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POLICY

OTHER FUNDS AND PROGRAMMES

TECHNICAL CO-OPERATION AMONG DEVELOPING COUNTRIES

Use of country indicative planning figures (IPFs) for
TCDC activities

Report of the Administrator

Summary

The present report was prepared pursuant to Governing Council decision 83/21 which requested the Administrator to study the consequences of the proposals in decision 3/10 of the High-level Committee for the Review of TCDC.

The report reviews briefly the rationale underlying the current policies governing the use of country IPFs for TCDC activities. The report also discusses the consequences of each of the three proposals, and advances recommendations for further streamlining some of the relevant procedures. In addition, the conclusions of the Administration with respect to the provision of decision 3/10 of the High-level Committee are presented.

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Introduction

1. The High-level Committee for the Review of TCDC, in its decision 3/8, requested the Administrator to study the possibility of introducing greater flexibility in the use of country IPFs for TCDC purposes. More specifically, in decision 3/10, the Committee also requested the UNDP Governing Council, in the light of the inconclusive discussions in the Committee, to consider:

(a) Allowing the use of country IPFs to cover fully the local currency expenditure on TCDC projects financed from IPF resources;

(b) Permitting the reimbursement in convertible currency of the local currency expenditure on TCDC projects covered by country IPFs; and

(c) Ensuring procurement, in TCDC projects, of equipment, services, experts, etc. from developing countries.

The Governing Council in decision 83/21, section III, adopted at its thirtieth session in June 1983, requested the Administrator to study the consequences of these proposals and to report his conclusions to the Council at its thirty-first session. The present report has been prepared in compliance with that request.

The rationale underlying current policies

2. The Administrator has reviewed this matter within the context of established concepts and principles relating to TCDC, taking into account as well the rationale underlying the use of country IPFs for TCDC activities. To put the question in proper perspective, it will be useful to recall these principles here. Since the United Nations Conference on Technical Co-operation among Developing Countries, held in Buenos Aires in 1978, it has been accepted that the fundamental principle of TCDC is the voluntary sharing or exchange of technical resources, skills and capabilities between two or more developing countries for their individual or mutual development. TCDC activities therefore should be initiated, managed and primarily financed and implemented by the developing countries themselves. The United Nations development system, and UNDP in particular, has the responsibility of facilitating and promoting TCDC, but its role can be only supplementary and catalytic.

3. The use of IPFs for TCDC activities was authorized by the Governing Council for the purpose of enhancing UNDP's supportive and catalytic role by helping to provide additionality to the total resources available to countries for TCDC activities. It was recognized that while the main responsibility for financing TCDC rests with the countries themselves, some countries are constrained from participating in TCDC activities because of foreign exchange difficulties or lack of sufficient domestic budgetary resources. The use of IPFs is intended to minimize these constraints, and not to substitute UNDP resources for government funds.

4. In accordance with these principles, UNDP has stipulated that the primary share of the cost of any TCDC activity supported from country IPFs should be borne by the co-operating countries themselves. This provision has

not been interpreted in the strictly mathematical sense that the co-operating countries pay half or more of the cost, but has been applied more flexibly to take account of identifiable cost to Governments in kind as well as cash expenditures. Both external and local currency expenditures are eligible for financing from the IPF.

Use of country IPFs to support TCDC projects

5. In decision 3/10, operative paragraph 2 (a), the High-level Committee requested the Governing Council to consider allowing the use of country IPFs "to cover fully the local currency expenditure on TCDC projects financed from IPF resources". The phrase "to cover fully" is interpreted to mean that the bulk of the costs, even the total cost of individual TCDC projects, would be financed from the IPF, including that part of the cost of the project expended in convertible currencies.

6. The Administrator wishes to draw the attention of the Council to the fact that acceding to this request would represent a major policy change and a departure from the basic principles underlying the TCDC concept and the role of IPFs as outlined in paragraphs 2 and 3 above. This would nullify the principle, generally accepted since the Buenos Aires Conference, that TCDC activities should normally be financed primarily by the co-operating countries themselves. In other words, a project to qualify as a TCDC project should be financed mainly by the co-operating countries themselves; otherwise, it would be just another technical co-operation project and would be dealt with under normal UNDP procedures within the framework of country programmes and IPFs. The Administrator does not consider it advisable to depart from this fundamental principle, since to do so could mark the first step in the erosion of the TCDC concept. As stated earlier, however, the Administrator, in considering supplementary IPF support to each TCDC project, would take into account total contribution by Governments, even those identified as in kind.

Currency of reimbursement

7. In paragraph 2 (b) of decision 3/10, the High-level Committee requested the Governing Council to consider permitting reimbursement, in convertible currency, of eligible local currency expenditures on TCDC projects covered by country IPFs. UNDP's existing policy regarding reimbursement from the IPF of these expenditures is that reimbursement shall be made in the currency of expenditure, utilizing to the extent possible UNDP's existing holdings of the currency in question. Whenever, as frequently happens, UNDP's holdings of a particular currency are insufficient to reimburse the Government in question for its local currency expenditures, UNDP is obliged to purchase the local currency, resulting in a transfer of convertible currency to the country's Central Banking System. It is not recommended that there should be any changes in this arrangement.

Procurement of inputs

8. In decision 3/10, paragraph 2 (c), the High-level Committee requested the Governing Council to "ensure procurement, in TCDC projects, of equipment, services, experts, etc. from among developing countries". This is in

accordance with recommendation 31 of the Buenos Aires Plan of Action which calls for maximizing the use of developing countries' capacities.

9. At the present time, UNDP regulations governing the procurement of goods and services are, with one exception as explained in paragraph 10 below, the same for TCDC projects as for other IPF-financed projects. This means that for government-executed TCDC projects, international competitive bidding is required (as for normal IPF-financed projects) when the value of a contract reaches or exceeds \$40,000. In accordance with UNDP's financial regulations, Governments can apply either their own procedures and practices or those of UNDP in international competitive bidding. Domestic procurement of services, supplies and equipment, based upon competitive bidding by domestic suppliers, may be authorized by UNDP headquarters as an alternative to international competitive bidding. UNDP headquarters may also waive the requirements for competitive bidding altogether if this would not be the most economical or efficient method for obtaining the required services, equipment or supplies.

10. The Administrator believes that special provisions already exist to promote the TCDC approach in the procedures for the procurement of equipment from the developing countries for TCDC projects. In paragraph 18 of decision 77/421, the Governing Council decided to accord preferential treatment of up to 15 per cent of the purchase price in respect of local procurement of the indigenous equipment and supplies of the developing countries. In the spirit of that decision, the Administrator has instructed UNDP's Contracts Committee to extend to all bids from developing countries preferential treatment of up to 15 per cent of the purchase price of equipment and supplies required for TCDC projects in other developing countries. It is believed that this action should respond to the High-level Committee's concern for the procurement of equipment and supplies for TCDC projects from developing countries.

Conclusion

11. Having reviewed the implications of decision 3/10 of the High-level Committee regarding the use of country IPFs for TCDC purposes as requested by the Governing Council, and taking account of established concepts and principles relating to TCDC, the Administrator has reached the following conclusions:

(a) To allow the use of country IPFs to fully finance TCDC projects would be inconsistent with the accepted principle that TCDC activities should be primarily financed by developing countries themselves and that UNDP's role is only supportive and catalytic;

(b) Reimbursement of local currency expenditures from the IPF should continue to be made in the currency of the country in question when UNDP has accumulated holdings of that currency. When UNDP's holdings in the local currency are insufficient, UNDP should continue to purchase the needed currency, resulting in convertible currency accruing to the country's central banking system;

(c) For the procurement of equipment and supplies for TCDC projects, bids from developing countries should, as decided by the Governing Council at its twenty-fourth session, be given a 15 per cent cost preferential treatment over other bids. Other regulations pertaining to the bidding procedure should be maintained.
