Summary

The report outlines the progress made on UNDP involvement in pre-investment activities during the past year. The results of the co-operative arrangement with the Food and Agriculture Organization of the United Nations (FAO), under which the multidisciplinary teams of its Investment Centre are used to make UNDP-assisted projects executed by FAO attractive to potential sources of finance, have been encouraging. A similar arrangement has been concluded with the World Health Organization (WHO) and negotiations are proceeding satisfactorily for working out co-operative arrangements with other Agencies.

The Administrator points out that the amount of up to $100,000 authorized by the Governing Council for extending the UNDP/FAO co-operative arrangement to other Agencies and for additional work on completed projects is not likely to be sufficient. He believes that pre-investment activity could be substantially increased if more funds were available for the implementation of the co-operative arrangements. In line with decision 80/23, the Administrator has concluded arrangements with the Economic Development Institute (EDI) of the World Bank for the training of Resident Representatives and Deputy Resident Representatives in investment development. Based on the experience to be gained in 1981, the Administrator plans the continuation of such training. An amount of $200,000 has been provided for this purpose in the biennial budget estimate for 1982-1983.

The report also describes the measures taken by UNDP towards implementing the recommendations contained in Sir Robert Jackson's study, UNDP and Pre-investment (DP/472). The attention of the Council is drawn to paragraphs 33-36 regarding some recommendations which involve policy questions.
I. Background

1. At its twenty-seventh session, the Governing Council took note of the report of the Administrator on investment follow-up (DP/442), the note by the Administrator transmitting the consultant's study on UNDP and Pre-investment (DP/472), the Administrator's comments on the consultant's study (DP/479 and Corr.1), and decided to examine further the question of UNDP involvement in pre-investment activities at its twenty-eighth session.1/ The present report describes the measures taken by the Administrator over the past year to increase the pre-investment content in country programmes, improve the linkages between pre-investment and investment, and includes a progress report on Sir Robert Jackson's study, UNDP and Pre-investment, in the light of discussions held at the twenty-seventh session of the Governing Council.

II. Pre-investment content in country programmes

2. Identification of pre-investment projects assisted by UNDP is generally made at the field level. In collaboration with the Agencies, the Resident Representatives play an important part in helping the recipient Governments in the development of such projects. With a view to strengthening the field offices in this specialized field, arrangements have been concluded with the EDI of the World Bank for the training of Resident Representatives and Deputy Resident Representatives in investment development (see paragraphs 10-15 below). The special interest arrangements described in paragraphs 20-23 below, in accordance with which draft country programmes are sent to development finance institutions for comments, are another means of increasing the pre-investment content in country programmes. Further, UNDP has concluded a reimbursable aid arrangement with the Inter-American Development Bank (IDB) and negotiations are proceeding for working out a similar arrangement with the World Bank. It is hoped that such a mechanism will induce Governments to include an increasing number of pre-investment projects in their country programmes (see paragraphs 25-29 below). In addition, the Administrator expects that the improvements suggested in the country programme process - in particular, continuous programming - should further enhance pre-investment activities by permitting a more flexible way of committing IPF resources as pre-investment opportunities arise. UNDP is also encouraging its field offices to increasingly involve the headquarters-based Investment Development Office, Bureau for Programme Policy and Evaluation, in the review of country programmes as regards pre-investment activities.

III. Linkages between pre-investment and investment

3. Several measures have been taken by UNDP to improve the linkages between pre-investment and investment for UNDP-assisted pre-investment projects. The results obtained in this regard are described below.

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Co-operative arrangements with Agencies

4. Under these arrangements, Agency staff, comprising economists, financial analysts and technicians, is used to generate additional information required to make UNDP-assisted pre-investment projects attractive to potential investors. The first such arrangement was worked out with the FAO Investment Centre in 1979.

5. The results accomplished under the UNDP/FAO co-operative arrangement have been encouraging. As at 31 December 1980, the FAO Investment Centre was working on 19 projects for which FAO is the Executing Agency and which have an investment potential of $400-450 million. Two of the projects have already led to investment. One of them is for agricultural and rural development in Egypt which has resulted in an investment of about $38 million, $28 million from the International Fund for Agricultural Development (IFAD), and the balance of about $10 million from the host Government. The other project is for the production of rice through rain-fed cultivation in the United Republic of Tanzania, for which the African Development Bank (AfDB) has made a loan of approximately $10.8 million. In addition, the AfDB has earmarked a sum of $10 million for an agricultural settlement project in the Lower Didessa Valley in Ethiopia.

6. The selection of projects for 1981 was completed in December 1980, with 25 projects chosen for inclusion in the programme of work of the FAO Investment Centre for the current year.

7. The co-operative arrangement with WHO was agreed to in July 1980. A representative of WHO visited UNDP during October 1980 and, as a result, four projects with studies already completed were selected for the initial work programme. In addition, four ongoing investment-oriented projects, executed by WHO, were selected for close scrutiny. Furthermore, several projects with investment potential were identified for inclusion in the future work programme, pending desk review by WHO.

8. UNDP has finalized negotiations for similar arrangements with the Department of Technical Co-operation for Development (DTCD) of the United Nations and the United Nations Industrial Development Organization (UNIDO). It is expected that formal memoranda of understanding will be signed shortly. The co-operative arrangements have considerable potential for improving linkages between pre-investment and investment for UNDP-assisted projects, and UNDP is presently discussing the possibility of working out similar arrangements with the International Labour Organisation (ILO) and the United Nations Educational, Scientific and Cultural Organization (UNESCO).

9. At its twenty-seventh session, the Governing Council authorized an amount of up to $100,000 for extending the co-operative arrangement to Agencies other than FAO and for additional work on completed projects.2/ Ordinarily, all expenses required for making UNDP-assisted projects bankable were to be charged to project budgets, and the amount of $100,000 was to be

2/ Ibid.
used to cover the initial costs of fielding identification missions with respect to ongoing and completed pre-investment projects under the co-operative arrangements. On the basis of discussions between Agencies and UNDP, it appears that $100,000 may be insufficient for this purpose, and the Administrator believes that pre-investment activity could be substantially increased if more funds were available for the implementation of co-operative arrangements. In the future, a provision would be made in project budgets to cover the cost of additional work required to make projects with investment potential attractive to possible sources of finance.

Training

10. At its twenty-seventh session, the Governing Council also endorsed the proposal made by the Administrator that arrangements be made to ensure that Resident Representatives and their Deputies receive special training in investment development. It also authorized an amount of $150,000 for 1980-1981 for this purpose.3/

11. The purpose of such training is to help field offices identify and prepare viable pre-investment projects by enabling staff members to recognize the important elements which make for sound surveys, pre-feasibility and feasibility studies. In addition, UNDP field offices will be better able to advise and assist Governments on ways and means of linking pre-investment to investment, and to identify potential investors at an early date. Furthermore, the training course will emphasize the importance of pre-investment content in country programming, together with the special requirements of development finance institutions. It will also suggest alternative sources of finance available to Governments for follow-up investment.

12. In 1981, there will be three training courses: the first to be held in April 1981, and the other two later in the year. Each course will last for two weeks. The participation of selected Agency staff on a reimbursable cost basis is also being considered. Similar courses will be subsequently included in the regular UNDP training programme for operational field officers.

13. Early in the current year, a curriculum seminar to design the courses was arranged by the World Bank with a view to ascertaining primarily the views of those Agencies with which it has co-operative arrangements. The representatives of the World Bank, FAO, WHO, UNIDO, United Nations(DTCD), the ILO, IFAD and UNDP participated, and a pragmatically-oriented curriculum on investment development was designed.

14. The selection of participants for the first course has also been completed with particular emphasis on the needs of low income countries. Of the 15 Resident Representatives and Deputy Resident Representatives selected for the first course, five are from Africa, four from the Asia and the Pacific region, and three each from Latin America and the Arab States.

3/ Ibid.
15. On the basis of experience to be gained in 1981, the Administrator plans to continue such training courses for Resident Representatives and Deputy Resident Representatives. A sum of $200,000 has been provided in the 1982-1983 biennial budget estimate for this purpose (DP/548).

Umbrella projects

16. At its twenty-fifth session, the Governing Council endorsed the concept of the umbrella project.\(^4\) Under this concept, several projects are packaged together and approved as a single project, usually encompassing several sectors. Significant features of this approach are simplification and flexibility, which allow for appropriate substitution of pre-investment studies as required by changing priorities. By establishing an umbrella project and setting aside funds in this way, UNDP is in a position to enhance its capacity to respond promptly to pre-investment needs as they arise.

17. The concept of the umbrella project was first applied in 1975 in the case of Burma with the approval of the Programme of Pre-investment and Investment Assistance project (BUR/74/024). The project was executed by the World Bank in which several other Agencies also participated. It covered a variety of sub-projects under a broad spectrum of sectors. Originally, funding was budgeted at $2.5 million; by the end of 1980, the budget totalled $4.1 million. Several of the feasibility studies under Burma Umbrella project I led to investments. On the basis of available data, it appears that more than $150 million in investments have already been generated, and several other projects are presently under consideration for possible follow-up investment by financial institutions and donors. A follow-up project, Burma Umbrella II (BUR/79/003), with a budget of $2.6 million, commenced in 1980.

18. Encouraged by the results of the Burma projects, another umbrella project, Multi-sector Programmes of Project Preparation (SRL/77/012), was approved in April 1978 in Sri Lanka with an initial budget of $2 million. Indications are that sizeable investments are forthcoming as a result of the pre-investment studies being made by the World Bank, which is the Executing Agency. It is interesting to note that although the pre-investment studies are being carried out by the World Bank, a substantial amount of follow-up investment, both in the case of Burma and Sri Lanka, has come from bilateral sources.

19. While designating potential lending institutions as Executing Agencies for umbrella projects maximizes the prospects that investment projects will be designed to meet international standards and attract follow-up investment, similar arrangements merit consideration by other Agencies as well, particularly those which have co-operative arrangements with multilateral or bilateral sources of finance in their respective fields of competence. UNDP is pursuing the matter further with Agencies.

IV. Strengthening relationships with financial institutions

Special interest arrangements

20. UNDP has entered into special interest arrangements with the World Bank, the regional development banks and IFAD. Under these arrangements, draft country programmes and pre-investment project documents are sent to these institutions by UNDP field offices. In cases where interest is shown, the institutions are kept regularly informed of the status of those projects. Expression of special interest in a project enables the financial institution concerned to monitor its formulation and execution by another Agency, so that the pre-lending activities needed to facilitate appraisal for a loan or credit are carried out on a systematic basis.

21. Twenty-six projects were sent to AfDB in 1980 under the special interest arrangement. The AfDB has expressed special interest in 11 of them. Under a similar arrangement, a total of 12 country programmes and 32 project documents have thus far been received by IDB and are presently being examined. The special interest procedure agreed to with the Asian Development Bank (AsDB) only a few months ago appears to be working well. In addition, the AsDB has proposed a tentative list of 11 projects of particular interest to it in common member countries for possible UNDP financing of pre-investment studies. The matter is being pursued with the recipient Governments through the UNDP field offices.

22. Since the inception of a special interest arrangement in November 1979, IFAD has received from UNDP field offices about 30 project documents and has forwarded comments on a number of them. One project in which it expressed special interest has resulted in an IFAD loan, and indications are that some others may also lead to follow-up investment.

23. Progress on six projects in which the World Bank expressed special interest is being monitored. The special interest procedure with the World Bank has been further complemented by a consultative arrangement to explore ways and means of achieving closer collaboration on matters related to technical assistance and pre-investment activities and as a result of discussions held for a possible reimbursable aid arrangement, as described in paragraphs 25-29 below.

24. UNDP is also consulting with the European Development Fund, the European Investment Bank and the Arab Bank for Economic Development in Africa with a view to fostering follow-up investment on UNDP-assisted projects as well as to exchange information on matters of mutual interest. At the request of the AfDB, UNDP is helping to strengthen its pre-investment unit in order to enhance its ability to execute UNDP-assisted projects and to improve the linkages between pre-investment and investment.

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Reimbursable aid arrangement

25. Under such an arrangement, in consultation with the recipient Government, UNDP would approach a development bank as soon as a project with investment potential is identified. Once its interest is ascertained, the development bank would be invited to participate in the design and formulation of the project on a co-operative basis with the recipient Government, UNDP and any of the relevant Specialized Agencies.

26. The financing of the pre-investment study would be provided initially from the country IPF. An understanding would be reached between the development bank and the recipient Government that, in case the pre-investment study financed by UNDP results in a loan and/or credit from the development bank, UNDP would be reimbursed the cost of the study. The amount thus reimbursed would revert to the same country IPF and would be available for use in other projects.

27. The advantage to the development bank of such an arrangement is that the study will be drawn up to its specifications, whereas UNDP will take the risk of financing the study. In the event that the findings of the pre-investment study are negative, the cost of the study would be considered a grant chargeable to the country IPF. On the other hand, if the study discloses that the project is feasible, the amount would be included as part of the capital cost of the project, and the grant money would be released for further risk-taking.

28. The objective in working out the proposed arrangement is to stretch the use of the country IPF. Such an arrangement is seen to be particularly useful to those countries whose IPFs are relatively small and not likely to increase appreciably in the third cycle (1982-1986).

29. UNDP has already concluded a reimbursable aid arrangement with IDB. A meeting was held between the World Bank and UNDP officials early in January 1981 to explore such a possibility and negotiations are proceeding satisfactorily.

V. Pre-investment study

30. At its twenty-sixth session, the Governing Council authorized the Administrator to undertake an investment development study for the purpose of reviewing and analysing the factors which determine the success of UNDP-financed pre-investment projects in attracting investment.Sir Robert Jackson was engaged as a consultant to undertake the study and his report, UNDP and Pre-investment, (DP/472) was submitted to the Governing Council for consideration at the twenty-seventh session in June 1980.
31. In noting a marked reduction in the pre-investment content of country programmes and a high percentage of decline in the linkages between pre-investment and investment, the report made a number of recommendations for improving investment follow-up activity. In his note (DP/479) to the Governing Council commenting on the report, the Administrator recognized the importance of the study and stated that many of its recommendations were already being implemented. As the report contained several recommendations which raised policy questions, the Administrator expressed his readiness to examine them after their review by the Council.

32. The main recommendations which are presently being implemented include:

- the formulation of a commonly accepted definition of pre-investment for the United Nations system;
- further strengthening the UNDP field offices in low income countries;
- training the Resident Representatives and their Deputies in the field of investment development;
- implementation of the improved information system regarding pre-investment activities;
- systematic review of pre-investment projects, in partnership with the Agencies and Governments, under the co-operative arrangement with the Agencies and the special interest arrangements with the World Bank, regional development banks and IFAD. Governments are also being encouraged, through the offices of the Resident Representatives, to pay special attention to projects which will attract capital investment.

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6/ An Interagency Consultative Meeting (IACM) was held in early December 1980 and, among other matters, it considered a new proposal for the formulation of an acceptable definition of pre-investment activities on behalf of the United Nations system. It was agreed that:

"Pre-investment projects are those that clearly identify, as an objective, the task of collecting, analysing and presenting economic, financial, technical, institutional and social data, in any development sector, in a form which would facilitate decision-making concerning the feasibility of committing an amount of capital for the creation of physical assets, production of goods and services or the development of human and natural resources".

"Other activities such as the survey of natural resources, sector studies, master plans, regional plans, research, pilot schemes, etc., continue to claim a large portion of UNDP resources. It is proposed that such activities be described as 'investment-oriented' projects given their general orientation and importance to future investment activities".

The above definition will now be recommended to the Administrative Committee on Co-ordination (ACC) through the Consultative Committee on Substantive Questions (Operational Activities) (CCSQ(OPS)) for adoption by the United Nations system.

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33. Some of the recommendations which involve policy questions are described below. The report states, for example, that one of the difficulties in linking pre-investment to investment is "UNDP's lack of investment capital under its direct control". The present mandate of UNDP excludes it from capital financing. The Administrator is, therefore, not in a position to respond affirmatively to such a recommendation. However, as pointed out in DP/479, the Administrator has instituted new procedures to ensure closer linkage between pre-investment studies financed by country IPFs and the use of United Nations Capital Development Fund (UNCDF) resources to provide capital financing for those projects which are determined to be feasible as a result of such studies. Another recommendation of the report concerns the establishment of a pre-investment revolving fund. Such a recommendation was already considered at the twenty-fifth session of the Governing Council in 1978, at which time most members expressed doubts about its establishment.

34. While recognizing the national sovereignty of each developing country in the process of formulating its country programme, the report observes that, in the exercise of his accountability to the Governing Council, the Administrator has the responsibility of deciding whether or not to accept a specific project, thereby ensuring that projects presented under the country programme represent a proper balance between pre-investment and other projects. The implication is that the Administrator is entitled to deny approval of projects where, in his judgement, such a balance is not achieved. Such a decision by the Administrator would not be based on his view regarding the viability or utility of projects on which he must always be satisfied.

35. The Administrator can only reiterate what he said at the last session in his comments on the study (DP/479), that he is accountable to the Governing Council for the use of all UNDP resources and has the responsibility to advise Governments of the priority areas where, in his opinion, substantial progress can be made through assistance provided by UNDP. 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 which must determine the orientation of its country programmes and its own priority objectives, including the level of pre-investment content, taking into account resources available from other sources. The sovereign right of Governments to determine their own priorities and objectives and the selection of projects to achieve these objectives (subject as stated above to their viability and utility) was a cornerstone of the Consensus and this position has been repeatedly confirmed by the Governing Council.

36. In recognizing that it is for a Government to decide on the need to include an appropriate amount of pre-investment activity in its country programme, the Administrator is, nevertheless, 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 investments. The Administrator, in collaboration with Governments and Agencies, is constantly strengthening the capacity of UNDP in this regard.
VI. Investment reports

37. Additional measures were taken by the Administrator during the past year to improve information on investment commitments for UNDP-assisted projects. Such measures included, inter alia, working out arrangements with several major financial and development institutions which have not provided reports on investment commitments in the past to do so in the future. Data on investment commitments have been fully computerized and, furthermore, a commonly accepted definition of pre-investment has been elaborated which should also enable UNDP to give a more accurate picture of the investment generated from UNDP-assisted projects.

VII. Recommendation

38. Investment follow-up for UNDP-assisted projects has been stepped up, and this activity is expected to assume greater importance in the future as a result of the measures taken by the Administrator. Accordingly, the Administrator recommends that:

The Governing Council,

(a) Take note of the Report of the Administrator on pre-investment activities;

(b) Invite Governments to give due priority to pre-investment activities in preparing their country programmes;

(c) Request the Administrator and the Agencies to strengthen their efforts with a view to ensuring that Governments receive needed advice in the identification and formulation of pre-investment projects;

(d) Take note of the concept of the reimbursable aid arrangement between UNDP and the development banks; and

(e) Endorse the plans of the Administrator for the continuation of the training courses for the Resident Representatives and Deputy Resident Representatives based on the experience gained with such training in 1981.