



**Governing Council
of the
United Nations
Development Programme**

Distr.
GENERAL

DP/1987/16
8 April 1987

ORIGINAL: ENGLISH

Thirty-fourth session
June 1987, New York
Item 4 (a) of the provisional agenda

POLICY

Review of programme and project activities

SUMMARY

This report deals with three issues related to programme and project activities and has been prepared in response to Governing Council decisions, viz:

- Implementation of measures to improve programme/project quality (decision 86/18)
- Review of trends in financing project equipment (decision 86/15, para. 9)
- Government execution (decision 85/9)

The review of programme/project "quality" measures is basically a progress report and no specific recommendations are made for the Council's consideration. Similarly, the conclusions arising from the review of trends in financing equipment do not call for specific recommendations at this time. As regards Government execution, various recommendations are presented for the consideration of the Council. Included is a recommendation for an amount equivalent to 1 per cent of Government execution delivery to cover UNDP Headquarters costs of the administration of the programme.

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I. IMPLEMENTATION OF MEASURES TO IMPROVE PROGRAMME/PROJECT QUALITY

Background

1. In its decision 85/4 (June 1985), the Governing Council endorsed the proposals of the Administrator for improving the quality of programmes and projects financed by UNDP. In July 1986, the Executive Management Committee (EMC) approved an Action Plan for the implementation of these "quality" measures and a report thereon was submitted to the Council at its thirty-third session (DP/1986/13, June 1986). Subsequently, the Council requested the Administrator to pursue these measures and to report at the thirty-fourth session on further progress made in this regard. The Council also requested the Administrator to initiate appropriate administrative measures to ensure improved performance by the executing agencies (decisions 86/15 and 86/18). This report provides updated information on the implementation of the Action Plan. Similar information has been provided to the Working Group of the Committee of the Whole for its meeting from 13-14 April 1987.

A. Programme Review Committee (PRC)

2. The Programme Review Committee (PRC) was established in September 1985 as a mechanism for ensuring that country programmes, as well as intercountry and global programmes, meet the standards set in UNDP policy and procedural guidelines. A Regional Bureau Director and the Director of the Bureau for Programme Policy and Evaluation (BPPE) serve, respectively, as Chairman and Vice-Chairman, and the membership comprises senior Programme officials, including the Deputy Directors of the four Regional Bureaux.

3. All programmes whose combined IPF and other resources are above \$10 million are submitted to PRC in draft before they are presented to the Governing Council. Programmes under \$10 million are also submitted to PRC where particular circumstances so require. The corresponding Notes by the Administrator on such country programmes are also reviewed by PRC, which provides guidance to the Regional Bureaux with regard to special issues that should be dealt with in the Notes. The views of PRC on draft country programme documents are communicated to the Governments concerned, through the Resident Representative, so that after appropriate consultations, they may be taken into account when the final version of the document is produced.

4. PRC has now reviewed the bulk of fourth cycle programmes within its mandate. Most of these were prepared in accordance with revised policy and procedural guidelines issued in December 1985. Of the 70 programmes reviewed by PRC (64 country programmes, 5 intercountry programmes and 1 global and interregional programme), 12 were returned for substantial revision and resubmission to PRC, while another 13 programmes were accepted subject to incorporation of the Committee's views. Based on PRC experience to date (September 1985-December 1986) it can be said that there has been substantial improvement in the quality of country programme documents. It is clear that host Governments, UNDP field offices and Regional Bureaux have been sensitized to the programme quality issue. The very

establishment of PRC had a salutary effect that was soon reinforced when some of the first country programme submissions were returned with requests for substantial revisions and resubmission. The more recent submissions have generally been of a higher standard. Another beneficial effect has been the cross-fertilization of ideas that PRC has generated among its members who, for the most part, are senior officials of the Regional Bureaux responsible for providing guidance to Resident Representatives. They have gained new insights into development problems which, though common to countries in different regions, are perhaps tackled in different ways. Operational officers responsible for backstopping field operations present the programmes to PRC and have benefited from the interaction that takes place in the Committee. Overall, therefore, PRC is proving to be an effective mechanism for ensuring that quality standards are met.

5. However, an analysis of PRC experience to date indicates that certain aspects of the programming process still merit attention:

- There continues to exist the difficulty of reconciling the alternative views (a) that Governments are better served by the broad-based UNDP approach to programming, and (b) that management would be more efficient and impact enhanced if country programmes contained fewer projects in a narrower range of sectors;
- Assessments of technical assistance requirements are not always as comprehensive as they might be, while co-ordination of external technical assistance is still an elusive goal. Some United Nations system agencies remain reluctant to use the country programme as a frame of reference for programming their assistance. However, some progress has been registered with regard to co-ordination arrangements vis-à-vis bilateral aid agencies and other multilateral agencies such as the World Bank and the International Fund for Agricultural Development (IFAD), particularly in countries with round-table or Consultative Group Meeting mechanisms;
- Assessments of ongoing country programmes have been more comprehensive than in the past but the documents do not always indicate how the lessons to be learned from these assessments have been applied in the process of developing the new programme proposal; and
- There continue to be difficulties in reconciling the fact that country programmes are intended, first and foremost, to reflect national development priorities of the Government according to the "Consensus" and the more recent concerns with global priorities. Where global issues coincided with country priorities, PRC found that this was well reflected in the documentation. However, it noted the tendency for certain programmes to proclaim global priorities, even when this was not reflected in the choice of projects that made up the programmes.

6. Despite these constraints, PRC has succeeded in setting standards that have been met satisfactorily by the majority of countries which have to date submitted fourth cycle programmes. The influence of the Committee had the best effect when

it was able to consider the earliest available draft of a country programme. The Administrator has therefore determined that PRC should emphasize this approach for those programmes to be submitted for consideration by the Governing Council in 1988.

7. The PRC mandate also includes consideration of reports arising from mid-term reviews of country and intercountry programmes, based on which the Committee will determine whether these programmes require further consideration by the Governing Council. Since fourth cycle programmes are only now getting under way, most of the mid-term reviews will not be launched before 1989. In the meantime, however, policy guidelines and procedures have been drafted for submission to PRC as called for in the Action Plan.

B. Project Appraisal Committees (PACs)

8. At UNDP headquarters level, each of the Regional Bureaux has established Project Appraisal Committees (PACs) with standard terms of reference which call for review of all project proposals involving a UNDP contribution over \$400,000. PACs also review proposed budget revisions which bring total project costs over \$400,000 or which extend project duration beyond the prescribed limits. Projects with unusually high equipment components or those which otherwise appear to pose policy or complex technical issues must also be submitted to PAC, regardless of project cost levels. PAC membership is composed of Regional Bureau senior staff and the relevant technical representative of BPPE. In 1986, PACs reviewed 183 project proposals and recommended the approval of 155 projects totalling \$257,249,341 in UNDP contributions, while 24 projects were rejected and 4 deferred. Similar appraisal committees have been functioning for some time in the United Nations Capital Development Fund (UNCDF) and the United Nations Revolving Fund for Natural Resources Exploration (UNRFNRE), and have now also been established in other funds and programmes administered by UNDP.

9. At the country level, many of the larger field offices have established similar Project Appraisal Committees.

C. Action Committee (AC)

10. The Action Committee (AC), instituted at the end of 1986, is chaired by the Administrator and is composed of the Associate Administrator, the Regional Bureau Directors, the Assistant Administrator/Director of the Bureau for Special Activities (BSA), and the Assistant Administrator/Director of BPPE. The Heads of the new Divisions for Women and Non-Governmental Organizations (NGOs) also attend. The Committee reviews country, regional, interregional and global IPF-funded projects which are not covered by the authority delegated to Resident Representatives. This Committee also reviews all projects funded by programmes and funds, other than UNIFEM, under the authority of the Administrator.

11. Project submissions to AC fall into two categories:

(a) Projects which are being recommended for approval. Such projects are submitted after examination in the appropriate bureau or fund, as well as consideration by the PAC concerned. These projects are submitted when the Assistant Administrator or fund head can recommend them for approval, subject to any suggestions/conditions to be brought to the attention of the Resident Representatives.

(b) Projects which, in the view of the Assistant Administrator or fund head, raise sensitive issues or involve questions of policy which should be first considered by the Committee. Such projects would also include those within the delegated authority of Resident Representatives.

12. At the time of writing (end of February 1987), AC had been functioning for some three months and had approved 179 projects totalling \$264 million in UNDP contributions, of which \$250.9 million represents IPF resources (including cost-sharing contributions) and \$13.1 million financing by funds administered by UNDP. In reviewing projects, AC has commented and provided guidance on a significant number. Several were returned with a request for modifications ranging from relatively minor changes to substantial revisions. In some cases, these amounted to reformulation of the projects as a condition for approval by UNDP. It is important to note that, for the presentations to AC, a written brief outlining the main elements of the project is prepared by the corresponding Bureau or Fund secretariat. This brief serves as a basis for the preparation of the Project Fact Sheet, an administrative document circulated to all the Missions accredited to the United Nations, as well as other interested parties. As they are not formal Council documents, these papers will not be subject to any editing as they have been in the past. This system will allow adequate time for the preparation and submission of these Fact Sheets.

13. With these institutional mechanisms in place, as foreseen in the Action Plan, attention is now being given to strengthening the substantive aspects of project development (project identification/preparation/appraisal) and project implementation, as well as updating and streamlining the corresponding procedures. As reported in DP/1986/13 (paras. 22-34) and in DP/1986/67 (paras. 12-14), revised policy and procedural guidelines are being developed in this regard. The main thrust of the changes proposed would be to shift the investment of UNDP staff time and effort from the downstream stages (project formulation/appraisal) to the critical early stages of project identification and selection. More rigorous criteria are also proposed for the project formulation process to ensure that UNDP receives all the information it requires for appraising proposed projects. The Action Plan calls for submission of these guidelines to EMC early in 1987, in conjunction with other programme policy issues identified in the course of updating the UNDP Policies and Procedures Manual (see para. 23 below).

D. Project implementation

14. The various initiatives under way to improve the quality of work done at each stage of the project development process have a direct bearing on current efforts by UNDP to bring about improvement in project implementation, particularly as regards agency performance in terms of technical support and supervision, as well as timeliness of input and output delivery. It will be recalled that the main problems affecting project implementation, as well as the measures being taken by UNDP to resolve them, were outlined in a paper submitted to the Working Group of the Committee of the Whole for its third meeting held from 15-17 September 1986 (DP/1986/WG/WP.6).

15. Subsequently, various proposals have been considered by EMC in seeking practicable ways of responding to Governing Council decision 86/15, which, inter alia, "urges the Administrator to initiate appropriate administrative measures to ensure improved performance by the executing agencies so that they are fully accountable for the fulfillment of their obligations to the UNDP in the execution of projects it funds ...". Among the proposals considered was the introduction of disincentives and penalty schemes, as had been suggested by Resident Representatives at the 1985 Global Meeting.

16. The practice of including penalty clauses and performance guarantees in contracts is an accepted one in the private sector and, depending on the type of project, is followed by agencies of the United Nations system, including UNDP, in contracts with firms engaged by them as sub-contractors for project execution. However, the application of penalties to United Nations system agencies in their capacity as executing agencies for UNDP would involve a significant shift in relations with the agencies that would be difficult for UNDP to bring about and difficult for the agencies to accept. Some of these difficulties are rooted in the nature of the tripartite relationship and its legal framework; others have their source in the nature and scale of UNDP technical co-operation activities.

17. The conclusion reached was that penalty schemes are not practicable in the UNDP context and that other options are available and should be pursued by UNDP in seeking to ensure performance accountability by the executing agencies. In this connection, the forthcoming resumption of annual Agency Review Meetings offers the opportunity for UNDP senior management to raise specific issues related to agency performance.

E. Review of selected projects approved by Resident Representatives within their approval authority in 1984-1985

18. A preliminary desk review based on random sampling of projects in this category was completed in late 1986. In numerical terms, small-scale projects (i.e. under \$400,000) account for 55 per cent of total ongoing projects (excluding preparatory assistance) and 25 per cent of programme commitments. Some 50 per cent of these small-scale projects have budgets below \$100,000. Most small-scale projects are identified and prepared in the field and the involvement of

headquarters in the identification and design processes is minimal. Monitoring of implementation and reporting to headquarters is only done for those few small-scale projects with resident project personnel. Even in these instances, reporting to headquarters is not always systematic.

19. In the absence of cumulative and comprehensive information on small-scale projects, it is not possible to arrive at firm or soundly-based conclusions as to their quality and effectiveness. The findings of the preliminary desk review however, do indicate the need for more specific criteria to guide project selection and a more critical review of project proposals at the identification stage to ensure that the approach proposed for achieving a particular set of objectives with UNDP assistance is, in fact, the most appropriate. These issues are currently under internal review in conjunction with the various measures described in paragraph 13 above.

F. Programme management information

20. A number of initiatives are under way to improve management information systems relating to programme activities, particularly as regards substantive and qualitative aspects. A pilot exercise will be conducted in order to test a report format for Resident Representatives to provide UNDP headquarters with their assessment of ongoing projects when they transmit Project Progress Reports prepared by Agency Project Managers. The one-page format of the Project Assessment Summary has been designed for computerization of project performance ratings, so that it would be possible to aggregate these by agency, by country, by type of project and so on, for use by UNDP headquarters in the overall monitoring of agency performance and other factors affecting the quality and rate of project implementation. This type of information is also an essential input for the annual Agency Review Meetings mentioned above in paragraph 17. Some 20 field offices will be participating in this exercise. If successful, it will be instituted in all field offices.

21. At the programme level, consideration is being given to requesting Resident Representatives to comment on certain specific issues affecting programme activities when they transmit their Country Programme Management Plans (CPMPs) in January each year. The information to be provided would be geared primarily to meet the management information needs of Regional Bureaux, not only in terms of monitoring programme performance in their respective regions and also to help them meet their own management reporting responsibilities in keeping the Administrator systematically informed regarding the quality and rate of programme implementation.

22. The computerized Programme and Project Management System (PPMS) is kept under periodic review by the PPMS "Users' Group" and is updated as required. Components currently under review or proposed for review include: (a) CPMPs; (b) a system to monitor compliance with project reporting requirements; (c) enhancement and increased use of the Project Institutional Memory (PIM); and (d) a system to computerize key information/data on fourth cycle country programmes in order to facilitate monitoring of programme implementation by the Regional Bureaux.

G. Revision of the Policies and Procedures Manual (PPM)

23. Work on updating and revising the Policies and Procedures Manual (PPM) is well under way and is expected to be completed on schedule by December 1987. A number of key policy issues are to be reviewed by EMC in the second quarter of 1987 prior to incorporation in the revised PPM. These include criteria to govern project development. In this connection, proposals will be considered for Resident Representatives to submit (a) summaries of all project proposals to UNDP/HQ for policy/technical screening; and (b) appraisal reports on projects within their approval authority. An updated format for project documents will also be considered, based on the results of comparative field-testing of a new format.

H. Development of training programme

24. In 1985-86, a series of newly designed workshops was conducted for some 100 Deputy Resident Representatives. In addition to reviewing conceptual aspects of the project development process, these workshops were designed to develop the analytical and management skills needed by UNDP field staff for dealing effectively with the many issues that arise in the course of project development, particularly in those areas for which field staff have primary responsibility, namely project identification/appraisal and project monitoring. Thus, the focus was on problem identification/analysis, identification of alternative project strategies, defining project objectives, outputs, success criteria and other key elements that to a large degree will determine a project's prospects for success. Workshop participants used both the old and new formats for project documents as part of the current field-testing exercise referred to in paragraph 23 above.

25. Workshop participants are expected to train other programme staff on return to their duty stations so that a multiplier effect can be obtained. Similar workshops will be conducted in 1987. Periodic assessments of the training programme will continue to be undertaken and the necessary adjustments made to ensure that course content reflects new or modified programme policies and procedures. Similar workshops are also envisaged in 1987 for Headquarters programme staff at supervisory levels.

I. Conclusions

26. The Administrator is satisfied that, on the whole, satisfactory progress is being made in the implementation of measures to improve programme/project quality. Certain aspects necessarily require more deliberation, either because they involve major policy or procedural shifts (e.g. in project development) or because they are linked to other management considerations currently under review (e.g. staffing and work-load burden in field offices, reduction/rationalization of paperwork and information flows).

27. No specific recommendations on these issues are being presented at this time. However, the Administrator wishes to assure the Council that he will continue to give the highest priority to improving the quality and effectiveness of UNDP-financed programmes and projects.

II. RECENT TRENDS IN FINANCING PROJECT EQUIPMENT

Background

28. At its special meeting in Geneva from 24-28 May 1982, the Governing Council considered a comprehensive report on the use of UNDP programme resources for procurement of project equipment and endorsed the steps proposed by the Administrator to "facilitate compliance in the future with the existing provisions of the Consensus and the new dimensions resolution" (DP/1982/3, p. 10, para. 26). Supplementary instructions on the use of programme resources for equipment were issued by UNDP in November 1983. A brief follow-up report was submitted to the Council at its thirtieth session in June 1983 (DP/1983/12, decision 83/43 (a)).

29. In its consideration of the Annual Report of the Administrator at its thirty-third session in June 1986, the Council requested that the Administrator report at the thirty-fourth session "on recent UNDP experience in financing equipment and its importance in relation to other project components" (decision 86/15, para. 9). This report responds to that request. Other more specific issues relating to equipment are being covered in separate reports, namely DP/1987/19 dealing with procurement of equipment from developing countries, and DP/1987/18 providing a progress report on the harmonization of procurement procedures among United Nations system agencies. Neither topic is therefore dealt with in this document.

A. Profile of trends in allocation of programme resources for equipment

30. An analysis was made of the data in PPMS regarding the equipment component of all UNDP projects financed from IPFs, the Programme Reserve, the Special Measures Fund for Least Developed Countries (SMF/LDC) and cost-sharing, during all three programme cycles (1972-1976, 1977-1981 and 1982-1986). A description of the findings is set out below.

By programme cycle and by region

31. As will be seen from Table 1 below, the upward trend in the share of UNDP programme resources allocated for equipment, which was noted in the 1982 report to the Council, has been reversed. The same overall downward trend in the allocation of resources for equipment during the third cycle, as compared with the second cycle, is evident throughout all UNDP regions (and the global and interregional programme), except for the Latin America and the Caribbean region, where an increase was experienced between the second and third cycles.

Table 1

Percentage of UNDP programme resources allocated to equipment
 by region and for interregional and global projects for the
 three programme cycles 1/

<u>Region</u>	<u>1972-1976</u>	<u>1977-1981</u>	<u>1982-1986 2/</u>
Africa	13.0	18.9	16.4
Asia and the Pacific	17.7	35.2	27.9
Arab States	15.8	16.2	14.2
Europe	27.2	34.8	32.4
Latin America	14.7	15.6	20.9
Interregional and Global	3.1	3.1	2.4
<u>Overall:</u>	15.5	23.0	20.5

32. The programmes in Europe, followed by those of Asia and the Pacific, have traditionally used the highest proportion of UNDP resources for the purchase of equipment. With the exception of these two regions, the proportions of programme resources allocated to equipment have been modest and, with one exception, equipment has not been the dominant component in the use of UNDP resources in any region in any cycle. 3/

By country

33. Data for individual countries are consistent with the global and regional data in showing a downward trend in the proportion of programme resources allocated for equipment from the second to third cycles. Table 2 below reveals that, during the third cycle, only 8 countries allocated more than 50 per cent of their total UNDP programme resources for equipment, compared with 11 in the second cycle. Similarly, the number of countries devoting between 25 per cent and 50 per cent of their UNDP resources for equipment has also diminished from 32 in the second cycle to 31 in the third cycle. As will be seen from Table 2, only one country has devoted more than 50 per cent of its UNDP resources to equipment in all three cycles, and only six countries have done so during two cycles.

Table 2

Country programmes equipment allocations exceeding 50 per cent
 of UNDP programme resources

(percentage by programme cycle and by country)

<u>Country</u>	<u>1972-1976</u>	<u>1977-1981</u>	<u>1982-1986</u>
Albania	68.5	-	65.0
Bhutan	56.1	61.1	-
Bulgaria	-	69.3	-
China	-	-	50.3
Cuba	58.7	73.4	73.7
Czechoslovakia	-	57.0	-
Hungary	-	50.6	51.2
India	-	54.0	51.7
Lao Peoples Democratic Republic	-	56.4	-
Mongolia	-	-	61.3
Mozambique	52.9	-	-
Niue	54.4	-	-
Poland	-	60.0	-
Romania	-	63.8	63.3
Tokelau	-	56.3	72.5
Viet Nam	-	82.8	-

34. Council members will recall that the very high proportion of UNDP programme resources allocated during the second cycle country programme for Viet Nam was due to a unique situation involving the replacement and repair of war-damaged equipment. This issue was discussed in great detail during the Council review of the proposed country programme at its twenty-seventh session in 1980.

35. Looking at the eight countries with equipment ratios over 50 per cent during the third cycle, those with centrally planned economies continue to predominate. As reported in 1982, it is in these countries that the usual UNDP contribution to the projects constitutes only a small percentage of the total cost of the undertaking, with the major expenditures coming either from host country resources or from third party cost-sharing. In those cases, UNDP is asked to provide one small, but critical element in a total programme of assistance aimed at the upgrading of indigenous skills and long-term self-reliance. In such circumstances, the use of even a relatively high proportion of the UNDP contribution to the project for equipment is an appropriate form of technical assistance. It will also be recalled that, under current procedures, when transmitting country programmes to the Governing Council for its consideration, the Administrator explicitly draws attention to any country programme in which it is anticipated that the equipment component to be financed from UNDP resources would exceed 50 per cent of the total.

36. In regard to the least developed countries, the data show that, as a group during the third cycle, they continued to devote a smaller proportion of UNDP resources to equipment and supplies than all other countries taken as a group (18.6 per cent as compared to 22.3 per cent).

37. In considering the diversity in the pattern of using UNDP resources for equipment by different countries, it is important to recall that it is virtually inevitable that countries at different stages of development will have different needs for different types of technical co-operation. Thus, it is to be expected that some countries will call upon UNDP to finance more substantial equipment components as part of the totality of technical co-operation projects, while others will have greater requirements in other areas. Nevertheless, the needs of both groups are well within the range of assistance aimed at increasing self-reliance and therefore fall legitimately within the UNDP mandate.

38. It is the policy and observed practice in UNDP-financed projects to preclude the use of IPF funds for the purchase of equipment which would in effect constitute a transfer of capital assets or balance-of-payments support or a direct subvention to the national budget. A recent ex post facto evaluation of the use made of a sample of high-technology meteorological equipment purchased with UNDP funds shows that the equipment has first and foremost served the intended purpose defined in the Policies and Procedures Manual (PPM) as "creating or strengthening the physical capacity and material resources of ... institution(s) ... required to achieve ... project objectives". It has, to a lesser extent, also served to provide "... the logistic support needed to carry out project activities" (PPM, sect. 4602, subsect. 1.0, para. 1.2, p. 1).

By sector and by agency 4/

39. Examination of PPMS data by sector and by agency also reveals downward trends in equipment expenditure during the second and third cycles. A significant exception among the sectors is "population", where UNDP funds were used for the purchase of computers to upgrade the capability of countries to undertake population censuses. This factor accounts for a major increase from 13.7 per cent (or \$137,621 out of a total of \$1,008,226) during the second cycle, to 55 per cent (or \$3,122,147 out of a total of \$5,676,965) during the third cycle. There were no such significant shifts in the percentage allocation of resources for equipment by agency. Agencies executing projects with major technical components not surprisingly tend to have higher equipment ratios than those executing traditional institution-building projects. It is in this context that one sees the allocation for equipment on Universal Postal Union (UPU) projects moving up from 6.6 per cent during the second cycle (\$741,903) to 17 per cent in the third cycle (\$1,668,546). Similarly, there has been an upward shift of 9.3 per cent for the World Intellectual Property Organization (WIPO) from 7.1 per cent (\$84,276) during the second cycle to 16.4 per cent (or \$1,167,715) in the third cycle. Otherwise the shifts in percentage allocations by agencies for equipment between the second and third cycles have been minor and, in the majority of cases, the shift has been downward.

B. Conclusions

40. Analysis of the data for all three programme cycles shows that the proportion of UNDP programme resources allocated for equipment peaked during the second cycle and declined during the third cycle. This is true both globally and in every region except Latin America. Similarly, the number of countries devoting more than 50 per cent of UNDP resources to equipment has declined from 11 per cent during the second cycle to 8 per cent during the third cycle.

41. Thus, the Administrator concludes that the relative share of programme resources devoted to equipment during the first three programme cycles has been well within acceptable limits, and in accordance with UNDP policies and procedures as endorsed by the Governing Council (decision 82/3). In this connection, Council members may wish to note that all project proposals with equipment components which are unusually high or otherwise controversial must be submitted to the PAC in the Regional Bureau concerned and, subsequently, to the Action Committee chaired by the Administrator (see paras. 8-12 above).

42. No specific recommendations regarding this issue are being presented to the Council at this time. The Administrator will continue to ensure close monitoring of the application of UNDP policies and procedures governing procurement of equipment and to inform the Council of any significant developments in this regard.

III. GOVERNMENT EXECUTION

Background

43. The Governing Council, in its decision 85/9, noted the progress which had been made in utilizing the modality of Government execution for UNDP-financed projects. It also noted the fact that the add-on arrangement which had been introduced in 1982 had not been in operation for the full experimental period of two and a half years as foreseen in Governing Council decision 82/8. It therefore decided to extend the experimental period of the add-on to 31 December 1987; requested the Administrator to monitor its use closely; and further requested that a review and assessment of Government execution, and the impact of the add-on be presented to the Governing Council. It also stipulated that the review and assessment should make special reference to the cost-effectiveness of Government execution.

44. In order to comply with the requests of the Governing Council a desk study was undertaken at UNDP Headquarters. In addition, replies to a questionnaire which was sent to field offices on the subjects of Government execution and add-on funds were analysed.

A. Review and assessment of Government execution

Number and scope

45. Since 1975, when the Governing Council mandated UNDP to initiate the process of Government execution, this modality of project execution has grown both in importance and in complexity. Indeed, at the end of 1986, some 600 projects were or had been executed by Governments under IPF funding, for a total of \$150 million. Of these, a third comprises regional projects valued at \$31 million.

46. The Asia and Pacific region utilizes this form of project execution more than any other region, both in terms of number of projects and in value (223 projects for \$66 million). This region was followed by Africa (204 for \$52 million), Latin America (112 for \$21 million), the Arab States (42 for \$9 million) and Europe (23 for \$1 million).

47. Of the 12 countries with a total of 10 or more ongoing Government-executed projects, China figures prominently with 40 projects, followed by Argentina (23), India (22), Ethiopia (21), Bhutan (14), Philippines (13), Mauritius (13), Tunisia (12), Mozambique (11), Singapore (11), Indonesia (10) and Thailand (10). It will be noted that seven of these countries are from the Asia and Pacific region, three from the Africa region, and one each from Latin America and the Arab States. There does not appear to be any correlation between the number of Government-executed projects in a particular country and such factors as gross domestic product (GDP), literacy rates or political and economic systems which might be considered relevant in the designation of Governments as executing agencies. However, there appears to be some general relationship between the size of the IPF and the number of Government-executed projects; those countries with relatively large IPFs have a relatively large proportion of Government-executed projects. But this correlation does not hold good in every case.

48. At the end of 1986, the distribution of Government-executed projects by sector was as follows:

<u>Sector</u>	<u>Number</u>	<u>Value</u> (\$ million)
General development issues		
policy and planning	164	41
Agriculture, forestry, fisheries	106	32
Natural resources	85	20
Industry	53	15
Science and technology	51	23
Social conditions	36	2
Education	30	9
Employment	29	5
Health	24	2
Transport and communications	13	2
Culture	8	1
Total	<u>599</u>	<u>152</u>

49. It will be observed that there is no appreciable change in the trend of approvals of Government-executed projects by economic sector from that reported to the Council in 1985 (DP/85/12). Moreover, although Government-executed projects tend on average to be somewhat smaller than those of the programme as a whole, the mix of large-scale/small-scale projects is very similar.

50. There is also not much difference between Government-executed projects and the overall programme in respect of the amounts that are expended on various project components. The only two components that display some divergence between Government execution and the total programme are the personnel component and the equipment component. In Government-executed projects, the personnel component is generally smaller and the equipment component larger. There appears to be a tendency for Governments to execute those projects for which they already possess a critical mass of expertise themselves. It also seems that Governments consider themselves able to procure equipment effectively, because many of them do this routinely for projects that are funded from their own resources.

51. The available data also indicate that there is a greater proportion of Government cost-sharing in Government-executed projects than in the programme as a whole. Government cost-sharing in Government-executed projects is, however, concentrated in a smaller number of countries.

The impact of Government-executed projects

52. It has not been possible to make detailed assessments of the successes and failures of Government-executed projects. Such an evaluation exercise has recently been initiated and it is expected that the results will be available in the fall of 1987. However, it appears from the replies of the Resident Representatives, as well as from information available at headquarters, that a high proportion of projects undertaken under this modality has been successful. A few examples will suffice.

53. The purpose of a Government-executed umbrella project in a large recipient country was to transfer its experience and technologies to other developing countries and, on a reciprocal basis, to acquire experience and technologies from others. All the various sub-project activities were initiated, managed and executed by the Government and all project expenditures were either met by it or by the other participating developing countries, except for international travel costs which were covered by UNDP funds. In terms of project accomplishments, over 160 training courses involving technical co-operation among developing countries (TCDC) were held in the country for 1,219 trainees from 51 countries, while 219 nationals went for training in 13 other developing countries. The fields covered were diverse and included human settlements, highway engineering, sanitary engineering, rehabilitation of the handicapped, community health and dairy development. An evaluation carried out in April 1986 concluded that the project had been executed efficiently, had fully achieved its objectives, and that the mode of execution had been cost-effective.

54. In another country, a Government-executed project has assisted the Government in the preparation of regional development investment plans, including specific investment programmes, as well as in integrating and co-ordinating development

projects at the subsectoral level. In yet another country, the modality was successfully employed in finalizing and assisting in implementing the National Action Plan for the International Drinking Water Supply and Sanitation Decade (IDWSSD); in preparing a comprehensive training programme for technicians and engineers; in assessing the capital and infrastructural investment required to implement the Action Plan; and in assisting the Government in co-ordinating and promoting national activities in the area of water supply and sanitation.

55. In an Asian country, a relatively large Government-executed project was designed to enhance the Government capability to undertake earthquake prediction research. More specifically, it was intended to strengthen the observation capabilities of the State Seismological Bureau; to expand its capacity to measure and analyse seismic and non-seismic data; and to enhance its global knowledge of earthquake generation and prediction. In an African country, another large project was executed by the Government with the objective of strengthening the science programme in one of that country's universities. Through the project, existing curricula have been improved, new curricula drawn up, and a number of university teachers given further training.

56. This short list of projects is, of course, far from exhaustive. It is sufficiently long, however, to illustrate the range of sophistication and the varied nature of the activities covered by the Government-execution modality. In addition, it should be noted that UNDP has also had very positive experience in using this modality with some of its non-core programmes. This is particularly true for UNCDF and the United Nations Sudano-Sahelian Office (UNSO). Indeed, most of the projects financed by these programmes are executed by Governments.

57. These statements of success are not meant to suggest that no problems are experienced in the utilization of the Government-execution modality. It appears from the data available that the rate of delivery of Government-executed projects is lower than that for the programme as a whole. This may be seen from the following table.

Rate of delivery
(per cent)

	1981	1982	1983	1984	1985
Total programme	77.6	83.9	73.3	71.1	69.1
Government execution	61.6	86.7	61.5	59.2	50.1

58. The reasons for these relatively low rates of delivery are not clear, and are being investigated in the evaluation of this modality which is now being undertaken. However, it appears that despite the lower proportion of this component in Government-executed projects, some developing countries experience some difficulty in expeditiously recruiting experts of the quality they desire. In addition, because UNDP allocates resources for Government-executed projects by stages, and only after certain reports on expenditure are provided, it is possible

that delivery rates might be cumulatively affected by slow reporting. This slow reporting rate is another feature of Government-executed projects.

59. The evidence is quite clear that many recipient countries do not meet their reporting obligations with regard to Government-executed projects in a timely manner. The evidence is equally clear that officials of the developing countries in which this modality is used are quite capable of completing and submitting the required reports. Put in another way, the reports are not too sophisticated, too complex, or too esoteric for the developing countries to undertake. It appears, however, that they sometimes lack the resources, in a quantitative sense, to perform their reporting tasks. Accordingly, UNDP proposes that, as a temporary measure, field offices be asked to assist Governments in this endeavour.

Cost-effectiveness

60. The difficulty of measuring the cost-effectiveness of projects is well known. Nevertheless, the evaluation exercise which is now being undertaken will attempt to make an assessment of the cost-effectiveness and impact of this modality.

61. However, an effort was made to compare the costs associated with the execution of projects by Governments and by United Nations system agencies. Although there are numerous cases in which Governments have been able to obtain the services of experts and consultants at lower rates, it will be necessary to make a detailed classification of the tasks performed by the various types of experts before valid comparisons can be made. Similarly, although the procurement of certain types of high-technology equipment has been less costly because they were purchased on a larger scale for world-wide users, it cannot be assumed that, in general, agency costs are lower for the equipment component. Here again, therefore, it will be necessary to make specific and detailed comparisons before arriving at meaningful conclusions.

62. There are two other aspects of costs which have been examined: it has been found that there is an additional work-load both at the field level and at headquarters in administering these projects.

Field offices

63. The great majority of field offices have stated that their involvement in the implementation of Government-executed projects is considerable. The responses to the questionnaire emphasize that the difficulties which most Governments experience are in providing administrative and financial/accounting services to Government-executed projects. It is because of these difficulties that field offices are called upon to provide support.

64. Here again, the problem in many cases appears not to be one of a lack of knowledge of the system or even a shortage of qualified manpower. It stems rather from the difficulty of any Government administration to adopt extraneous administrative procedures. Since these projects are relatively small in relation to governmental budgets, Governments find it difficult to make a special effort and to devote manpower in order to comply with extraneous administrative and accounting procedures.

Headquarters

65. In considering the overall costs related to the administration of Government execution, the Administrator would call the attention of the Council to the direct costs incurred by UNDP headquarters in the administration of the programme. Although the Governing Council approved in decision 82/8, 5/ inter alia, the use of add-on funds to supplement field office staffing when required, consideration was not given at that time to direct costs incurred by UNDP headquarters. With the planned introduction of Government execution of projects as a permanent feature of the programme, the Administrator believes that provision should be made to cover the direct costs of headquarters in administration of the programme. The costs are primarily related to the financial accounting and administration of the programme by the Division of Finance (DOF).

66. The Division of Finance is responsible for ensuring that Government-executed projects are accounted for in accordance with UNDP financial regulations and rules. DOF maintains detailed project operating fund accounts at the transaction level for Government-executed projects.

67. Since 1983, the number of operating fund accounts has increased rather significantly:

Table A

<u>Year</u>	<u>Number of operating fund accounts</u>	<u>Number of Governments (as executing agencies)</u>
1983	165	54
1984	260	72
1985	381	88
1986	571	97

Similar accounting is not performed by DOF for projects executed by United Nations system executing agencies, since the detailed project accounting is done by the agencies. Thus, with the increase in Government-execution activity beginning in 1983, it was necessary for DOF to establish new accounting procedures and to undertake the additional work-load in accounting for the Government-execution activity.

68. In the beginning, the additional work-load was absorbed into the current accounting operations. However, with the continuing growth in the number of Government-executed projects, it was necessary to provide additional accounting staff to cope with the increasing work-load. Therefore, in February 1986, five General Service staff were engaged, funded from extrabudgetary resources. Administration of the activity requires continuation of the present level of General Service staff support and, in addition, there is need for a Professional staff member to provide overall management direction and to follow more closely on the financial certifications of expenditure and audits of project activities by the Governments. It is estimated that the staff costs would amount to \$320,000 on an annual basis for the current level of activity. Noting the significant increase in expenditures of more than 70 per cent between 1985 and 1986, and with the

expectation that there will be continuing growth in the programme, we would anticipate a marginal increase in staff costs to a level of approximately \$400,000. This amount is approximately 1 per cent of 1986 delivery on Government-executed projects.

69. As outlined in Governing Council document DP/1982/11/Add.1, the recipient Government is responsible to the Administrator for the custody and proper use of funds advanced to the Government by UNDP. In that connection, the Government is required to maintain separate accounts for UNDP resources and submit, at regular intervals, financial statements on funds received and spent.

70. In order to facilitate reporting by Governments, UNDP issued instructions for maintenance of accounts and periodic reporting. These instructions contain the formats of reports and other relevant records to account for the use of UNDP funds. Experience to date has shown that a large number of Governments do not submit reports unless vigorous follow-up action is taken by UNDP headquarters through the Resident Representatives. The intensity of the follow-up action required can be judged from the data reflected in Table B.

Table B

<u>Region</u>	<u>Expected number of financial statements*</u>	<u>Actual number received</u>
<u>1985</u>		
Africa	243	97
Arab States	62	21
Asia and Pacific	315	179
Europe	24	16
Latin America and Caribbean	220	107
Global and Interregional	<u>9</u>	<u>3</u>
Total	<u>873</u>	<u>423</u>
<u>1986</u>		
Africa	400	100
Arab States	85	5
Asia and Pacific	422	216
Europe	40	11
Latin America and Caribbean	376	122
Global and Interregional	<u>9</u>	<u>1</u>
Total	<u>1 332</u>	<u>455**</u>

* The expected number of financial statements comprise both interim and year-end statements. The year-end statements include data that should have been reported in the interim statements. Out of 260 1985 certified year-end statements that should have been submitted by September 1986, 230 had been received. A similar reporting pattern is expected for 1986 reports.

** Provisional data.

71. DOF reconciles the data in the financial statements submitted by the Governments with that reflected in the UNDP accounting records. As a result, in both 1985 and 1986, it was necessary to follow up with all the Governments that execute UNDP-financed projects. The follow-up exercise was required because financial statements submitted by Governments do not always fully account for funds advanced. Additionally, those statements often reflect problems related to accounting for translation of currencies. As a consequence, considerable headquarters staff time is spent in follow-up with Governments through the Resident Representative in order to reconcile the project accounts.

72. With regard to the annual submission by Governments of audited statements of expenditures, experience indicates substantial non-compliance with the requirement. The Administration intends to review the overall question of audits to determine whether some modification could be made which would materially achieve the objectives of the audit requirement. The Administration will report the results of the review at the thirty-fifth session of the Council.

73. Expenditure for Government execution has increased steadily from the years 1983 through 1986. The expenditure data for those years is summarized in Table C below.

Table C

<u>Year</u>	<u>Expenditure</u> (\$ million)*
1983	14.5
1984	18.3
1985	24.4
1986	41.5

* All sources of UNDP funds, excluding UNDP-administered Trust Funds.

74. One of the key work-load indicators is the number of projects that must be accounted for and the level of detail at which the accounting is done. As indicated above, there has been rapid growth in the number of projects which, by 31 December 1986, had reached 571. The current level of projects generates over 1,500 financial statements and 880 inter-office vouchers on field office transactions on an annual basis which must be examined and processed into the UNDP central accounting system. It is expected that there will be a continuing growth in Government execution of projects, though not at the of 1986 rate.

B. The use of add-on funds

75. A total amount of \$5.5 million has been allocated as add-on funds between 1985 and 1986. However, only \$1.8 million has so far been committed.

76. There are two main reasons for this failure to utilize add-on resources. First, this source of funding is still relatively new. Both Governments and field offices did not anticipate the availability of these funds and therefore did not plan for their use. There are indications, however, that now that these funds are known to be available, there is considerable interest in their utilization, both for development projects and for projects supporting Government execution. It is therefore believed that a much higher rate of commitment will ensue.

77. Second, significant amounts have not become available to countries just starting with the execution of projects. Since add-on funds are allocated on the basis of actual expenditure, they are available in greater amounts to countries with larger Government-executed programmes, which they have been implementing over a longer period of time. Thus, of the 97 countries with active project budgets for Government execution, only 8 have add-on fund allocations of over \$100,000. By contrast, a relatively large number of countries have allocations of only a few thousand dollars. As it appears that most Governments wish to utilize add-on funds in order to support and strengthen their execution capabilities rather than for basic development work, this may be the reason for the somewhat low rate of utilization.

78. This assumption is borne out by the replies to the questionnaire. Many Resident Representatives have replied that while there is a real need for add-on funds, they are waiting for more to be earned through the implementation of Government-executed projects before committing the funds to support services.

C. Conclusions and recommendations

79. In spite of some of the difficulties encountered with Government execution, the general assessment is that much progress has been made in introducing this modality and many Resident Representatives have emphasized the advantages which it provides.

80. Paramount among these is the opportunity that is afforded to both Governments and Resident Representatives to decide, during the project formulation stage, upon a formula of project implementation which would be optimal in terms both of effectiveness and impact, as well as of costs. In making this decision all modalities of providing and managing external inputs to projects are considered: whether, for example, inputs should be provided under sub-contract to a firm, whether Government or agency could provide them or whether they could be provided by the Office for Projects Execution (OPE).

81. The Administrator has been struck by the apparent failure to utilize the wide range of options of association that are available between "pure" Government-executed projects, on the one hand, and "pure" agency and OPE-executed projects on the other. Accordingly, he has urged Resident Representatives to place greater emphasis on this latter approach in the process of project formulation. It is anticipated that this would lead to a greater involvement of agencies and OPE in Government-executed projects.

82. The Administrator has issued instructions to Resident Representatives in which he has re-emphasized the need to apply the established criteria in choosing projects for Government execution. The main criterion on the basis of which projects may be approved for Government execution is the existence of adequate capacity and capability in Governments to manage and administer projects effectively.

83. The Administrator recommends to the Council that the arrangement whereby add-on funds are provided be retained.

84. He further recommends that Resident Representatives be permitted to utilize add-on funds at any stage of a project's life in order to strengthen the execution capabilities of Governments through the provision of resources to Governments for improved project implementation, or through the increased involvement of agencies and OPE, or through the direct support of the field office.

85. He also recommends that 1 percentage point of the 13 percentage point "add-on" in respect of Government-executed projects be applied to cover additional staff costs of the Division of Finance associated with this method of project execution.

Notes

1/ Data showing annual trends in allocation of UNDP programme resources for procurement of equipment for the period 1972-1986 are available to Governing Council members on request.

2/ All figures for the third cycle (1982-1986) are based on expenditures recorded for the years 1982 through 1985, and on budgets for the year 1986, since actual expenditures for 1986 will not be available until after the present paper is printed and distributed.

3/ The one exception is in Europe, where the allocation for equipment in the second cycle (1977-1981) was two tenths of a percentage point higher than that for project personnel, making equipment the largest single component of the overall programme.

4/ Data showing the percentage allocations for equipment by sector and by agency for all three cycles are available to Governing Council members on request.

5/ Official Records of Economic and Social Council, 1982, Supplement No. 6 (E/1982/16/Rev.1) Annex I, page 50. See also DP/1982/11, paragraph 41.

