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OTHER FUNDS AND PROGRAMMES

UNITED NATIONS CAPITAL DEVELOPMENT FUND

Implementation of the Partial Funding System

Background

1. At its 20th session in June 1979, the Governing Council approved the Administrator's proposal for UNCDF to change over from full funding of projects to a partial funding system, for an experimental period of two years, not requiring additional resources (Decision 79/21). The Council also decided that the Fund should establish and maintain an operational reserve of no less than 20% of project commitments, and requested the Administrator to report to the Council on implementation of the Partial Funding System.
2. The basic consideration underlying the Governing Council decision was the need to increase the level of project disbursements so as to absorb accumulated liquidity that had resulted from the full funding policy. At the same time, it was expected that the Partial Funding System would enable the Fund to increase its programming capacity so as to meet the pressing needs of a larger number of developing countries which the General Assembly directed be given special consideration in the provision of development assistance.

Implementation of Partial Funding

3. At the time that the Council approved the partial funding policy, the Fund's operations were characterized by: (a) a low disbursement rate as shown in Table 1 below; and (b) accumulated liquidity of \$51.2 million.

TABLE 1
(US\$ million)

	<u>Annual</u> <u>Resources*</u>	<u>Project</u> <u>Expenditure</u>	<u>Expenditures as</u> <u>% of Income</u>
1975	8.1	0.3	4%
1976	15.1	5.9	39%
1977	18.9	8.5	45%
1978	22.0	10.2	46%

(* Voluntary contributions and interest income)

4. In compliance with the Council's decision, the Fund immediately established a fully-funded Operational Reserve which is being maintained at 20% of outstanding commitments. In addition, the Fund established the necessary financial management controls to determine the level of annual ceilings for project approvals and disbursements based on annualized project budgets. These controls, coupled with the Operational Reserve, are designed to ensure the financial integrity of the Fund at all times.

5. As requested by the Council, the Administrator took steps to provide the Fund with the necessary flexibility to increase its administrative capacity through advance recruitment of staff. A number of other management and operational controls were instituted by the Fund to step up implementation of the partial funding system, as well as to ensure adequate attention to improving the quality of programme activities. These measures, which are described in detail in the Annual Report of the Administrator (DP/536), included: streamlining the process of project development, appraisal and approval, establishment of a management reporting system for effective monitoring and evaluation of the programme, and provision of programme support services to expedite project implementation.

6. These measures have enabled the Fund to tackle the problem of the low disbursement rate, while at the same time enlarging the scope of programme activities. In this connexion, a concerted planning and programming effort was undertaken by the Fund to widen the geographical coverage of its activities to include all of the officially designated Least-Developed Countries, as well as other developing countries which the General Assembly had directed be given similar consideration.

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7. In 1979, implementation of partial funding covered only six months and the impact on the volume of operations and on disbursement became effective only in 1980 when disbursements went from \$8.9 million in 1979 to \$19.8 million in 1980, representing an increase of approximately 122% over the previous year. The disbursement rate in 1980 reached 51% of total annual resources as compared to 29% recorded in 1979.

8. This acceleration in the disbursement rate has continued into 1981. Already in the first quarter of 1981, disbursements amount to \$17.4 million and are expected to total \$45 million by the end of the year, representing an increase of 127% over 1980 disbursements. The disbursement rate in 1981 is expected to reach 111% of annual resources. Thus, 1981 will be the first year in which the partial funding system will have a significant effect in reducing accumulated liquidity. With continuation of partial funding, it is expected that accumulated liquidity will be almost eliminated by 1983, as shown in Annex 1.

9. It is important to note, however, that in tackling the liquidity problem the Fund has not compromised on the quality of its assistance programme. This aspect is one of overriding concern to the Fund's management and increasing efforts will continue to be made to ensure that the quality of programme activities is maintained at a high level.

10. In developing the projections shown in Annex 1, the Fund was guided by past trends in voluntary contributions which have averaged a growth rate of 15 per cent annually. However, in considering its participation in the future efforts of the international community to generate additional concessional assistance to the Least-Developed Countries, and keeping in mind its mandated role as a supplementary source of capital assistance, the Fund considers that an annual growth rate of 15 per cent is inadequate. It should also be noted that the Fund's programming and operational experience have developed to a point where it could be in a position to manage a substantially higher volume of resources to respond to the pressing needs of the Least-Developed Countries for capital assistance. In order to maintain the momentum generated by partial funding, the level of growth in the Fund's resources in the coming years should be substantially raised. Nonetheless, in the spirit of the Council's directives, as expressed in its Decision 79/21, the Fund has based its projections of resources expectations at the conservative level of 15 per cent.

11. In conclusion, the Partial Funding System has proven to be a most effective tool that has enabled the Fund to fulfil its mandate in an increasingly effective manner, thus contributing in a significant way to the development efforts of beneficiary countries.

FINANCIAL POSITION UNDER FULL AND PARTIAL FUNDING
(US\$ MILLION)

	Year	Voluntary ^{1/} Contributions	Interest and Other Income	Annual Resources (2 + 3)	Expendi- tures	Net Annual Resources (4 - 5)	Cumulative Resources	Operational Reserve	Available Net Resources (7-8) ^{2/}	Outstand- ing Proj. Commit- ments
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
I. ACTUAL										
a) Full Funding	1968-74	11.2	1.1	12.3	0.3	12.0	12.0	-	12.0	4.2
	1975	7.5	0.6	8.1	0.3	7.8	19.8	-	19.8	18.9
	1976	13.5	1.6	15.1	5.9	9.2	29.0	-	29.0	26.5
	1977	16.7	2.2	18.9	8.5	10.4	39.4	-	39.4	32.4
	1978	17.8	4.2	22.0	10.2	11.8	51.2	-	51.2	47.2
b) Partial Funding	1979	23.9	6.7	30.6	8.9	21.7	72.9	20.9	52.0	78.3
	1980	29.5	9.6	39.1	19.8	19.3	92.2	22.7	69.5	111.2
II. PROJECTED										
(Partial Funding)	1981	31.0	9.4	40.4	45.0	(4.6)	87.6	26.2	61.4	131.2
	1982	35.7	6.3	42.0	71.2	(29.2)	58.4	28.0	30.4	140.0
	1983	41.1	2.9	44.0	75.5	(31.5)	26.9	26.9	-	134.5
	1984	47.3	2.9	50.2	50.0	0.2	27.1	26.9	0.2	134.5
	1985	54.4	3.2	57.6	54.5	3.1	30.2	30.0	0.2	150.0

^{1/} Estimates based on a 15% annual growth derived from past trends.

^{2/} Includes contributions in non-convertible currencies.