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POLICY

IMPLEMENTATION OF DECISIONS ADOPTED BY THE GOVERNING COUNCIL AT PREVIOUS SESSIONS

Progress report on pre-investment activities

Report of the Administrator

Summary

This paper discusses the need to find an alternative source for funding investment feasibility studies for which financing may not be available under a country's indicative planning figure (IPF). Such studies would be designed to meet the unforeseen requirements of least developed countries, for the most part, in obtaining follow-up investment from identified sources of finance.

The authorization of the Governing Council is sought to approve a fund of $1 million from special programme resources to finance these studies during the third cycle, 1982-1986.

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1. Investment feasibility studies are designed to assist such identified investors as the World Bank, the International Development Association (IDA) the International Finance Corporation (IFC) regional and national development banks, bilateral aid sources and the private sector in reaching immediate investment decisions for Government-designated priority projects. Such studies, often unforeseen at the time of formulating country programmes, are relatively short-term, with a duration varying from 3 to 12 months, and are normally low-cost in nature.

2. During the first programming cycle, 1972-1976, the Programme Reserve was used, at a Government's request to finance investment feasibility studies which could not be accommodated under the IPF. An average amount of somewhat less than $1 million annually was spent in this way. It amounted to about 11 per cent of the total Programme Reserve expenditure for the period.

3. At its twentieth session in June 1975, the Governing Council decided that during the second cycle, 1977-1981, the Programme Reserve should be used primarily to finance emergency assistance.[1/] In view of the change in policy, no investment feasibility studies have since been approved for financing out of the Programme Reserve. Thus, it has been necessary to find other means of financing these studies. At times, this has inhibited follow-up investment because of delays, or lack of success, in finding funds for the feasibility studies.

4. In recent discussions with several major sources of finance, it was pointed out that the country programme mechanism was not always flexible enough to provide funds in those contingency situations where investment projects came up unexpectedly causing a sudden short-term need for investment feasibility studies. Consequently, in the view of these institutions, an alternative mechanism to finance such studies is called for since valuable opportunities for small and medium-scale investments, particularly in the least developed countries, were otherwise likely to be lost. IFC, particularly, emphasized this point and stressed the need for a separate financing facility in order to deal quickly with private sector requirements for preparing viable projects.

5. In line with the Governing Council's decision adopted at its twentieth session, the Administrator would continue to finance investment feasibility studies primarily out of country IPFs. However, in order to meet unforeseen needs of countries to prepare projects for financing in co-operation with development finance sources, the Administrator believes that fresh initiatives are required to implement investment feasibility studies, particularly in respect of the least developed countries where funds may not be available from the IPF.

1/ See Official Records of the Economic and Social Council, Fifty-ninth session, Supplement No.2A (E/5703/Rev.1), para. 314, (i).

6. The Administrator, therefore, suggests that it would be desirable, especially taking into account the needs of the least developed countries, to establish a pre-investment facility to finance investment feasibility studies. Accordingly, it is recommended that the Council approve the establishment of a fund of $1 million for this purpose during the third cycle from the special programme resources.

7. The proposed facility would be used only where the cost of investment feasibility studies could not be met out of a country's IPF. Furthermore, it would be a condition accepted by the sponsors that when the studies led to an investment, the cost of such studies would be recovered from the investment generated. Any amount recovered would again be used for this purpose. Thus, demands on the special programme resources would be limited to the replenishment of those amounts which did not lead to an investment.

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