do not, and also that the 'Machine' is incapable of controlling itself. This is not because it lacks intelligent and capable officers, but because it is so organized that managerial direction is impossible. In other words, the 'Machine' has become unmanageable in the strictest sense of the word."

97. As a result of goodwill amongst dedicated officials in the UNDS, the "Machine" can be made to work, but it is expensive, slow, and wasteful of human talent and effort. 60/ I have always believed that the constraints imposed by the "Machine" could best be alleviated by the maximum delegation of authority to the country level, where real action can take place.

98. Fifth, staffing

Staffing remains the decisive factor in all the operations of the UNDS. This subject, together with programming and investment, was that most commonly raised with me during the study, and, once again, it is most regrettable that it cannot be discussed fully in this report. Three aspects must be noted, however:

(a) Several executing agencies emphasized the fact that they are experiencing increasing difficulties in recruiting staff of the right calibre;

(b) The ceaseless pressures from all Member States to appoint their own nationals (often not well qualified) to particular posts in the Secretariat is having a most deleterious effect on the thousands of experienced officials who have to serve under them; 61/

60/ See sect. IV.A., para. 65, above.

61/ "I know of no Member State that is not guilty of interfering with the workings of the Secretariat", Mr. James Jonah, United Nations Director of Personnel, Secretariat News, 29 June 1979. Unsuitably qualified officials who are appointed within the UNDS for political reasons are unlikely to make a success of mobilizing investment.

(c) In terms of investment, UNDP's personnel policies are too restrictive: more men and women with entrepreneurial experience from all sectors should be recruited.

99. Sixth, procedures

The present procedures applied by the UNDS (which directly influence the structure of the "Machine") - together with the powerful human opposition to change - may well be the greatest impediments to its operational efficiency. There is general agreement that these procedures represent a hideous problem, and that a great many of them are far too detailed, out of date, irrelevant, and contradictory. ^{62/} Many attempts have been made to tackle this basic problem in all its endless forms, but little has been achieved. Why? The answer is simple. The present procedures represent jobs, and the abolition of jobs is politically unacceptable. Experience indicates that it is improbable that those responsible will feel able to slash through this bureaucratic jungle, and it will continue to impede operational efficiency. ^{63/} But, once again, as with the "Machine", this constraint can be circumvented by capable officials, admittedly at an unacceptable cost in terms of time, effort, and money.

100. Seventh, information

For ten years, continuous efforts have been made to evolve an information system on the lines described in the Capacity Study. Unfortunately, progress has been limited, with the result that the UNDS is still not fully informed about all its operations, and the developing countries are deprived of the wealth of knowledge accumulated by the system. It is essential, however, for accurate and up-to-date information to be made available for all those concerned with pre-investment operations if the present situation is to be improved.

101. At last, some hope is appearing in the field of finance and management as a result of the progress being made by UNDP's Integrated Systems Information Project (ISIP) which, when operational, might provide a basis for the evolution of another system embracing economic and social information.

102. In dealing with this vitally important field of information, the several individual systems being evolved by the specialized agencies are also making important contributions, and with UNDP continuing to develop its facilities, the future work of the Intra-Organization Board for Information Systems (IOB) - which has so far found it difficult to make significant progress - might be facilitated.

103. I do not underestimate either the complexity of this problem, nor the efforts made by the United Nations organizations, both individually and collectively, to resolve it, and I am glad to observe the sustained efforts made to improve the flow of information to all those who must have it in order to do their jobs efficiently, especially those concerned with pre-investment projects and the mobilization of capital.

^{62/} Hence, the criticism "UNDP/UNDS is slow and doesn't follow through". See para. 65.

^{63/} Some relief might be achieved by identifying areas where procedures could either be eliminated or simplified, and introducing the necessary changes by not replacing staff who either retire, or move to other appointments.

VIII. THE FUTURE OF THE PROGRAMME IN RELATION TO
PRE-INVESTMENT AND INVESTMENT FOLLOW-UP

"...do not give way to ... gloomy thoughts.
Let us hope for better things". Jane Austen.

104. Before considering the future substance of UNDP's operations and their potential for generating investment in human and natural resources, it is essential to recognize the increasing responsibilities undertaken by the organization in recent years - for example, the administration of various United Nations Funds - the Fund for Population Activities, the Capital Development Fund, the Revolving Fund for Natural Resources Exploration and others, including the Interim Fund for Science and Technology - the direct execution of its own projects and the stimulation of TCDC. Changes have also taken place as a result of the financial crisis of 1975, and of the emergence of new sources of funds for technical co-operation. All these developments have affected the amount of attention devoted to the vitally important field of pre-investment, compared to the days of the Special Fund.

105. A situation has now evolved where "Business as usual" will almost certainly mean a diminishing role in the field of pre-investment for UNDP (but not of necessity for several of the executing agencies). However, to embark on a "New Deal", which could improve the linkages between pre-investment and investment, and also restore the balance in the substance of the programme, would raise many difficult political problems, and as noted above, Member States should not initiate action without recognizing them fully.

106. In summary, a "New Deal" - which, of course, would have a direct bearing on the "suggestions" advanced in section III - would require the Governing Council to:

(a) Reaffirm the basic principles of the Consensus;

(b) Take action to define UNDP's objectives clearly, 64/ with particular reference to its role in pre-investment and investment follow-up, and to ensure that they were accepted by all concerned;

(c) Ensure that each of its main objectives was directly related to:

(i) the field level;

(ii) the regional level;

(iii) the global level; and to

64/ Paying particular attention to the objectives of the NIEO, and to the needs of the least developed and land-locked countries.

(iv) its executing agencies, including both specialized agencies and national Governments.

(d) Allocate resources accordingly;

(e) Ensure that all concerned understand and respect the national sovereignty of each developing country in the process of formulating its Country Programme and, pari passu, that they recognize the Administrator's equal responsibility for accepting or rejecting projects in the exercise of his accountability on behalf of the Council;

(f) Delegate to the field - in recognition that it is the decisive area of operation - the maximum authority. (In this connexion, selected Resident Representatives should be given complete control of IPFs as soon as possible, as part of a process where ultimately all Resident Representatives are given this power);

(g) Ensure that all the component parts of the UNDS are enabled to participate in the programming process at all times, so that the total resources of the UNDS are brought to bear on each programme and project.

107. For his part, the Administrator would need to:

(a) Continue to respond effectively to the policies of the Governing Council, particularly as these relate to the pre-investment role of UNDP, assuming these are redefined or reaffirmed by the Council;

(b) Persevere with his efforts to strengthen the staff of UNDP, by intensifying the training of existing staff, (particularly in techniques of pre-investment and investment follow-up) and by recruiting staff with experience directly related to UNDP's functions (e.g. in the case of pre-investment, people with an entrepreneurial background);

(c) Strengthen certain field offices, particularly in their capacity to design, prepare, monitor and follow-up pre-investment projects, and, as a general principle, do everything possible to make sure that each field office was "tailored" to the needs of the country concerned;

(d) Ensure (as part of his accountability) that all UNDP-financed pre-investment projects were carried out effectively by those responsible for them;

(e) Make certain that his senior staff "managed by objective", deliberately restricting the role of Headquarters in pre-investment, as in other spheres, to functions that could not be performed elsewhere, and, by so doing, deliberately forcing action, to the maximum extent possible, down to the field level;

(f) Continue his efforts to introduce an effective information system; and to improve the process of evaluation, particularly as they relate to pre-investment since the needs are greater in this area.

IX. THE DEFINITION OF PRE-INVESTMENT

"You see it's like a portmanteau - there are two meanings packed up into one word." Lewis Carroll.

108. In my terms of reference, I was asked whether the present definition of pre-investment could be broadened "so as to encompass any investment 65/ that could be attributed to UNDP-financed programmes of technical co-operation". My discussions during this review have convinced me that any new and broader definition could only be achieved as a result of interagency meetings between all those concerned, for the word "pre-investment" now has too many different interpretations in too many institutions, including UNDP itself. 66/ (The World Bank does not use it at all.) If one of the primary objectives is to determine just how much capital investment is generated (say) annually as a result of all UNDP's projects, it is apparent that far more systematic and professional evaluation would be required, together with an appropriate information system.

109. In this connexion, I wish to refer to paragraph 54 of document ACC/1979/60, dated 7 September 1979, prepared by CCSQ (OPS) in which it is stated that:

"... in view of the wide interpretation given to the terminology in use, related to pre-investment and investment activities, the Committee may wish to consider the usefulness of preparatory work on a set of appropriate definitions".

110. I endorse this suggestion, and believe that a solution to the problem of terminology might be aided by a closer examination of the definition and scope of "pre-investment" applied during the days of the Special Fund. Once a reasonably acceptable definition has been agreed by all concerned, it should be allowed to stand. One of the basic difficulties over the past years, which has (perhaps dangerously) marked the disturbing trends now apparent, has been the constant modification of definitions which has rendered long-term analysis or comparison impossible.

X. ACKNOWLEDGEMENTS

"Tribute to whom tribute is due". Paul to the Romans, xiii.v.7.

111. Well over a thousand experienced officials - both in Governments and from within and outside UNDS - were good enough to express their views on the problems discussed in this report. I thank them all. I owe an exceptional debt to Dr. Subhas Dhar who worked on the report continuously, and also to T. H. Omasina, whose voluntary help was of decisive importance in the later stages. Without their help the report could not have been completed. Responsibility for the report is mine alone.

65/ I have assumed "capital" in contrast to "human" investment was implied.

66/ See annex I.

Annex I

Operational definitions of pre-investment projects a/

1. Investment-oriented (I-0) projects of the pre-investment type were classified by UNDP during the 1972-1974 period into three categories b/ determined by the content of the project and its "distance" from the investment decision.

2. Descriptions of these categories appeared in the Operational and Financial Manual (UNDP/OFM/IV, Annex III.2/Rev.2) as follows:

(a) Projects with preliminary investment potential (PIP)

These include pre-feasibility or pre-assessment planning projects, or natural resources surveys, which require supervision to ensure continuity of investment orientation until the investment potential stage is approached. Supervision is achieved largely through review provisions in the work plan, if necessary on a recurring basis assuring the introduction into the project or its subsequent phases, of a full-scale IP project design (see below). At that time the project category is naturally changed from PIP to IP.

(b) Projects with investment potential (IP)

Such projects should produce information suitable for eventual investment decisions. Their design should therefore include adequate provisions for the preparation of investment potential reports, including a financial analysis. These reports, which may be in ad hoc or interim form, should, whenever possible, be completed in consultation with the prospective investors. The two principal tests of investment potential are whether the sector of the economy into which the project falls, and the project itself, are recognized by the Government as being of high priority, and whether the project or part of the project logically requires complete feasibility study (rather than technical research only).

(c) Investment feasibility studies (IFS)

These projects are in a special category, in that they are relatively short-term and thus low-cost in nature, designed to assist major multilateral, bilateral, public and private investors in reaching immediate investment decisions and may, under certain conditions, be financed from the Programme Reserve.

a/ This annex is based on information obtained from UNDP.

b/ There is also a fourth category of I-0 projects, called Investment Support Projects (IS), which are intended to support (rather than facilitate) investment by providing institutional, technical or extension-type assistance. Strictly speaking, these are not pre-investment projects as commonly understood.

3. During 1975, the central Investment Follow-up Unit was disbanded and the posts of Bureaux Investment Officers were eliminated.

4. Under the new arrangements then introduced, a single and more inclusive definition was developed in 1976 for pre-investment projects to replace the existing multiple classification system which, it was felt, had been subject to misinterpretation. The new definition stated that investment-oriented projects identify and/or assess investment opportunities through the following types of pre-investment studies: c/

- (a) Project identification (preliminary analysis);
- (b) Pre-feasibility studies;
- (c) Feasibility studies;
- (d) Complementary studies;

and where an investment commitment has been obtained,

- (e) Final design and engineering studies.

5. Pre-investment studies of a macro nature such as general area or regional planning studies, sector development studies, natural resource surveys, etc., which are not specifically designed to identify and analyse investment/capital projects are to be excluded from the definition of an investment-oriented project.

6. Since 1976, the new definition of an investment-oriented project has been applied in classifying UNDP-assisted projects. The scope of the studies included in an investment-oriented project and the expected outputs of such studies are elaborated in guidelines on project formulation entitled "Systematic Approach to Investment-Oriented Projects". These guidelines are incorporated as an annex to the 3400 series of the Policies and Procedures Manual.

c/ DP/320, para. 5.

Annex II

Potential sources of capital

1. The UNDS already has useful links with many sources of foreign capital, but the network could almost certainly be expanded (particularly in relation to the socialist countries and to the private sector) and steps should be taken to ensure that all relevant information is available at the field level to Governments and Resident Representatives and to the Regional Economic Commissions. UNDP might need to obtain (temporary) professional advice in order to do this.
2. Naturally, developing countries will hope to mobilize investment on the most favourable terms, and the sources of concessionary capital are reasonably well known, e.g. the World Bank group and the regional development banks, a/ individual bilateral donors, and special institutions such as EEC/EDF, EIB, IFAD, the OPEC Fund, and other funds created by the oil-producing nations, etc.
3. The operations of financial institutions in the socialist countries, e.g. the International Investment Bank of the COMECON, are not so well known and, therefore, may not have been used to the maximum advantage.
4. Two funds administered by UNDP should be mentioned. First is the United Nations Revolving Fund for Natural Resources Exploration. This fund is still in its initial stages, b/ but if managed firmly and with imagination might well evolve into a most useful source of capital. Recently, for example, two projects executed successfully by DTCD were sold to the private sector by the Governments concerned for very large sums of money, and it would not be unreasonable to expect that UNDP should be reimbursed for its pre-investment expenditure.
5. I understand that the Administrator intends to propose to the next session of the Governing Council the creation of an Energy Trust Fund. As specified in the text, one of the main objectives would be to help to strengthen the pre-investment activities undertaken by UNDP, as well as the linkages between such activities and follow-up investment. I believe that such a fund, like the United Nations Revolving Fund for Natural Resources Exploration, could make an important contribution in this regard provided that, in both cases, full use were made of the technical competence already abundantly available in the United Nations system in these fields, so that the funds served the essential purpose of providing an additional financial window in two areas that are critical for development, and not lead to a less than optimum use of scarce resources by duplicating technical services already in existence. A careful balance must also be struck between such funds, on the one hand, and the system of Country Programming and the IPFs on the other, so as to ensure that the fundamental principle of self-determination

a/ These institutions also have valuable contacts with the private sector.

b/ Its work is scheduled to be reviewed by the UNDP Governing Council and the Economic and Social Council in 1981.

of development priorities enshrined in the latter is not undermined. In this regard, the additionality of the special purpose funds will be a key factor.

6. Second is the United Nations Capital Development Fund (UNCDF) which is already doing very useful work. It has its great advantage of simple procedures and low overhead costs (approximately 2 per cent of annual commitments). The experience of the UNCDF is now beginning to demonstrate that a little money - applied to the right place at the right time in the right way - can go a long way in helping people to free themselves from the grip of poverty. A strong case can be made for a substantial expansion of the UNCDF's facilities and operations.

7. As the operations of the United Nations Centre on Transnational Corporations (UNCTC) expand, they will provide a valuable source of information about institutions in the private sector with great resources at their disposal, not only of capital but also of exceptionally well-qualified personnel. Whether the Governments of developing countries wish to avail themselves of these facilities is a matter for each individual Government to decide, but in its interest every Government should be accurately informed about the operations of these corporations. It is axiomatic, of course, that the information about investment potential available to UNCTC should be fed into the UNDS and vice-versa.

8. Several important donor Governments, recognizing the trend in many developing countries to accept a "mix" of public and private investment, have established independent institutions in their countries, c/ where knowledge available to the Government about overseas investment possibilities in the developing countries can be made available to interested companies and banks, etc., in their own private sector. Information about these special institutions and their operations should, once more, be made available to the developing countries concerned and the Resident Representatives.

9. Finally, there is the private sector as a whole. Many analysts feel that this sector has been responsible for more "development" in many countries than any other source. Obviously, it embraces an immense field of human endeavour, and it would be unrealistic to think that anything but very general information about its operations could be made available for use (if they so wished) by the Governments of the developing countries, as well as, where applicable, other interested institutions and companies, etc. In general, there is only very sketchy information available in many developing countries (and, vice-versa, knowledge of the developing countries by much of the private sector in industrialized countries) and the UNDS should contribute to the maximum extent possible in increasing knowledge on both sides.

10. Valuable information - on a two-way basis - can also be generated as a result of schemes (especially those in the United States of America and Canada) where

c/ For example, Swedfund in Stockholm.

men and women with specialized knowledge (particularly of industry) serve on a voluntary basis for relatively short periods in the developing countries. d/

11. Again, there are many independent groups of business men and women genuinely interested in mobilizing capital on fair and reasonable terms for investment in the developing countries. One example is the Industry Council for Development based in New York.

d/ A point dramatically illustrated by a recent project in South Asia executed under the Canadian Executive Service Overseas Organization which started by giving technical advice and ended, a few months later, with agreement to finance an entirely new series of projects springing from the original survey, and mobilizing \$1,600 million.