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POLICY

OTHER FUNDS AND PROGRAMMES

UNITED NATIONS CAPITAL DEVELOPMENT FUND

Implementation of the partial funding system

Report of the Administrator

SUMMARY

In authorizing the United Nations Capital Development Fund to continue operating its programme on a partial funding basis, decision 81/2 requested a detailed report on its implementation to be considered at the Governing Council's twenty-ninth session. The present document discusses measures taken to implement the partial funding system and its impact on the programme. After an examination of the alternatives in respect to future policy in this regard, the Council is requested to authorize the continuation of programme operations under the partial funding system.

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INTRODUCTION

1. This report is submitted in accordance with Governing Council decision 81/2 which, inter alia, noted with satisfaction the Administrator's report on implementation of the partial funding system (DP/INF/34) and authorized the United Nations Capital Development Fund (UNCDF) to continue operating its programme activities on a partial funding basis, pending submission of a detailed report to the Council at its twenty-ninth session.

2. The Council will recall that the basic consideration underlying its original decision to authorize the Fund to change over from full funding of projects to a partial funding system was the need to increase the level of project disbursements so as to absorb the 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 the flow of its assistance to recipient countries.

3. The report describes the measures taken by the Fund to implement the partial funding policy and summarizes the results obtained to date. A summary is also provided of the present UNCDF financial situation, followed by a brief commentary on the Fund's growth prospects, in the light of which the Council is invited to consider continuation of the partial funding system.

I. MEASURES TAKEN TO IMPLEMENT THE PARTIAL FUNDING SYSTEM

4. At the time that the Council approved the partial funding policy, the Fund's operations were characterized by: (a) a low expenditure rate as shown in Table 1 below; and (b) an accumulated liquidity of US\$51.2 million as at 31 December 1978 (see annex I).

Table 1. UNCDF: Expenditure rate

<u>Year</u>	<u>Annual resources*</u> (in millions of US dollars)	<u>Annual expenditures</u>	<u>Expenditure as per cent of resources</u>
1975	8.0	0.3	4
1976	15.1	5.9	39
1977	18.9	8.5	45
1978	22.0	10.2	46
1979	30.6	8.9	29

* Voluntary contributions and interest income.

5. The problem of excess liquidity was largely due to two factors: first, the full funding system did not allow the Fund to programme beyond resources actually pledged and, second, this problem was further exacerbated by the long lead-time required to achieve full disbursement of projects, most of which spanned five years.

6. Therefore, in tackling the problem of excess liquidity, the Fund made a major effort in 1980-1981 to expand the programme and increase the rate of programme disbursements without compromising the quality and responsiveness of the Fund's assistance to recipient countries. At the same time, the necessary financial control and management systems were established in order to ensure the financial integrity of the Fund at all times under the partial funding system. The achievement of these objectives was made possible by mobilization of necessary administrative resources authorized by the Council in its decision 79/21. The detailed information on this matter is contained in the Annual Report of the Administrator for 1981 (DP/1982/38).

7. The following specific measures were taken to achieve the objectives of the partial funding system.

A. Programme volume and delivery

8. In 1979, implementation of partial funding covered only six months. The impact on the volume of operations and on expenditure began to emerge in 1980 and intensified in 1981 when the Fund was in a position to undertake a major programming effort and had established the necessary financial control and management systems. As will be seen from chapter II, expenditure in 1981 totalled \$48.6 million and accumulated liquidity (exclusive of non-convertible currencies) was reduced by \$6.4 million.

9. Among the new measures introduced to increase the scope and momentum of programme activities, the most significant were those related to:

(a) Strengthening the Fund's relations with beneficiary Governments, through establishment of (i) a Basic Agreement containing the general legal provisions governing UNCDF assistance; and (ii) development of a new Project Agreement format. The purpose of these two measures was to reduce the time-lag between project approval, signature of Project Agreements and authorization to disburse project funds;

(b) Establishing a flexible policy governing the size and duration of projects, as reported to the Council at its twenty-eighth session (DP/536);

(c) Fielding systematic planning and programming missions to review on-going UNCDF programmes and to develop new project proposals for possible financing by the Fund. In this latter connection, particular attention was given to the least developed countries (LDCs) in which the Fund was not yet

active or where the level of the Fund's assistance needed to be increased;

(d) Streamlining operational procedures, particularly as regards project formulation, appraisal and approval, so as to ensure a timely and effective response to requests for UNCDF assistance;

(e) Developing and applying substantive criteria designed to improve the quality of project formulation and appraisal so that all elements required for early and effective implementation of projects are well-defined, particularly as regards project inputs to be provided by sources other than UNCDF (e.g., supporting technical assistance, financing of operational costs);

(f) Developing and applying a programme/project monitoring system designed to facilitate early identification of potential operational bottlenecks, so that the necessary corrective measures can be taken in a timely fashion. The system is based on (i) periodic project reports on the status of implementation as well as actual/projected expenditure; (ii) fielding of technical missions to advise and assist Governments at critical stages of project implementation; (iii) tripartite project reviews with Government, co-operating agency and the UNDP resident representative; and (iv) inclusion of baseline data in each Project Agreement to facilitate evaluation of projects during implementation and after completion;

(g) Reappraising all approved non-operational projects with a view to deciding on the measures needed to ensure timely and effective utilization of the Fund's resources, in consultation with the Governments concerned;

(h) Providing programme support services (i) to advise and assist Governments in expediting implementation of projects through technical missions fielded at critical stages of project operations; and (ii) to reinforce the capacity of UNDP field offices.

10. In applying these various measures, the Fund not only has been concerned with achieving purely quantitative targets but has also striven to ensure that its assistance is effectively rendered in support of national priorities within the over-all economic and social development programmes of beneficiary countries. Hence the importance attached by the Fund to its planning and programming missions, which work closely with the Governments and UNDP resident representatives concerned, thereby helping to ensure the complementarity of UNCDF assistance with UNDP-financed programmes. Where appropriate, these missions also endeavour to co-ordinate UNCDF activities with those financed by other multilateral and bilateral agencies.

B. Financial control and management systems

11. Immediately following the Council's decision 79/21 in June 1979 authorizing the Fund to adopt the partial funding policy, a fully-funded operational

reserve was established and is being maintained at 20 per cent of outstanding commitments as directed by the Council's decision. The operational reserve amounted to \$23.3 million at the end of 1981.

12. In addition, the Fund established the necessary financial control and management systems to ensure the financial integrity of the Fund at all times. These include:

(a) Periodic reviews of the Fund's financial situation in terms of income and cash outflow, including follow-up on outstanding pledged contributions and on the Fund's investment portfolio;

(b) Establishment of annual management plans covering each major area of activity and specifying annual ceilings for project expenditures and for approval of new commitments;

(c) Annualized budgets for all approved projects and periodic budget revisions to reflect the current financial status of projects;

(d) Quarterly financial reports on each operational project, showing actual and projected expenditure (project accounts are monitored by the Fund's Financial Management Division on a day-to-day basis);

(e) Periodic audits of project activities and accounts by UNDP internal auditors;

(f) Periodic internal management reports, highlighting quantitative and qualitative aspects of programme operations;

(g) Quarterly workplans for each division, against which UNCDF management reviews progress and decides on follow-up action.

13. As regards the annual ceilings referred to in paragraph 12 (b) above, the Council will wish to note that, for long-term planning purposes, these are projected through 1986, based on an assumed annual growth rate of 15 per cent in voluntary contributions to the Fund (see annex I). However, in actual practice, the Fund has developed a control formula whereby total outstanding commitments shall not in any given year exceed (a) liquid resources, inclusive of the operational reserve; plus (b) anticipated contributions for the next two years calculated at the level received in the year preceding these two years.

14. At the end of 1981, after two and one-half years of operations under partial funding, the financial position of the Fund was as follows:

Table 2. UNCDF: Financial Position

	<u>Millions of US dollars</u>
Net liquid resources*	59.8
Fully-funded operational reserve	<u>23.3</u>
Total liquid resources	83.1
Total outstanding commitments	<u>118.1</u>
Excess in outstanding commitments over liquid resources	<u>35.0</u>

* Exclusive of non-convertible currencies amounting to \$2.6 million equivalent.

15. With regard to the \$35.0 million outstanding commitments in excess of liquid resources, it should be noted that pledged and anticipated contributions in 1982 and 1983, amounting to \$63.6 million, would ensure adequate coverage for the total outstanding liability carried over from 1981. Therefore, after operating under the partial funding system for a period of two and one-half years, the Council will note that the Fund is in a sound financial position and that the measures described above have proved effective in ensuring the Fund's financial integrity.

II. IMPACT OF THE PARTIAL FUNDING SYSTEM

16. The impact of the partial funding system on accumulated liquidity, as well as on the volume of operations and programme delivery, has been very positive. The following specific results can be cited:

(a) The annual volume of operations increased from \$40 million in 1979 to \$71.1 million in 1981, while programme disbursements increased from \$8.9 million in 1979 to \$48.6 million in 1981;

(b) Accumulated liquidity (exclusive of non-convertible currencies) was reduced from \$89.5 million in 1980 to \$83.1 million at the end of 1981, including \$23.3 million of operational reserve;

(c) The country coverage was expanded from 30 countries in 1979 to 39 in 1981;

(d) The time-lag between project approval, signature of Project Agreements and authorization to disburse project funds, which in the past averaged

from 12-18 months, now averages 3-6 months. Of the 35 projects approved in 1981, 19 became fully operational shortly after approval;

(e) Fifteen approved non-operational projects were cancelled with the agreement of the Governments concerned, thereby allowing redeployment of UNCDF resources for activities that respond to revised national priorities and/or to the absorptive capacity of the countries concerned.

17. As had been anticipated in the previous report on the partial funding system (DP/INF/34), the full impact of the system on excess liquidity began to emerge only in 1981, when, for the first time, annual expenditures (totalling \$48.6 million) exceeded annual income, thereby reducing excess liquidity by \$6.4 million.

18. The following table compares the results obtained over a three-year period under full funding (1976-1978) and under partial funding (1979-1981).

Table 3. UNCDF: Comparative Results

	<u>Year</u>	<u>Resources*</u>	<u>Commit-</u> <u>ments</u>	<u>Expend-</u> <u>itures</u>	<u>Commitment</u> <u>as per cent</u> <u>of resources</u>	<u>Expenditures</u> <u>as per cent</u> <u>of resources</u>
		(in Millions of US dollars)			%	%
(a)	<u>Full Funding</u>					
	1976	15.1	13.5	5.9	90	39
	1977	18.9	14.4	8.5	76	45
	1978	22.0	25.0	10.2	114	46
(b)	<u>Partial Funding</u>					
	1979	30.6	40.0	8.9	132	29
	1980	38.6	52.2	19.8	135	51
	1981	42.1	71.1	48.6	169	115

* Voluntary contributions and other income.

19. As noted earlier, however, the Fund was concerned not only about the need to reduce excess liquidity but also and equally with the need to ensure that efforts in that direction would not compromise the quality and responsiveness of its assistance to recipient countries. This aspect and the results obtained are dealt with in detail in the Annual Report for 1981 (DP/1982/38).

20. As stated in the above report, these results have been made possible in large part by the Council's foresight in authorizing the Fund to mobilize the

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administrative resources required for speedy and effective implementation of the partial funding system. In this connection, while sharing the Council's concern about the need to control administrative costs in general, the Administrator wishes to emphasize that it is no longer feasible to continue the ceiling of 2 per cent of annual project commitments made by the Fund, as specified in the Council's decision 79/21, because it does not reflect the full cost incurred by the Fund in carrying out activities other than project approval, nor does it take into account the cost of UNDP support services.

21. The Administrator wishes to assure the Council that every effort will continue to be made to keep the Fund's administrative costs to a minimum consistent with sound management and with its responsibility to render timely and effective assistance to recipient countries.

III. CONSIDERATIONS AFFECTING THE FUND'S FUTURE FUNDING POLICY

22. In considering its decision with regard to the future funding policy of UNCDF, the Council may wish to note the following alternative courses of action.

A. Continuation of the partial funding system

23. The results so far achieved show that the partial funding system has proved to be an effective tool in reducing excess liquidity, while at the same time allowing the Fund to increase the volume of its assistance to countries in the LDC category.

24. As will be seen from the projections in annex I, under partial funding the momentum achieved in 1981 in terms of programme volume and delivery would be continued. In that context, in 1982 the Fund would be able to approve projects amounting to \$60 million and to expend an equal amount in project funds. The liquidity situation would reflect a further reduction of \$25.3 million, thereby achieving an over-all reduction of accumulated liquidity from \$83.1 million at the end of 1981 to \$57.8 million at the end of 1982 (inclusive of the operational reserve but exclusive of funds set aside for working capital and non-convertible currencies amounting to \$2.3 million).

25. In arriving at the 1982 ceilings for project approvals shown in annex I, the formula referred to in paragraph 13 above would be applied, viz. total outstanding commitments would not exceed (a) liquid resources, inclusive of operational reserve; plus (b) anticipated contributions for the next two years calculated at the level pledged in November 1981 for 1982 and further contributions anticipated in 1982.

26. The same trend would continue in 1983 and 1984, so that over that period, the liquidity would be reduced to \$3.0 million by the end of 1984, buttressed

by fully funded operational reserve amounting to \$18.1 million. Continuation of the partial funding system into 1985 and 1986 would result in total approvals amounting to \$260 million and total expenditures amounting to \$264.2 million over 1982-1986 period.

B. Reversion to a full funding policy

27. Under a full funding policy, the amounts approved for each project would be reserved in the respective project accounts for the full project duration.

28. As shown in annex II, if the Fund were to revert to a full funding policy, project approvals in 1982 and 1983 would have to be sharply curtailed in order to ensure full coverage of outstanding commitments, including those approved in first half of 1982 under the partial funding system. Thus, project approvals in 1982 and 1983 would amount to only \$30 million and \$8.7 million respectively, while project disbursements would amount to \$57.0 million and \$53.7 million respectively.

29. The only way to avoid the sharp drop in approvals in 1983 would be either (a) to phase in full coverage of outstanding commitments amounting to \$28.8 million as of end 1982 over the 1983-1986 period or (b) without providing for full coverage of the outstanding commitments, to continue the operations under a full-cum-partial funding. In either case, the results with regard to project approvals and expenditures would compare less favourably to those under partial funding.

30. Because of the large volume of projects approved in July 1979-June 1982 under partial funding, the impact on excess liquidity would continue to be felt in 1982-1983. However, liquidity would again start to build up in 1984 and subsequent years.

31. Under full funding, annual ceilings for project approvals in 1983 and subsequent years would be based on actual annual resources. As will be seen from the projections in annex II, during the period 1982-1986, approvals would total \$188.5 million and expenditures would total \$204.0 million.

32. Beyond 1983, the full funding policy would directly contribute to further accumulation of liquidity, which would reach \$55.8 million in 1984. The rate of accumulation would further increase thereafter as the effects of the partial funding system would have been entirely dissipated.

C. Comparative analysis of both systems

33. On the basis of the same level of contributions amounting to \$199.4 million for the period 1982-1986, the effects on the volume of approvals, expenditures and liquidity would be as follows:

	<u>Partial funding</u> (in millions of US dollars)	<u>Full funding</u>
Approvals	260.0	188.5
Disbursements	264.2	204.0
Liquidity	24.4*	102.6

* Inclusive of operational reserve, but exclusive of non-convertible currencies.

34. It is clear from the foregoing that, should the Council opt for reversion to a full funding policy, the volume of the Fund's operations would be substantially reduced while liquidity would continue to accumulate, thus acting as a deterrent to increased contributions.

35. On the other hand, should the Council opt to continue the partial funding policy, the Fund would be in a position to further expand the volume of its operations, without accumulation of liquidity, while maintaining the Fund's financial integrity through application of the measures described in chapter I. Such a decision would also imply continued support by the international community for the activities of the Fund.

36. It must be stressed that, for purposes of making the analytical projections contained in annexes I and II, the Fund has assumed a conservative growth rate in resources of 15 per cent. The Administrator believes, however, that the actual growth rate in resources may well go beyond this level in view of the fact that a number of donors are favourably disposed towards increasing their contributions to the Fund, following the recommendations of the United Nations Conference on the Least Developed Countries. Should this expectation of a substantial increase in resources materialize, the partial funding system would prove to be an even more effective vehicle for increasing the flow of assistance to recipient countries as it offers the only way for UNCDF to operate on a lower level of liquidity, irrespective of the level of total resources.

IV. CONCLUSIONS AND RECOMMENDATIONS

37. On the basis of the foregoing considerations and of the comparative analysis of partial funding versus full funding, it would appear that continuation of the partial funding system is essential in order to ensure timely and effective utilization of the resources provided to the Fund, while at the same time enabling it to respond to the increasing requests for its assistance.

38. The partial funding system offers a ready and effective means of responding to the General Assembly's request in its resolution 36/196 of 17 December 1981 that the Council consider measures to enhance the capacity of UNCDF to respond effectively to the priority needs of LDC's. The Council will also

have noted that the General Assembly has endorsed the Council's decision 81/2 to the effect that the Fund should be enabled to play a direct role in the implementation of the Substantial New Programme of Action adopted by the United Nations Conference on the Least Developed Countries held in Paris in September 1981.

39. The Administrator therefore recommends that the Council authorize UNCDF to continue its programme operations under the partial funding system, at least up to the levels indicated in annex I, on the understanding that the Fund will continue to apply the necessary financial control and management systems to ensure its financial integrity at all times.

Annex I

RESOURCE PLANNING TABLE FOR UNCDF PROGRAMME (1982-1986) UNDER PARTIAL FUNDING
(in millions of US dollars)

	Actual						Projected					
	1977	1978	1979	1980	1981	Total 1977-1981	1982	1983	1984	1985	1986	Total 1982-1986
I. Availability of resources												
A. Available from previous year ^{a/}	29.0	39.4	50.4	50.9	66.8	29.0	59.8	34.2	11.2	3.0	2.8	59.8
B. Resources made available:												
(i) Voluntary contributions pledged ^{b/}	16.2	18.0	25.1	28.7	32.6 ^{c/}	120.6	29.6	34.0	39.1	45.0	51.7	199.4
(ii) Changes in outstanding pledges (+) ^{d/}	+0.5	-0.2	-1.2	+0.8	-2.9	-3.0	-	-	-	-	-	-
(iii) Voluntary contributions received	16.7	17.8	23.9	29.5	29.7	117.6	29.6	34.0	39.1	45.0	51.7	199.4
(iv) Other income ^{e/}	2.2	4.2	6.7	9.1	12.4	34.6	7.0	5.0	3.0	2.0	2.0	19.0
Total resources (I)	47.9	61.4	81.0	89.5	108.9	181.2	96.4	73.2	53.3	50.0	56.5	278.2
II. Use of resources												
A. Programme expenditure												
(i) Project expenditure ^{f/}	8.5	10.2	8.9	19.3	48.6	95.5	60.0	64.3	48.3	41.7	49.9	264.2
(ii) Administrative costs ^{g/}	-	-	-	-	-	-	2.2	2.2	2.4	2.5	2.7	12.0
Total Programme expenditure	8.5	10.2	8.9	19.3	48.6	95.5	62.2	66.5	50.7	44.2	52.6	276.2
B. Changes in reserves:												
(i) Change in operational reserve	-	-	20.9	1.8	0.6	23.3	0.3	(4.8)	(0.7)	2.7	2.0	(0.5)
(ii) Change in working capital	-	-	-	-	-	-	1.0	-	-	-	-	1.0
(iii) Change in non-convertible currencies ^{h/}	-	0.8	0.3	1.6	(0.1)	2.6	(1.3)	0.3	0.3	0.3	0.3	(0.1)
Total use of resources (II)	8.5	11.0	30.1	22.7	49.1	121.4	62.2	62.0	50.3	47.2	54.9	276.6
III. Balance of resources (I - II)^{i/}	<u>39.4</u>	<u>50.4</u>	<u>50.9</u>	<u>66.8</u>	<u>59.8</u>	<u>59.8</u>	<u>34.2</u>	<u>11.2</u>	<u>3.0</u>	<u>2.0</u>	<u>1.6</u>	<u>1.6</u>
IV. Operational reserve	-	-	20.9	22.7	23.3	23.3	23.6	18.8	18.1	20.8	22.8	22.8
V. Non-convertible currencies	-	0.8	1.1	2.7	2.6	2.6	1.3	1.6	1.9	2.2	2.5	2.5
VI. Project commitments outstanding	32.4	47.2	78.3	111.2	118.1 ^{1/}	118.1	118.1	93.8	90.5	103.8	113.9	113.9
VII. Annual project commitments	14.4	25.0	40.0	52.2	71.1	207.7	60.0	40.0	45.0	55.0	60.0	260.0

a/ Available resources being exclusive of the operational reserve, which was created in 1979 and is being maintained at 20 per cent of project commitments outstanding.

b/ Voluntary contributions for 1982 based on announced pledges. For 1983-1986, voluntary contributions are estimated on a 15 per cent annual growth rate derived from past trends and future expectations.

c/ Inclusive of special contribution of Government of Norway (\$4.3 million) for 1981.

d/ Since net pledges outstanding (\$3.0 million) at end 1981 represent the normal level, no further adjustment in pledges for 1982-1986 is considered necessary.

e/ Representing mainly interest income. Interest income is assumed at 10 per cent of average annual cash balances held during the year.

f/ Project expenditures assumed on the average project cycle of 3-4 years.

g/ In terms of General Assembly resolution 36/196, the administrative costs of the Fund, which have hitherto been borne by UNDP, are expected to be met by the Fund from its own resources, starting 1982. Accordingly, administrative costs are based on the approved budget for 1982-1983. For 1984-1986, an increase of 7.5 per cent is assumed over 1983 costs. Administrative costs do not include UNDP support costs, which are currently being determined.

h/ Accumulated resources in non-convertible currencies amounted to \$2.6 million at end 1981. Of these, a sum of \$1.6 million equivalent is assumed to be utilized in 1982 on two projects. The balance of \$1.0 million is carried forward, together with an annual addition of \$0.3 million equivalent.

i/ Exclusive of non-convertible currencies.

j/ Net of expenditures and cancellations amounting to \$48.6 million and \$15.6 million respectively. Outstanding commitments are inclusive of \$3.5 million guarantee commitments, for which a guaranty reserve at 20 per cent is maintained as part of the operational reserve.

Annex II

RESOURCE PLANNING TABLE FOR UNCDF PROGRAMME (1982-1986) UNDER FULL FUNDING.
(in millions of US dollars)

	Actual						Projected					
	1977	1978	1979	1980	1981	Total 1977-1981	1982	1983	1984	1985	1986	Total 1982-1986
I. <u>Availability of resources</u>												
A. Available from previous year ^{a/}	29.0	39.4	50.4	50.9	66.8	29.0	59.8	62.3	46.1	55.8	79.8	59.8
B. Resources made available:												
(i) Voluntary contributions pledged ^{b/}	16.2	18.0	25.1	28.7	32.6 ^{c/}	120.6	29.6	34.0	39.1	45.0	51.7	199.4
(ii) Changes in outstanding pledges (+) ^{d/}	+0.5	-0.2	-1.2	+0.8	-2.9	-3.0	-	-	-	-	-	-
(iii) Voluntary contributions received	16.7	17.8	23.9	29.5	29.7	117.6	29.6	34.0	39.1	45.0	51.7	199.4
(iv) Other income ^{e/}	2.2	4.2	6.7	9.1	12.4	36.6	7.5	6.0	6.0	7.0	9.5	36.0
Total resources (I)	47.9	61.4	81.0	89.5	108.9	181.2	96.9	102.3	91.2	107.8	141.0	295.2
II. <u>Use of resources</u>												
(i) Programme expenditure												
(i) Project expenditure ^{f/}	8.5	10.2	8.9	19.3	48.6	95.5	57.0	53.7	32.7	25.2	35.4	204.0
(ii) Administrative costs ^{g/}	-	-	-	-	-	-	2.2	2.2	2.4	2.5	2.7	12.0
Total programme expenditure	8.5	10.2	8.9	19.3	48.6	95.5	59.2	55.9	35.1	27.7	38.1	216.0
B. Changes in reserves:												
(i) Change in operational reserve	-	-	20.9	1.8	0.6	23.3	(23.3)	-	-	-	-	(23.3)
(ii) Change in working capital	-	-	-	-	-	-	-	-	-	-	-	-
(iii) Change in non-convertible currencies ^{h/}	-	0.8	0.3	1.6	(0.1)	2.6	(1.3)	0.3	0.3	0.3	0.3	(0.1)
Total use of resources (II)	8.5	11.0	30.1	22.7	49.1	121.4	34.6	56.2	35.4	28.0	38.4	192.6
III. <u>Balance of resources (I - II)^{i/}</u>	39.4	50.4	50.9	66.8	59.8	59.8	62.3	46.1	55.8	79.8	102.6	102.6
IV. <u>Operational reserve</u>	-	-	20.9	22.7	23.3	23.3	-	-	-	-	-	-
V. <u>Non-convertible currencies</u>	-	0.8	1.1	2.7	2.6	2.6	1.3	1.6	1.9	2.2	2.5	2.5
VI. <u>Project commitments outstanding</u>	32.4	47.2	78.3	111.2	118.1 ^{j/}	118.1	91.1	46.1	55.8	79.8	102.6	102.6
VII. <u>Annual Project commitments</u>	14.4	25.0	40.0	52.2	71.1	207.7	30.0	8.7 ^{k/}	42.4	49.2	58.2	188.5

a/ Available resources being exclusive of operational reserve for years 1979-1982. Under full funding, there would be no need to maintain operational reserve from 1983 onward.

b/ Voluntary contributions for 1982 based on announced pledges. For 1983-1986, voluntary contributions are estimated on a 15 per cent annual growth rate derived from past trends and future expectations.

c/ Inclusive of special contribution of Government of Norway (\$4.3 million) for 1981.

d/ Since net pledges outstanding (\$3.0 million) at end 1981 represent the normal level, no further adjustment in pledges for 1982-1986 is considered necessary.

e/ Representing mainly interest income. Interest income is assumed at 10 per cent of average annual cash balances held during the year.

f/ Project expenditures assumed on an average project cycle of 3-4 years.

g/ In terms of General Assembly resolution 36/196, the administrative costs of the Fund which have hitherto been borne by UNDP are expected to be met by the Fund from its own resources, starting 1982. Accordingly, administrative costs are based on the approved budget for 1982-1983. For 1984-1986, an increase of 7.5 per cent is assumed over 1983 costs. Administrative costs do not include UNDP support costs which are being determined.

h/ Accumulated resources in non-convertible currencies amounted to \$2.6 million at end 1981. Of these, a sum of \$1.6 million equivalent is assumed to be spent in 1982 on two projects. The balance of \$1.0 million is carried forward together with an annual addition of \$0.3 million equivalent.

i/ Exclusive of non-convertible currencies.

j/ Net of expenditures and cancellations amounting to \$48.6 million and \$15.6 million respectively. Outstanding commitments are inclusive of \$3.5 million guarantee commitments, for which a guaranty reserve at 20 per cent is maintained as part of the operational reserve.

k/ Drop in project approvals in 1983 is due to less resources available for programming owing to the need to provide full coverage to outstanding commitments including those approved in first half of 1982 under the partial funding system.

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