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POLICY

OTHER FUNDS AND PROGRAMMES

UNITED NATIONS CAPITAL DEVELOPMENT FUND

Annual report of the Administrator for 1982Summary

This report is submitted in accordance with General Assembly resolution 2186 (XXI), which established the United Nations Capital Development Fund (UNCDF) as an organ of the General Assembly, and resolution 2321 (XXII), which entrusted the administration of the Fund to the Administrator of UNDP in the capacity of Managing Director of UNCDF.

In addition to reviewing the operations of the Fund in 1982, this report, in accordance with decisions 82/22 and 82/5 of the Governing Council, adopted at its twenty-ninth session, provides information on the Fund's operations under the partial funding system and its use of trust funds conditioned on procurement in a donor country or countries. In respect of this latter issue, the Council is requested to take a decision on the extension for UNCDF of the authority previously given in its decision 82/5.

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INTRODUCTION

1. This report is submitted in accordance with General Assembly resolution 2186 (XXI), which, inter alia, requested the Executive Board of the United Nations Capital Development Fund (UNCDF) to review all the activities of the Fund as presented by its Managing Director, and to report annually to the General Assembly through the Economic and Social Council (ECOSOC). Subsequently, in 1967, the General Assembly, by its resolution 2321 (XXII) decided, inter alia, to entrust, on a provisional basis, the administration of the Fund to the Administrator of UNDP in the capacity of Managing Director of UNCDF, and to the Governing Council, the performance of the functions of the Fund's Executive Board.

2. In addition, the report contains information on the operation of the Fund under the partial funding system and on the use of trust funds conditioned on procurement in a donor country or countries, as requested by the Governing Council's decisions 82/22 and 82/5 of its twenty-ninth session.

I. ROLE OF UNCDF IN THE MULTILATERAL FINANCING SYSTEM

3. The United Nations Capital Development Fund was established in 1966 by the General Assembly as an autonomous organization within the United Nations system. The purpose of the Fund, as stated in General Assembly resolution 2186 (XXI), is "to assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans, particularly long-term loans made free of interest or at low interest rates. Such assistance shall be directed towards the achievement of accelerated and self-sustained growth of the economies of those countries and shall be oriented towards the diversification of their economies, with due regard to the need for industrial development as a basis for economic and social progress." Subsequently, in 1973, the General Assembly welcomed the decision of the Governing Council of UNDP to reorient the Fund's activities to serve as "a capital-providing fund first and foremost for the least developed countries."

4. At the United Nations Conference on the Least Developed Countries (LDCs) held in Paris in September 1981, UNCDF was singled out as an important channel for providing concessional capital assistance to the LDCs in the implementation of the Substantial New Programme of Action (SNPA) adopted by the Conference. The role of UNCDF was further enhanced by the General Assembly in its resolution 36/196, which endorsed the proposal of the Governing Council of UNDP, contained in its decision 81/2, that UNCDF should be enabled to play a direct role in the implementation of the SNPA.

5. While the present level of the Fund's financial capacity to participate in the implementation of the SNPA represents only a modest portion of the total resources required to achieve an appreciable impact, UNCDF is playing a vital role by providing concessional capital assistance to beneficiary countries for the financing of projects which are smaller than those usually considered by other multilateral financing institutions. The Fund also can facilitate the flow of capital assistance to the recipient countries by offering to the donor community a variety of modalities by which they may contribute to the UNCDF programme. These include voluntary contributions to the general resources of the Fund and cost-sharing and trust fund arrangements, including trust funds conditioned on procurement in the donor country. The Fund is also authorized to accept contributions from non-governmental organizations and other sources as well as contributions in kind.

6. In addition, the Fund has several other characteristics which enable it to carry out a role complementary to the activities of other multilateral financing institutions. Its country coverage helps to ensure concentrated attention on the special needs of countries in the LDC category. Its flexible financing modalities such as grants, long-term loans at low interest rates, credit and guarantee schemes, and revolving funds, enable it to work effectively at the grassroots level in the implementation of small- and medium-scale projects. To the maximum possible extent, the participation of the local community and the use of local materials are involved so as to ensure their replicability. These modalities also facilitate the initiatives of small farmers and entrepreneurs who can contribute to the development of agriculture, industrial production and employment promotion. The Fund's assistance is not only provided for the development of new infrastructure, but may also be used for overcoming bottlenecks and strengthening national capacity by the expansion, equipment, and rehabilitation of existing infrastructure and industrial plants.

7. The Fund can play a crucial role in bridging the gap in the multilateral financing system between IPF-funded pre-investment projects and large-scale capital assistance projects funded by the World Bank and other multilateral financing institutions. In this connection, the existing complementarity between UNDP's technical co-operation activities and the capital assistance provided by UNCDF enables beneficiary Governments to follow through on technical assistance activities, carried out under IPF funding, that have identified viable opportunities for capital financing of high priority development projects.

8. Within the broad framework of providing capital assistance for the implementation of small- and medium-scale projects, UNCDF maintains a flexible approach with a view to tailoring its assistance to the particular requirements of each of the beneficiary countries in those areas where projects have high Government priority and are technically sound, and for which the Government is prepared and able to meet recurrent costs after the Fund's assistance terminates. The Fund's assistance is not confined to any particular sector of activity, but spans the full range of capital assistance requirements for socio-economic development. The basic policies and criteria used by UNCDF in project identification, appraisal and approval are described in document DP/536, dated 12 March 1981, and have been endorsed by the Council and the General Assembly.

II. PROGRAMME OVERVIEW

9. By the end of 1982, the UNCDF programme had covered 43 countries: 36 countries officially designated by the General Assembly as LDCs; and seven countries which the General Assembly had directed be given special consideration.

10. In developing its programme, the Fund has been assisting the beneficiary countries in two crucial areas: first, in meeting the basic needs of their people in connection with food production, primary health care, safe drinking water supply, low-cost housing, primary education and employment generating activities; and, second, in developing the productive sector and the economic infrastructure, particularly in agriculture, transportation, energy and small-scale industries.

11. By the end of 1982, total voluntary contributions pledged to the general resources of the Fund amounted to \$177 million. In addition, the Fund received \$1.2 million under cost-sharing arrangements and \$0.4 million under trust fund arrangements for a total of \$178.6 million. The growth of the Fund's resources over the last five years has been significant in comparison with the previous ten years. Of the \$178.6 million contributed to the Fund, \$130.0 million, or 73 per cent of the total, were contributed during the period 1978-1982.

12. By the end of 1982, UNCDF had 185 ongoing projects with a total cost of \$251.4 million. Against this amount, \$129.3 million had been expended by the end of 1982. In addition, 34 projects, with a cost of \$25.8 million, were completed by the end of 1982. During the past two years, 1981-1982, project approvals amounted to \$131 million and represented 47 per cent of all project approvals made by UNCDF since its inception. As regards UNCDF's project expenditures, during the last two years, 1981-1982, these amounted to \$75.9 million, representing approximately 49 per cent of all project expenditures made by the Fund.

III. PROGRAMME OPERATIONS IN 1982

A. Resources

13. As reported to the Council at its twenty-ninth session, the pledges made at the 1981 Pledging Conference for 1982 amounted to \$23.5 million. Subsequently, additional pledges were made in the amount of \$4.7 million, bringing the total pledges for 1982 to \$28.2 million. Because of the variations in the exchange rates with the US dollar, these contributions, made mostly in national currencies, resulted in pledges of only \$25.7 million at the end of 1982. The contributions to the Fund for 1982 were augmented by \$1.6 million, made under cost-sharing and trust fund arrangements.

14. At the Pledging Conference held in November 1982, 34 countries pledged voluntary contributions to UNCDF totalling \$14.9 million, for the year 1983, while several major donor countries indicated that they would announce their 1983 contributions to the Fund early in the new year. Of the 33 countries which pledged for 1983, two, Austria and Zimbabwe, were doing so for the first time. It is important to note that, of the 32 countries pledging for both 1982 and 1983, 13 countries have increased their pledges for 1983, in varying amounts. In the case of 16 of the remaining 19 countries, the pledges for 1983 stayed the same as for 1982.

15. The Administrator wishes to express his appreciation for the continuous support of the international community to the Fund's activities. It is particularly noteworthy that, for 1983, the number of countries contributing to the Fund increased, and that the contributions of many countries had increased in terms of their national currencies. This level of contributions, however, will not allow the Fund to maintain the momentum of its activities to respond to the priority needs of the LDCs. Therefore, for 1983, a significant effort for resource mobilization will be carried out by the Fund to bridge the financial gap between the level of resources received from voluntary contributions and the programme development needs which the Fund should satisfy.

B. Project approvals

16. In 1982, the Fund approved 34 projects in 22 countries at a cost of \$60.0 million. These projects continued to be directed primarily towards the rural sector, supporting the efforts of the beneficiary countries in meeting basic human needs and strengthening their productive capacity.

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17. As reported to the Governing Council at its twenty-ninth session in document DP/1982/39, the \$60 million level of the Fund's project approvals for 1982, which was \$11.2 million less than the 1981 approval level, was established under the partial funding system as the approval ceiling for that year, compatible with the requirement for maintaining the financial integrity of the Fund. This approval level, however, fell far short of adequately addressing the large number of requests from beneficiary countries for capital assistance.

C. Project expenditures

18. UNCDF began 1982 with 164 ongoing projects for a total cost of \$202.5 million in 39 countries to be implemented by Government executing agencies. Some of these projects required specialized assistance which was provided by nine co-operating agencies of the United Nations system. Based on the financial reports provided by these agencies to the Fund at the end of 1982, total project expenditures for the year amounted to \$27.7 million as compared with \$48.2 million for the previous year.

19. The Council will recall that in document DP/1982/38, it was reported that on the basis of a review of the cash requirements of all ongoing projects approved through 1981, a preliminary target of \$60 million had been set for 1982 expenditures; \$20.8 million of this amount was to be expended directly by Government executing agencies, and \$39.2 million by the co-operating agencies of the United Nations system. At the end of 1982, estimated expenditures reported by Government executing agencies amounted to \$10.5 million and by the co-operating agencies to \$17.2 million.

20. A comparative analysis undertaken, on a project by project basis of the expenditures reported for the year and the disbursement authorizations issued for the same year, explains the difference between the two in the following terms: (a) approximately \$8 million in economies were made during the year as a result of favourable exchange rates and opportunities for procurement at less than budgeted cost; (b) approximately \$12 million of procurement of the UNCDF inputs was rescheduled for the first part of 1983 in order to be synchronized with the delivery of the complementary inputs, especially technical assistance, provided by other sources of financing; and (c) approximately \$2 million of budgeted expenditures for 1982 did not materialize because of adverse local conditions prevailing in the recipient countries concerned. The remaining \$10.3 million dollars of unexpended budgets for 1982 were attributable to delays in project implementation by Government executing agencies and United Nations co-operating agencies, in procurement of equipment and other inputs and in meeting construction timetables.

D. Programme development

21. The approach adopted by UNCDF in planning and developing its programme puts particular emphasis on: (a) full partnership with the recipient Government at all stages of the project cycle; (b) flexibility of operating methods consistent with quality control; and, (c) co-ordination and complementarity with related assistance activities.

22. In 1982, the Fund continued negotiations, initiated in 1981, for a Basic Agreement with each of the beneficiary Governments with a view to establishing the legal framework governing the general terms and conditions under which UNCDF, in implementing its partnership relationships with the beneficiary countries, provides assistance for development activities. In 1982, 24 Governments signed the Basic Agreement with UNCDF, bringing the total number of Governments which have signed to 36.

23. In 1982, ten planning and programming missions were fielded by the Fund. The purpose of these missions was to review, in each country, the ongoing UNCDF-funded programme with the Government and the Resident Representative, to consider project proposals presented by the Government and identify those which appear most suitable for financing by the Fund, taking into account the Government's development priorities and those activities which are being supported by other sources of financing.

24. As a follow-up to its planning and programming efforts, the Fund dispatched, in 1982, 48 project formulation missions in 22 countries carried out mostly by specialized consultants. The purpose of these missions was to assist the Governments in further documenting project feasibility, as well as preparing comprehensive project formulation reports. Each project formulation report, with appropriate comments from UNCDF, is submitted to the Government, the UNDP Regional Bureau concerned, the UNDP Bureau for Programme Policy and Evaluation and the United Nations co-operating agency, as appropriate, for their review and comments. On the basis of the project formulation report and all relevant comments, a project appraisal document is prepared by the UNCDF staff and submitted to the Fund's Project Appraisal Committee, chaired by the UNCDF Executive Secretary. Following the determination of the feasibility of the project by the Appraisal Committee, the project is submitted to the Project Approval Committee chaired by the Assistant Administrator, Bureau for Special Activities (BSA).

25. Upon the approval of a project, the Fund prepares a comprehensive Project Agreement, covering the substantive, operational and financial aspects of the project which is submitted to the Government, and, when appropriate, to the co-operating agency, for review and signature. The current UNCDF Project

Agreement had its genesis in the methodology the Fund adopted in 1981 for streamlining project formulation, appraisal and approval and for the harmonization of its format with those of the rest of the United Nations system, as directed by the Governing Council at its twenty-seventh session.

26. The current project monitoring system designed in 1981, continued to be effective in 1982 in the identification of operational bottlenecks. It enables the Fund, together with the Government, to take necessary corrective measures. The system is based on: (a) periodic project reports on the status of implementation as well as actual and projected expenditures; (b) regular project reviews with the Government, the UNDP Resident Representative, and the cooperating agency, as appropriate; and (c) fielding of technical missions to advise and assist Governments at critical stages of project implementation. In addition to its monitoring activities, the Fund undertook, in 1982, the operational evaluation of five ongoing projects. The appreciable impact of the project monitoring system is reflected in the increased volume of operations, programme delivery and expenditures. Thus the Fund recorded, in 1981 and 1982, over 60 per cent of its total project expenditures made since 1970.

27. In 1981 and 1982, 47 per cent of UNCDF's total cumulative project approvals were achieved. Given this sharp increase in project approvals in the past two years, and considering that UNCDF is starting 1983 with 185 ongoing and 34 completed projects, UNCDF will have to enlarge and strengthen its monitoring and evaluation capability.

28. With a view to assisting the LDCs to implement the Substantial New Programme of Action adopted by the United Nations Conference on LDCs, the Fund, in 1982, continued to adapt its programme to the priority needs of the LDCs and to co-ordinate effectively its activities with other concerned institutions. In this connection, UNCDF participated in the Round Table meetings organized by the Governments of Cape Verde, Mali and Rwanda with the assistance of UNDP. In 1983, UNCDF will continue to follow up on the implementation of the SNPA through its active participation in 16 Round Table meetings for LDCs expected to take place in the Africa region, and in the Regional Round Table meeting for the LDCs in the Asia and Pacific region.

29. In line with decision 82/22 of the Governing Council requesting, inter alia, "the Administrator to take measures to strengthen the complementarity between the capital assistance provided by the Fund and other types of assistance administered by UNDP", particular emphasis was given by the Fund throughout 1982 to co-ordinate UNCDF activities with those financed by UNDP and other funds administered by UNDP. In this connection, by the end of 1982 there were 64 UNCDF-financed projects receiving technical assistance financed by UNDP through the resources of the indicative planning figure (IPF), the Special Measures Fund for Least Developed Countries (SMF) and the United Nations Sudano-Sahelian Office (UNSO). Of the 34 UNCDF projects approved in 1982, 22 are co-financed with UNDP through the resources of the IPF, the SMF

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and UNSO and four are co-financed with bilateral organizations. At the field operations level, the UNDP Office for Projects Execution (OPE) assisted a number of Governments in the implementation of UNCDF-financed projects, while the United Nations Volunteer programme provided 24 volunteers in support of UNCDF-financed activities.

30. Other United Nations system agencies co-operating with UNCDF in 1982 include the United Nations Children's Fund (UNICEF), the World Bank, the Food and Agricultural Organization of the United Nations (FAO), the United Nations Industrial Development Organization (UNIDO), the World Health Organization (WHO), the United Nations Department of Technical Co-operation for Development (DTCO), the World Food Programme (WFP), the International Telecommunications Union (ITU) and the International Labour Organisation (ILO).

31. At the end of 1982, 28 UNCDF-assisted projects were benefiting from joint financing provided by bilateral agencies including those of Belgium, Denmark, France, the Federal Republic of Germany, Japan, the Netherlands, Sweden, Switzerland, the United States of America, and by other multilateral financing institutions such as the World Bank, the African Development Bank (ADB), the European Development Fund (EDF), and the Arab Gulf Programme.

IV. PROGRAMME ORIENTATION

32. Within the broad framework of the relevant General Assembly resolutions and Governing Council decisions, UNCDF has directed most of its resources towards the rural areas. The percentage distribution at the end of 1982, of UNCDF's total project commitments by main sector of activity, is presented in Figure 1.

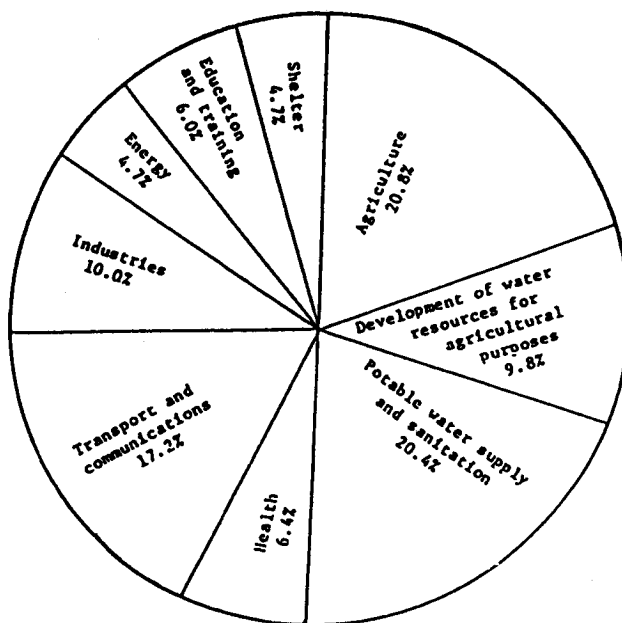


Figure 1 - Distribution of cumulative UNCDF commitments by major sector (as at 31 December 1982)

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33. The concentration of UNCDF assistance in the agricultural sector, including the development of water resources for agricultural purposes (30.6 per cent), is consistent with the high priority attached to these sectors by the LDCs, and is designed to support their efforts towards achieving self-sufficiency in food production and enlarging the base for sustained economic growth.

34. In the field of food and cash crops, the Fund has focused its attention mostly on smallholders as they account for the bulk of agricultural output in the majority of the LDCs. The projects assisted by the Fund seek to increase agricultural production by reclamation and conservation of land, improving irrigation facilities, providing credit for such farm inputs as seeds, fertilizer, insecticides and tools, and strengthening storage and marketing facilities. Projects in the field of food and cash crops include: (a) development and multiplication of improved and high yield seeds in Ethiopia and Guinea Bissau; (b) reduction of post harvest losses through the construction and equipment of storage facilities and provision of other inputs in Bangladesh, Burundi, Haiti, Lesotho, People's Democratic Republic of Yemen, Rwanda and Somalia; (c) rehabilitation of agricultural subsistence and cash crops such as cocoa production in Equatorial Guinea, horticultural production in Bhutan, Cape Verde and Lesotho, rice production in Gambia, Laos and Tanzania, sugar cane production in Sudan and coffee production in Haiti; (d) extension and intensification of agricultural production by the provision and manufacture of agricultural tools and equipment and the establishment of credit facilities for such farm inputs as seeds, fertilizers, insecticides and tools in Bhutan, Comoros Island, Equatorial Guinea, Haiti, Lesotho, Malawi, Mali, People's Democratic of Yemen, Niger, Rwanda, Tanzania, Uganda, Upper Volta, and the Yemen Arab Republic; (e) increasing land area under cultivation and reduction of vulnerability of agricultural production to climatic conditions through development of irrigation schemes, surface and underground water development, and restoration and conservation of soils in Bhutan, Cape Verde, Ethiopia, Gambia, Malawi, Mali, Mauritania, Nepal, Niger, Tanzania, Vietnam and the Yemen Arab Republic.

35. In the livestock sub-sector, UNCDF assistance has been directed towards improved livestock production both in terms of quantity and quality through the construction of animal health and veterinary centres, the development of fattening and breeding stations, the construction of slaughtering facilities, and the development of grazing land and water supply systems for livestock. Projects in this sector have been financed by UNCDF in Botswana, Cape Verde, Central African Republic, Djibouti, Ethiopia, Guinea, Haiti, Mali, Niger, Rwanda, Somalia, and Sudan.

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36. In the fisheries sub-sector, the Fund has concentrated its activities on artisanal fishermen with a view to increasing fish production for local consumption through the development of both coastal and inland fisheries and the provision of equipment and infrastructure for catch transportation and preservation. The Fund has financed the construction and equipping of fishing boats, and on-shore processing and maintenance facilities, and the transport and marketing of fish in Bangladesh, Benin, Central African Republic, Sudan and Tonga.

37. The delivery of primary health care and the provision of potable water along with effective sanitation and other health services in the rural areas are among the most pressing problems and highest priorities of the LDCs. Accordingly, UNCDF assistance in these sectors, which represents 26.8 per cent of its total programme resources, covers the construction of primary health care centres, the digging of wells, the construction of gravity water supply schemes, the construction of sanitation facilities, the provision of equipment and other inputs necessary for the eradication of communicable diseases, and the provision of equipment, tools and other inputs to Government agencies and community organizations concerned with the management of water supply systems. UNCDF has financed projects in these sectors in the following countries: Bangladesh, Benin, Burundi, Botswana, Ethiopia, Haiti, Guinea, Malawi, Maldives, Mali, Nepal, Nicaragua, Niger, People's Democratic Republic of Yemen, Rwanda, Sudan, Tanzania, and the Yemen Arab Republic.

38. The transportation and communication infrastructure in the rural areas is crucial for the development of the productive sectors, for the provision of basic social services, and in coping with emergency situations. The proportion of UNCDF resources applied to this sector (17.2 per cent) reflects the high priority given to it by the beneficiary countries. UNCDF assistance in this sector includes the provision of equipment and other inputs for the construction and maintenance of secondary roads, the provision of transport and communication equipment to facilitate access and provide basic services to remote areas. The Fund has financed such projects in Afghanistan, Bangladesh, Benin, Bhutan, Comoros Islands, Ethiopia, Haiti, Laos, Mali, Mauritania, Niger, Rwanda, and Senegal.

39. As part of the LDCs' objectives of greater economic diversification and rapid economic growth, these countries have placed increasing emphasis on the development of the industrial and manufacturing sector which, for the time being, only contributes from 4 per cent to 9 per cent of their GDP. UNCDF assistance in this sector is directed towards development of small-scale agro-based industries which can contribute to economic growth by developing productive employment opportunities and by supporting income-generating activities. Projects financed to date in this sector (10 per cent) include

participation in the financing of a pyrethrum refinery in Rwanda, a maize drying facility in Somalia, animal slaughter houses and facilities in Mali, and sugar production and refining facilities in Sudan. Projects are also financed by UNCDF in the area of local manufacturing of agricultural tools and equipment as well as the production of spare parts for agricultural machinery and industrial plants in Guinea, Mali and Upper Volta. The Fund is also financing credit and guarantee schemes for the creation and promotion of small- and medium-size enterprises and cottage industries in Bangladesh, Botswana, Burundi, the Gambia, Malawi, Upper Volta, and the Yemen Arab Republic.

40. The availability of basic education and training opportunities is an essential pre-requisite to the effective mobilization of human resources in the socio-economic development of the LDCs. In support of this objective, UNCDF has financed the construction and equipping of primary education infrastructure and vocational training facilities, mainly in the rural areas. Projects being implemented in this sector with the assistance of UNCDF are in the Central African Republic, Chad, Nicaragua, Niger, Rwanda, Senegal, Sierra Leone and Upper Volta. These projects take into account the capacity of the beneficiary countries to staff, operate and maintain the facilities concerned.

41. The increasing requests by the LDCs for assistance in the low-cost housing sector reflect the problems of growing urbanization and disparities in housing conditions between the urban and rural areas. UNCDF assistance is rendered to small-scale, low-cost housing projects, implemented mostly on a community self-help basis, and the modalities of which serve as models for replicability with local or other sources of financing. Projects implemented with UNCDF assistance in this sector cover slum rehabilitation, improvement of sites and services and provision or local manufacture of building materials, equipment and credit under revolving fund arrangements. The countries which have benefited from such projects include Burundi, Guinea, Haiti, Lesotho, People's Democratic Yemen and Tanzania.

42. The sharp rise in the cost of energy in recent years, coupled with the increasing demand from the LDCs for energy in support of their socio-economic development efforts, has underlined the urgent need to expand domestic energy production in these countries that are so largely dependent on imports. UNCDF assistance in the energy sector has been directed mainly towards the development of renewable sources of energy and improving efficiency in their utilization in support of the socio-economic development of the rural areas. Projects financed by UNCDF in this sector include the rehabilitation of hydro-electric generators, the construction of mini hydro-electric schemes, and the construction of distribution systems and the provision of solar pumps for irrigation purposes. Such projects are being implemented with the assistance of the Fund in Burundi, Ethiopia, Laos, Mali, Nepal, Samoa and the Yemen Democratic Republic.

V. IMPLEMENTATION OF UNDP GOVERNING COUNCIL DECISION 82/5

43. The General Assembly, by its resolution 37/227, of 20 December 1982, endorsed the ECOSOC resolution 1982/53 of 29 July 1982 which took note of decision 82/5 of 18 June 1982 of the Governing Council authorizing the Administrator to accept trust funds conditioned on procurement in a donor country or countries in respect of the operations of UNCDF. This authorization was given for one year, and its continuation is subject to the express approval by the Governing Council at its thirtieth session. By reason of the General Assembly resolution, UNCDF became authorized to accept this modality of funding in its programme. It initiated negotiations with a number of potential donor countries which had shown interest in participating in the implementation of specific projects in the UNCDF programme through this modality of financing. This interest had been evinced following the decision of the Governing Council in June of 1982. Since that time, UNCDF, in close consultation with the recipient Governments, identified priority capital assistance projects and further developed supporting information for presentation to donor countries interested in this financing modality. However, the time available in the remainder of 1982 was insufficient to permit bringing this process to maximum results.

44. In early 1983, in the case of four projects costing approximately \$8 million, final negotiations for trust fund agreements with the Governments of Belgium and Italy were approaching successful conclusion. UNCDF will follow up on its negotiations initiated in 1982 with other donor countries regarding the financing of additional projects under this modality of funding, and will report orally to the Council, at its thirtieth session, on the results achieved.

45. The authority to establish trust funds conditioned on procurement in a donor country or countries constitutes an important mechanism which the Fund will employ fully in support of the flexible strategies it has adopted for the mobilization of resources. These strategies, inter alia, also encompass intensified efforts to widen the geographical base of voluntary contributions to the Fund's general resources, and to increase financial co-operation with bilateral and multilateral aid agencies by the establishment of trust funds.

46. The Administrator wishes to express his appreciation for the opportunity offered to the Fund by this financing modality to channel additional resources to the LDCs. While the time available for the Fund to utilize this authority to its maximum extent has been brief, the reaction of the donor community has been positive. On this basis, the Administrator recommends that the Council agree to the continuation of the financing modality, authorized by its decision 82/5, for UNCDF operations. The Administrator also wishes to emphasize that the Fund must continue to rely on voluntary contributions to

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its general resources, which are the mainstay of its programme activities. Accordingly, trust funds contingent on procurement in the contributing country should be viewed as a vehicle for additionality rather than a substitute for voluntary contributions to the general resources of the Fund.

VI. FINANCIAL SITUATION OF THE FUND UNDER THE PARTIAL FUNDING SYSTEM

47. In June 1982, the Governing Council adopted decision 82/22 which, inter alia, authorized the Fund to continue its operations under the partial funding system and requested the Administrator to include in his annual report on the Fund a chapter related to the operation of the partial funding system.

48. In 1982, the partial funding system enabled the Fund to approve new project commitments in the amount of \$60 million instead of \$30 million which would have been the approval ceiling for the full year if the Fund had been required to revert to a full funding system in June 1982. In arriving at this approval level, the Fund took into consideration the formula presented to the Governing Council in its document DP/82/39.

49. As shown in Table 1, the UNCDF total project commitments during the four-year period, under partial funding, 1979-1982 were \$223.3 million, as compared with the resources available in the amount of \$152.5 million. The Fund, therefore, approved \$70.8 million of new projects, over and above the amount that would have been authorized if the full funding system had been in operation during that period. During the same period, the Fund's project expenditures under the partial funding system were \$104.1 million, or over four times the expenditures of \$24.9 million recorded for the previous four-year period under the full funding system 1975-78. The expenditure rate during these two periods rose from 39 per cent for the earlier period to 68 per cent for the more recent period. During the same period, the Fund increased its geographical coverage from 26 countries to 43 countries.

Table 1

UNCDF: Comparative results under partial and full funding systems

<u>Funding system</u>	<u>Period</u>	<u>Resources</u>	<u>Commit-ments</u> (in millions of US dollars)	<u>Country coverage</u>	<u>Expendi-tures</u>	<u>Commit-ments as per resources</u>	<u>Expendi-tures as per cent of resources</u>
Partial funding	1979-82	152.5	223.3	42	104.1	146	68
Full funding	1975-78	64.0	68.4	26	24.9	107	39

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50. The project expenditures for 1982 amounting to \$27.7 million were lower than those projected for the year for reasons provided in Chapter III above. It is expected that project commitments for which expenditures had been rephased from 1982 to 1983, together with the other commitments, including those made in 1982, should result in expenditures of approximately \$40 million in 1983.

51. As indicated in the report of the Administrator, DP/1982/39, the impact of the implementation of the partial funding system on the Fund's accumulated resources was felt for the first time in 1981 when programme expenditures for that year reached \$48.2 million, and accumulated resources, exclusive of non-convertible currencies, were reduced by \$6.2 million to a level of \$86.6 million. For 1982, owing to an excess of income over expenditures, the resources increased by \$8.9 million, thus bringing the Fund's total available resources to \$95.5 million at the end of the year, inclusive of the fully-funded operational reserve of \$29.6 million. These resources represent 64.5 per cent of the Fund's total outstanding project commitments of \$148.0 million.

52. The following table compares the financial position of the Fund at the end of 1982 with that of 1981.

Table 2

UNCDF financial position, 1981 - 1982

	31 December 1981	31 December 1982
	(in million US dollars)	
Balance of resources <u>a/</u>	60.3	65.9
Fully-funded operational reserve	<u>23.3</u>	<u>29.6</u>
Total available resources	83.6	95.5
Total outstanding commitments	<u>118.7</u>	<u>148.0</u> <u>b/</u>
Difference between outstanding commitments and available resources	35.1	52.5

a/ Exclusive of non-convertible currencies amounting to \$2.6 million at the end of 1981 and \$2.0 million at the end of 1982. The balance of resources are also exclusive of cost sharing and trust fund contributions amounting to \$ 1.6 million received in 1982.

b/ Exclusive of cost sharing and trust fund commitments of \$3.3 million.

53. The difference between outstanding project commitments at the end of 1982 and available resources is \$52.5 million. In accordance with the financial control formula governing the Fund's operations under the partial funding system, this amount of commitments over available resources is expected to be covered by the resources pledged to the Fund for 1983 and the contributions envisaged for 1984.

54. Thus, after three and a half years of operating under the partial funding system, the financial position of the Fund continues to be sound and the various controls and measures as described in document DP/1982/39 to safeguard the Fund's financial integrity are working effectively. Among these are:

- An operational reserve which is maintained at 20 per cent of the Fund's outstanding commitments, as directed by Governing Council decision 79/20 of June 1979. The operational reserve which stood at \$23.3 million at the end of 1981 was increased to \$29.6 million at the end of 1982 in line with increase in outstanding commitments. The reserve is fully-funded and its investments are maintained in convertible currencies.

- Commitment ceilings which are determined by the financial control formula for the Fund's operations under the partial funding system; the total outstanding commitments of \$148 million at the end of 1982 are within this ceiling.

- Coverage of the difference between outstanding commitments and available resources by anticipated contributions of the following two years. As noted in paragraph 53 above, this difference amounting to \$52.5 million, at the end of 1982, is expected to be covered by the resources pledged to the Fund for 1983 and envisaged for 1984.

55. As regards projected operations for 1983, the project approval ceiling on the basis of the envisaged pledged contributions for 1983 and the application of the partial funding formula, would be in the order of \$34 million. However, in order for the Fund to maintain the scope and momentum of its programme to respond to the priority needs of the LDCs, all efforts will be made by the Fund to mobilize additional resources to bring the 1983 level of project approvals at least to \$50 million, utilizing the various modalities of funding available to it.

56. On the basis of the projected expenditures for 1983 of \$40 million, it is estimated that the available resources of the Fund would register a decline of about \$5.8 million in 1983 without adversely affecting the soundness of the Fund's financial position, as indicated in Table 3 below.

Table 3

UNCDF projected financial position, 1982 - 1983

	31 December 1982 (Actual) (in million US dollars)	31 December 1983 (Projected)
Balance of resources <u>a/</u>	65.9	61.3
Fully-funded operational reserve	29.6	28.4
Total available resources	95.5	89.7
Total outstanding commitments <u>b/</u>	148.0	142.0
Difference between outstanding commitments and available resources	52.5	52.3

a/ Exclusive of non-convertible and cost-sharing and trust fund contributions.

b/ Exclusive of cost-sharing and trust fund commitments.

57. The Resource Planning Table for the UNCDF programme under partial funding in the annex to this report contains a summary of the actual financial data on UNCDF's operations from 1979 through 1982 and projections for the years 1983 through 1986. From the results so far achieved and expected to be achieved in the future under the partial funding system, it is evident that the system is an efficient instrument for maximizing the utilization of the Fund's resources and increasing the flow of its assistance to beneficiary countries. As can be seen, the operations of the Fund are conducted on sound and prudent lines so that the financial integrity of the Fund is maintained at all times.

VII. ADMINISTRATIVE MATTERS

58. At its thirty-sixth session, acting on the recommendation of the Governing Council and subsequently of the Economic and Social Council, the General Assembly decided in its resolution 36/196 that the Fund's administrative and programme support costs shall be met from the Fund's general resources while UNDP will continue to provide field support services as well as all headquarters administrative services to the Fund. The Council will also recall that in its decision 80/19 it endorsed a policy whereby the costs of administrative services rendered by UNDP to funds administered by it were to be distributed among such funds.

/...

59. The Fund's direct administrative costs in 1982 covering salaries, common staff costs, consultants' costs, official travel and general operating expenses amounted to \$1.779 million and the cost of services rendered by UNDP was \$369,768. Thus the total administrative costs for 1982 met from the Fund's general resources amounted to \$2.149 million. As reported to the Council in DP/1982/38, UNCDF introduced programme support services in 1981. In 1982, the total disbursements for these services amounted to \$1.263 million of which approximately \$242,000 was actual disbursement related to consultant missions to assess the technical, economic and financial feasibility of project proposals and to finalize project design and implementation modalities of 46 projects. The balance of \$1.021 covered the cost of implementation services to Governments in the field and at headquarters. An additional amount of \$342,000 in respect of the missions actually completed during 1982 still remains to be charged by the respective United Nations executing agencies during 1983.

60. The Fund's manning table for the 1982-1983 biennium as approved by the Governing Council at its twenty-eighth session consisted of 15 professional and 14 general service posts. Subsequently, as a result of the UNDP Staffing Review, and in response to the Council's directive to reduce administrative costs across the board, one professional post was eliminated, bringing the Fund's total staff in 1982 to 14 professionals and 14 general services.

61. In considering the Fund's staffing situation, it is relevant to note that there has been a substantial increase in UNCDF's volume of operations in the past two years. The Fund's programme increased from 102 ongoing projects for \$94.4 million at the end of 1980, to 185 projects for \$251.4 million by the end of 1982. This programme increase was achieved despite a stringent staff situation which was further strained by the decision taken by UNDP to abolish one professional position in the UNCDF manning table for 1982-1983.

62. In 1982, the Administrator, in his capacity as Managing Director of UNCDF, carefully reviewed the Fund's personnel requirements in the light of its legislative and operational mandate as approved by the General Assembly, and of recent decisions adopted by the General Assembly, and by the Governing Council referred to previously. As a result of this review, which was conducted in conjunction with the preparation of the Fund's budget submission for 1984-1985, the Administrator has concluded that since the envisaged increase of 15 per cent in contributions to the Fund's general resources for 1982 and 1983 did not materialize, the programme development activities financed from the Fund's general resources will have to be carried out by the existing programme staff. Should the general resources of the Fund increase significantly during the 1984-1985 biennium, the Administrator will review the situation and will report to the Council accordingly.

63. With regard to administrative support services required for the management of extra-budgetary resources which the Fund is mobilizing through trust fund and cost-sharing arrangements, these will be financed from such resources in accordance with the policies and procedures established for this purpose in the Financial Rules and Regulations.

64. As regards programme/project evaluation, this function has so far been limited to operational evaluation of ongoing projects, either through project review missions by the Fund's staff or through participation in tripartite project reviews. As noted by the Council at its twenty-ninth session, the in-depth evaluation of completed projects is an essential tool for measuring the impact of the Fund's assistance in relation to its objectives, and to provide operational feedback into the project design and implementation process. The Administrator shares the views expressed by Council members concerning the need for systematic evaluation of the Fund's programme activities and anticipates that the proposals contained in DP/1983/ICW/6 on the establishment of a central evaluation unit will make at least the necessary initial step to accommodate this requirement.

VIII. RECOMMENDATIONS

65. The Administrator recommends that:

The Governing Council,

1. Take note of the Annual report of the Administrator DP/1983/33, and
2. Decide to continue the authorization contained in its decision 82/5 in respect of UNCDF.

Annex

RESOURCE PLANNING TABLE FOR UNCDF PROGRAMME (1983-1986) UNDER PARTIAL FUNDING
(in millions of US dollars)

	ACTUAL				PROJECTED			
	1979	1980	1981	1982	1983	1984	1985	1986
I. Availability of resources								
A. Available from previous year ^{a/}	50.4	50.9	66.8	60.3	65.9	61.3	56.0	52.3
B. Resource made available:								
(i) Voluntary contributions pledged	25.1	28.6	31.0 ^{b/}	25.7	26.0 ^{c/}	27.9	30.0	32.2
(ii) Adjustment in pledges (+) d/	-1.2	+0.9	-1.3	+2.3	-	-	-	-
(iii) Voluntary contributions received	23.9	29.5	29.7	28.0	26.0	27.9	30.0	32.2
(iv) Other income e/	6.7	9.1	12.5	13.1	10.0	7.0	7.0	6.5
Total resource (I)	<u>81.0</u>	<u>89.5</u>	<u>109.0</u>	<u>101.4</u>	<u>101.9</u>	<u>96.2</u>	<u>93.0</u>	<u>91.0</u>
II. Use of resources								
A. Programme expenditure:								
(i) Project expenditure ^{f/}	8.9	19.3	48.2	27.7	40.0	38.0	37.5	38.0
(ii) Administrative costs ^{g/}	-	-	-	2.1	2.7	2.8	2.9	3.1
Total programme expenditure	8.9	19.3	48.2	29.8	42.7	40.8	40.4	41.1
B. Changes in reserves:								
(i) Change in operational reserve	20.9	1.8	0.6	6.3	(1.2)	(0.6)	0.3	0.4
(ii) Change in working capital	-	-	-	-	-	-	-	-
(iii) Change in non-convertible currencies ^{h/}	0.3	1.6	(0.1)	(0.6)	(0.9)	-	-	-
Total use of resources (II)	<u>30.1</u>	<u>22.7</u>	<u>48.7</u>	<u>35.5</u>	<u>40.6</u>	<u>40.2</u>	<u>40.7</u>	<u>41.5</u>
III. Balance of resources (I - II)	<u>50.9</u>	<u>66.8</u>	<u>60.3</u>	<u>65.9</u>	<u>61.3</u>	<u>56.0</u>	<u>52.3</u>	<u>49.5</u>
IV. Operational reserve ^{i/}	20.9	22.7	23.3	29.6	28.4	27.8	28.1	28.5
V. Non-convertible currencies	1.1	2.7	2.6	2.0	1.1	1.1	1.1	1.1
VI. Project commitments outstanding ^{j/}	78.1	111.6	118.7	148.0	142.0	139.0	140.5	142.5
VII. Project commitments in excess of balance of resources and operational reserve	(3.7)	22.1	35.1	52.5	52.3	55.2	60.1	64.5
VIII. Annual project approvals	40.0	52.2	71.1	60.0	34.0	35.0	39.0	40.0

Annex (continued)

- a/ Available resources are exclusive of operational reserve, non-convertible currencies, cost sharing and trust fund contributions.
- b/ Inclusive of special contribution of Government of Norway (\$4.3 million) for 1981.
- c/ Voluntary contributions for 1983 based on announced and expected pledges. For 1984-86, voluntary contributions are estimated at an annual growth rate of 7.5 per cent.
- d/ Since net pledges outstanding (\$0.7 million) at end 1982 represent the normal level, no further adjustment in pledges for 1983-86 is considered necessary.
- e/ Represents interest and other income. Interest income is assumed at 9 per cent in 1983 and 7.5 per cent in 1984-86 of average annual available resources during the year.
- f/ Project expenditures assumed on the basis of estimated annual project budgets.
- g/ The administrative costs which have upto 1981 been borne by UNDP, are assumed to be met by the Fund from its own resources, starting 1982 in terms of General Assembly resolution 36/196.
- h/ Accumulated resources in non-convertible currencies amounted to \$2.0 million at end 1983. Of these, a sum of \$0.9 million equivalent is assumed to be utilized in 1983.
- i/ Operational reserve created in 1979 is maintained at 20 per cent of outstanding commitments. It is inclusive of guarantee reserve (\$0.7 million as on 31.12.82) which is also being maintained at 20 per cent of guaranty commitments outstanding (\$3.5 million as on 31.12.82).
- j/ Outstanding commitments are net of expenditures, cancellations, deobligations, cost sharing and trust fund commitments. These, however, include guaranty commitments amounting to \$3.5 million as on 31.12.82, which though of contingent nature are nevertheless included in outstanding commitments to reflect total liabilities of the Fund. A guarantee reserve equal to 20 per cent of the guaranty commitments is maintained as part of the operational reserve. Cost sharing and trust fund commitments amounting to \$3.3 million as on 31.12.82 which are covered by third-party contributions are also not shown as part of the outstanding commitments.