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COMMENTS ON THE STUDY
"UNDP AND PRE-INVESTMENT"

Note by the Administrator

Summary

In this note the Administrator presents his comments on the specific recommendations contained in the Consultant Report DP/472

1. The Governing Council at its twenty-sixth session in decision 79/10,III, requested the Administrator to carry out an investment development study "to review and analyze the factors which determine the success of UNDP-financed projects in attracting investments" and "produce recommendations for making UNDP investment projects more bankable". Factors to be considered were to include: "project design, sectoral pattern, source of finance, investment climate and ability to service external debt of a recipient country, and the extent of their influence on attracting capital for UNDP-financed projects". The study was to be carried out "keeping in mind particularly the needs of the least developed countries". The Administrator commissioned Sir Robert Jackson to undertake the study and his findings have been made available to the Governing Council for its review.
2. The Administrator has carefully examined the recommendations of the study and believes that they are very valuable in highlighting a number of vital and relevant issues. The Administrator is grateful to the Consultant for his historical analysis of and important contribution to an area which is central to the development process, especially in view of the time constraints imposed upon him by other responsibilities which were not foreseen when he undertook his work. In acknowledging, with gratitude, the importance of Sir Robert's analysis, the Administrator wishes to draw to the attention of the Governing Council the fact that several of the recommendations, including those which touch upon the relative roles of governments and UNDP in determining the proper use of UNDP resources, could be implemented fully only if the Governing Council were to modify the mandate of UNDP as enunciated in the Consensus.
3. Many of the recommendations bearing on aspects previously addressed by the Council are presently being implemented; others will require further examination following the Council's review. In his Report on Investment Follow-up (DP/442) to this session of the Council, the Administrator describes the measures taken during the past year to intensify investment follow-up activity. Actions underway on other recommendations are dealt with extensively in document DP/454, Examination of the Experience with Country Programming.
4. In examining the recommendations of the Consultant, the Administrator has reviewed the relevant enabling legislation. General Assembly resolution 1240 (XIII) establishing the United Nations Special Fund provided the mandate for UNDP pre-investment activities:

"Projects shall be undertaken which will lead to early results and have the widest possible impact in advancing the economic, social or technical development of the country or countries concerned, in particular by facilitating new capital investment"^{1/}.

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^{1/} See General Assembly resolution 1240 (XIII), Part B, Section I, paragraph 2(c).

5. The Consensus clarified further UNDP's role and linked assistance provided by UNDP directly to the country's national development objectives:

"The formulation of the country programme should involve a broad identification of the needs which arise out of the country's objectives in particular sectors, within the framework of its overall development objectives, and which might appropriately be met by Programme assistance The country programme of [UNDP] assistance should support activities which are meaningfully related to the country's development objectives. This implies that the assistance provided [by UNDP] constitutes a programme which receives its coherence and balance from its relationship to these national objectives."2/

6. The Consensus also addressed the question of the respective roles of the Government and the Administrator in ensuring investment follow-up:

"Provision for investment and other forms of follow-up to Programme assisted projects will, when necessary, be an integral part of the programming process and of the formulation, implementation and evaluation of the projects. The Government in each case will be primarily responsible for all measures which should be taken at all stages of a project to ensure effective follow-up, including follow-up investment. It will be open to the Government to seek investment assistance from all available sources. No one source of follow-up investment financing should be regarded as the only acceptable source or as a source enjoying preference over others. The Administrator will assume full responsibility within the United Nations system, as its major source of pre-investment financing, for providing assistance and advice on behalf of the United Nations system on follow-up investment, with the agreement of the Government. The Programme will develop its expertise in this matter to ensure, in consultation with the Government, early co-ordination from the planning stage onwards, with potential bilateral and/or multilateral sources of finance for projects requiring follow-up investment."3/

7. It is in the light of this mandate that the Administrator has reviewed the recommendations of the study.

Recommendations 1, 3 and 4

8. It is the Administrator's view that the respective roles of Governments and the UNDP Administrator in the preparation of the country programme have been carefully defined in the Consensus. The Administrator is accountable to the Governing Council for the use of all UNDP resources and has the responsibility to advise Governments, at the country programme preparation phase, of the priority areas where, in his opinion, substantial progress towards development could be made through assistance provided by UNDP. In this respect, the Resident Representatives' note to Governments on the preparation of country

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2/ See General Assembly resolution 2688(XXV), ANNEX, section II.A. paragraphs 7 and 8.

3/ Ibid, section V, G, paragraphs 52 and 53.

programmes takes on significant importance. However, the final decision to concentrate UNDP assistance on particular areas of development activity, or on particular techniques to achieve its development goals, rests with the Government. In the ultimate, it is the Government, and the Government alone, which must select for the orientation of its country programme, its own priority objectives, taking into account resources available from other sources.

9. This is not to suggest that the Administrator, accountable at all times and in all ways to the Governing Council, does not have full responsibility to ensure that UNDP provides to the Government the most objective and professional counsel and persuasive advice as to the use of the resources, financial and otherwise, which are available through the Programme. But the unique character of UNDP rests on the principle, validated by experience, that the Governments which UNDP serves are best able to determine the course of their development activities and to choose among available options. This principle is at the heart of the Consensus and of the Capacity Study from which it drew so extensively.

Recommendation 2

10. The Administrator fully supports Sir Robert's recommendation, which has already found approval by the Consultative Committee on Substantive Questions (Operations), that appropriate definitions be drawn up to describe pre-investment and related investment activities. UNDP has taken a leading role in contributing to the CCSQ(OPS) deliberations in this area, convinced that such definitions must have system-wide acceptance and application.

Recommendation 5

11. In document DP/454, Examination of the experience with country programming, also being submitted to the twenty-seventh session, the Administrator recommends a system of continuous programming accompanied by annual reviews of country programmes. Such a system of continuous programming would enable governments, by reviewing regularly the programming of UNDP resources, to introduce additional flexibility which is needed for UNDP to assist Governments in responding to changing political and economic conditions. The Administrator was gratified to find support for his proposal in Sir Robert's Recommendation No.5.

Recommendations 6 and 21

12. Under the guidance of the Council, the Administrator has delegated increasing authority to the offices of the Resident Representatives and management of the programme has moved steadily in that direction. The increase to \$400,000 in the approval authority of Resident Representatives has meant that both Governments and UNDP officials have now taken on very substantially increased responsibilities while headquarters functions have been correspondingly reduced.

13. In Recommendation 21, however, the policy of increased decentralization of authority has been linked to increasing the share of investment-oriented activities. In the Administrator's view, it does not follow that increasing

decentralization of management authority to the field would necessarily increase the share of investment-oriented activities in a programme; in this regard, he respectfully draws the attention of the Council to the graph on page 18 of the Consultant's report which demonstrates the dramatic downturn in the number of "survey" projects in the year following the adoption of the Consensus when the first major decentralization of the Programme took place. This downturn may be in part explained by the statistical base used for 1971 (see paragraph 31). In any case, the Administrator will explore opportunities to improve the decentralization of those operations which may contribute to the enhancement of investment-related activities.

Recommendation 7

14. The Administrator fully and energetically supports the increased execution of projects by Governments and has taken a number of steps, including the issue in January 1979 of Guidelines on Government Execution, to encourage Governments to increase their use of this New Dimensions modality. It should be noted, however, that the decision to use government execution rests with the Government itself.

Recommendation 8

15. The Administrator has worked to expand the operations of the United Nations Capital Development Fund (CDF) which provides capital assistance to the least developed countries. The Administrator has instituted new procedures to ensure that there is a closer linkage between pre-investment studies financed by country IPFs and the use of CDF funds to provide capital financing for some of the projects which are determined to be feasible as a result of such studies. The needs for this type of assistance in least developed countries are great, and the Administrator welcomes any increase in support to the Fund which Governments are in a position to provide.

Recommendation 9

16. The operations of the United Nations Revolving Fund for Natural Resources Exploration will be subject to a five-year review by the Governing Council in 1981. The report of the Independent Commission on International Development Issues notes that the Revolving Fund deserves wider support, but that repayment terms will need to be relaxed, if its operations are effectively to be extended to the poorer countries. The Administrator is closely monitoring the operations of the Fund, but it would be inappropriate to prejudge the Council's complete consideration of these issues in 1981.

Recommendation 10

17. The Governing Council considered in 1979 a proposal to establish a Pre-investment Revolving Fund but withheld its approval. In addition, the Council declined to recommend to Governments that they earmark a portion of their IPFs for pre-investment feasibility studies, suggesting instead that where a project has investment potential, the Government should consider including resources earmarked in the project budget for the additional work necessary to bring the project to the investment stage.

Recommendation 11

18. The Administrator fully endorses this recommendation. Through the Integrated Systems Improvement Project (ISIP), he has already initiated action to evolve a system-wide information system leading to a more efficient use of UNDP resources, including information on projects with investment potential. As is noted in DP/471, computerization of data on investment-oriented projects has already been completed as part of the development of UNDP's institutional memory.

Recommendation 12

19. The Governing Council may wish to consider drawing this recommendation to the attention of the Secretary-General of the United Nations.

Recommendations 13, 14 and 15

20. As outlined above, the Administrator is committed to encouraging Governments, through the offices of the Resident Representatives, to give special attention in the preparation of country programmes to projects which have a potential for attracting investment capital. Moreover, given the scarcity of financial resources available to the Programme, UNDP has an important role in advising Governments on which projects have the greatest potential for attracting investment. Strengthening UNDP's capacity in meeting these objectives was a major consideration in the Administrator's decision to establish the Investment Development Office in 1979.

Recommendation 16

21. It is clearly for UNDP to determine which element of the United Nations development system will have primary responsibility for the execution of a UNDP-financed project. UNDP also has the responsibility to advise the Government in order to ensure that the institutional setting is conducive to the success of the project. The Government, however, must determine where the responsibility for that project should best be placed within the Government itself.

Recommendations 17 and 18

22. Under the system of investment review which has been instituted by the Administrator, Resident Representatives are requested to review annually with the host Government all projects which have an investment potential. In addition, some countries with the co-operation of the responsible UNDP Bureau Director have convened "Tables Rondes" with potential donors. During the annual reviews by Resident Representatives, projects which have failed to attract investment are examined and, where appropriate, further work is undertaken to attract investment in the project. As regards completed projects, a number of "dusting-off" exercises have been undertaken by UNDP in the 1970-1980 period. Most recently, completed projects in the agricultural sector were included in the UNDP-FAO review of investment-oriented projects. A similar exercise has been undertaken with WHO.

Recommendation 19

23. The Administrator concurs with this recommendation. A continuing priority function of the Investment Development Office is the systematic review of investment-oriented projects to determine those factors which have led to their success or failure in attracting investment follow-up. The Administrator fully agrees that the office, like all other elements of UNDP, should be staffed with officers who possess the highest and most appropriate professional qualifications.

Recommendation 20

24. The Administrator fully agrees that multi-purpose and multi-disciplinary projects involving river basin development and other extensive surveys of natural resources may best be carried out under the leadership of an expert with experience in all aspects of project preparation leading to the mobilization of capital.

Recommendation 21

25. Refer to Recommendation 6.

Recommendations 22 and 23

26. The Administrator points out that UNDP's recruitment policies require that staff appointed have a sound background and experience in developmental issues. More specifically, concerning staff engaged in pre-investment activities and mobilization of capital, the Administrator agrees that, prima facie, it is desirable that officials should be appointed who have the necessary experience at the "ground level" in the preparation of investment-oriented projects which have as their ultimate objective capital investment.

Recommendations 24 and 25

27. The Administrator has undertaken a wide-ranging analysis of personnel management in the context of the "desk-to-desk survey" in which he asked for "an assessment of whether what is being done must be done, whether it could be done more efficiently, and whether it might be better done elsewhere". This study will form the basis of the Administrator's submission to the Council on the deployment of UNDP's personnel in due course.

Recommendation 26

28. The Administrator has entered into financial arrangements with the FAO Investment Center and similar arrangements are under discussion with other Agencies. In a wider sense, however, this recommendation would reopen discussions on sectoral support and would have to be reviewed by the Council before the Administrator could authorize any resources for this purpose.

Recommendation 27

29. At the present time UNDP is reviewing the procedures set out in the UNDP Policies and Procedures Manual (PPM), including the simplification of the project document. Information on this is contained in DP/448, Evaluation and Related Matters for Improving the Quality of Technical Co-operation. In the wider framework of the United Nations system, UNDP and the Agencies held two meetings during 1979 where simplification and greater uniformity of procedures were a principal focus. This subject has also been considered by CCSQ(OPS). A document on uniformity of development co-operation procedures (DP/468) is being submitted to the twenty-seventh session of the Council outlining the Administrator's action in response to the Council's decision 79/9 on this subject.

Recommendation 28

30. In creating the Investment Development Office the Administrator's objective was to intensify UNDP's capacity in investment follow-up. It is also important, however, that all staff members concerned with pre-investment activities should have a sound knowledge of the various aspects of investment development activities. Accordingly, it is proposed that arrangements be made through the Training Section to determine what action could be taken jointly with the World Bank to ensure that Resident Representatives and Deputy Resident Representatives receive special training on investment development, including the mobilization of capital resources. As outlined in the Administrator's report, DP/448, Evaluation and Related Measures for Improving the Quality of Technical Co-operation, training is being developed for staff on all aspects of the project cycle. Investment development issues will be fully integrated into that programme.

31. The Administrator will take fully into account the findings and recommendations of the study, where endorsed by the Governing Council, in UNDP's activities in pre-investment and investment follow-up. It is proposed in DP/442, Investment Follow-up, that the Council may wish to revert to this subject at its twenty-eighth session. If the Council adopts that proposal, the Administrator will report further at that time.

Note on Statistical Analysis

32. In his over-all analysis of the pre-investment activities (see tables 1 through 5 and the accompanying graph) the Consultant, in presenting pre-1972 figures for investment-related projects, assumes that all large scale projects supported by the United Nations Special Fund were in that category. He concludes that with the introduction of the country programming in 1972, the share of pre-investment activities declined from 77 per cent of the total programme in 1971 to 33 per cent in 1972. Prior to the introduction of country programming, the term pre-investment, as the Consultant acknowledges, was used in a wider sense than it was used following the Consensus. Furthermore, many of the projects included in the 1972/78 programming periods were on-going from prior years; thus the data as shown may be somewhat misleading in reflecting the scale of pre-investment activities financed by the programme respectively in the two periods.

33. The Consultative Committee on Substantive Questions (Operational Activities) discussed the subject "Linkages between Technical Co-operation/Pre-investment Activities and Investment" at its first regular session of 1980. The report of these discussions is included in the document of the Administrative Committee on Co-ordination (ACC.1980/7) which is available to the members of the Governing Council.
