Thirty-sixth session
5-30 June 1989, Geneva
Item 5 (c) of the provisional agenda

PROGRAMME PLANNING

Preparations for the fifth programming cycle

Report of the Administrator

SUMMARY

The fifth UNDP programming cycle will commence on 1 January 1992. As a first step in the substantive debate on policies and methodologies for the fifth cycle, the Administrator raises in this report a number of policy and conceptual issues which the Governing Council may wish to consider. These issues relate to the duration of the cycle, the resource scenarios to be considered for the cycle and the various principles and criteria to be used for the allocation of resources. The Council's guidance is sought on these issues, as well as on any others which the Council itself may raise, so that more specific proposals may be elaborated for the Council's consideration at its special session in February 1990. Those deliberations should in turn permit the taking of definitive decisions on the fifth cycle in June 1990.
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INTRODUCTION

1. The principles governing the distribution of resources, including the establishment of indicative planning figures (IPFs) for country and intercountry programmes and for other programmes and purposes were established for the fourth programming cycle (1987-1991) by the Governing Council in decision 85/16 of 29 June 1985. They were subsequently revised in accordance with decision 88/31 of 1 July 1988 concerning the distribution of additional resources in the fourth cycle.

2. In preparation for the fifth cycle, which will start on 1 January 1992, the Governing Council approved by its decision 89/15 of 24 February 1989 the suggested timetable submitted by the Administrator. In accordance with that timetable, the Administrator will hold, before the thirty-sixth session, a series of informal consultations with Governments, aimed at clarifying the basic parameters to be taken into account in the planning for the fifth cycle. In response to decision 89/15 and to assist in this consultative process, the Administrator is also submitting to the Council, at its current session the present paper, which outlines the issues and options for the utilization of resources for the fifth programming period. Following further consultations, a second policy paper will be presented to the Council at its special session in February 1990. A final policy paper, based on comprehensive policy guidance and presenting a limited number of options and recommendations regarding resource levels and individual allocations will be submitted to the Council at its thirty-seventh session (1990). In this connection, the Administrator wishes to bring to the attention of the Council the importance of having final decisions on the fifth programming cycle by June 1990 so as to permit a smooth transition between cycles. The first set of country programmes for the fifth cycle will have to be formulated in time for approval by the Council in June 1991. The issues raised in the present paper are particularly pertinent since the Council will also be reviewing, as a major policy matter, future orientations of the programme and measures aimed at enhancing the capacity of UNDP to respond to the challenges of the future, a subject covered in the Administrator's report (DP/1989/14).

3. The present report has been divided into four chapters. Each chapter deals with a different aspect of the resource allocation. Chapter one covers issues of process, i.e. the duration of the cycle as well as the issues related to a possible rolling cycle. Chapter two sets out a number of options the Council may wish to consider in connection with the resource scenarios to be used for allocation decisions. Chapter three raises a number of issues concerning the main principles underlying decisions on resource utilization. These principles form the basis on which the overall allocation for country IPFs is determined. Chapter four deals with issues directly related to the establishment of individual country IPFs within the total amount available for country IPF resources.
I. THE PROCESS OF PERIODIC RESOURCE ALLOCATIONS

A. Length of the programming cycle

4. Since 1971, when the Council established the first series of IPFs, decisions on resource utilization have been adopted on the basis of programming cycles of five years. However, the possibility of a programming cycle of a different duration has been considered by the Council on several occasions. The last time that the Council considered the possibility of a shorter cycle was within the context of its discussions in preparation for the fourth programming cycle (1987-1991). However, in establishing allocations for the fourth cycle the Council again adhered to the five-year period, for reasons explained below.

5. The main arguments underlying the Council's repeated endorsement of a five-year cycle period appear to be of a non-technical nature. The overall view seems to prevail that it might be disruptive to change the system with which Governments have become familiar and to which they have adopted their internal planning processes. In addition, the 1970 Consensus, in paragraph 16, states that UNDP country programming periods should be between three and five years. This in turn seems to imply that decisions on the overall resource allocation should also be based on periods neither shorter than three nor longer than five years.

6. Experience has shown, however, that the negotiation process required to achieve consensus on the various parameters and criteria used for resource allocations is time consuming. The Governing Council may therefore wish to consider once more what might be the most desirable duration of the period for which resource allocations are made and either reaffirm the current arrangement or opt for a change.

7. In this respect, an alternative option may be the lengthening of the cycle (say to 10 years), coupled with periodic reviews (say every two and a half years) of specific parameters to be taken into account for decisions on the initial resource allocation decisions. Such a system would comprise the following elements:

(a) The initial establishment of programme allocations and IPFs for a 10-year period, on the basis of an agreed resource scenario and agreed allocation criteria;

(b) A periodic financial review. The annual rate of growth agreed upon at the beginning of the period would be reviewed periodically, e.g., every two and a half years. The financial review by the Administrator would include a forecast of the total of resources likely to be available for the remaining part of the cycle. Based on the outcome of the review, the Council would then either confirm earlier allocations or decide on the necessity to reduce or augment them;

(c) A periodic update of basic data used for allocation criteria. The basic data used for calculating specific allocations would also be updated every two and a half years and individual programme allocations would be recalculated. However, there would be no reductions in the earlier established IPFs of individual countries/programmes if the revised resource forecast confirmed that available

/...
resources were likely to be the same as or more than those foreseen in the original, or formally revised, resource scenario;

(d) A periodic review of allocation criteria. All, or selected, allocation criteria would be reviewed at mid point, i.e. after five years.

8. Such a 10-year cycle would in part follow current practices in that the five-year cycle also has mid-term reviews of resources. In addition, the five-year cycle requires an overall review of both resources and allocation criteria every five years. There would, however, be two important differences:

(a) Unlike the present system, a 10-year cycle would provide for a more regular update of basic data used for applying the allocation criteria so that changing economic and social conditions would be more frequently reviewed and taken into consideration for the recalculation of allocations for specific IPF programmes during the cycle;

(b) Since the overall framework of basic parameters and criteria for resource utilization would be established for a longer period than is presently the case, discussions on possible mid-cycle adjustments would be more issue-driven than time-driven. In the absence of an explicit agreement on changes in resource allocation parameters during the periodic reviews, the earlier agreed framework would stand.

B. A rolling cycle versus a fixed cycle

9. Taking the concept of a longer programming cycle one step further, another option is that of a rolling cycle. In principle, such a system would entail the establishment of basic parameters and allocation criteria for an indefinite period. Firm resource allocations for a rolling five-year period would then be established on the basis of periodic reviews of the resource situation. In addition, in the same way as in the 10-year cycle system, specific IPF programme allocations would be periodically recalculated on the basis of the latest data available and there would be a provision for a regular review of all, or selected, allocation principles and criteria.

10. The main elements of a rolling cycle system would be:

(a) The establishment of initial programme allocations and IPFs on the basis of (i) an agreed resource scenario for the initial five-year period and (ii) agreed allocation criteria applied to the latest year for which pertinent data is available for all countries;

(b) Starting in June of the third year of the initial five-year period, the first of the biennial recalculations of programme allocations and individual IPFs would take place. The first two years of the initial period would no longer be part of the new five-year period and two new years would be added. The IPF for the first three years of the new five-year period would remain unchanged (i.e., 60 per cent or three fifths of the IPF for the previous period plus or minus carry-over from or borrowing during the two years now dropped from the cycle).
IPF/programme allocations for the two years to be added would be calculated on the basis of the resource projections for the new five-year period as a whole, taking into account the firm earlier entitlements for the first three years;

(c) Such periodic recalculations of IPF entitlements for the years to be added to the period would be based on the latest available data pertinent to the agreed allocation criteria;

(d) All, or selected, allocation criteria would be reviewed every fifth year.

11. Such a system has obvious advantages and disadvantages. The advantages are as follows:

(a) It would provide for greater predictability in resource management and planning at the individual programme level since the planning horizon for more or less firmly assured resources would shift every two years;

(b) It would eliminate problems of transition between cycles. In fact, there would be no break between programming cycles as the system would assume more or less continuous programming;

(c) There would be no need to synchronize country programme periods with fixed IPF cycles. Again, because IPF entitlements are established for five-year periods, which would shift every two years, the system would encourage continuous programming at the country level;

(d) The period for which IPFs are firmly established would coincide with the internal resource management cycle of UNDP;

(e) Countries would receive advance warning as to the effect of changes in their IPF entitlements for future years. The biennial adjustment of their IPFs would give them an additional IPF allocation for the two years to be added to the period. The IPF entitlements for the first three years of the new five-year period would be fixed.

12. On the other hand, there are some distinct disadvantages to such a rolling system:

(a) Though the system would in principle be neutral as far as present country programming arrangements are concerned, its long-term impact could be more frequent submissions of country programmes for shorter periods. Because the five-year period for which IPF entitlements are firmly established would shift every two years, it might be even more difficult for countries that wish to do so to adhere to a five-year programming cycle on the basis of firmly established IPFs for the whole period. For example, if the rolling five-year cycle system were introduced in 1992 with initial IPFs established for the 1992-1996 period, the period would shift in 1994 to cover the period 1994-1998 and subsequently in 1996 to cover the period 1996-2000. The firm IPF entitlements for the period 1997-2001 would be known only by mid 1998, at the time of the next biennial adjustment;

(b) It would raise the question as to the continuing validity of one of the basic elements of current UNDP programme planning, i.e., resource allocations on
the basis of resource scenarios which use a Council-endorsed annual growth rate in voluntary contributions for a given period of time. Under the rolling cycle system, such an agreed growth rate would probably be renegotiated every two years. This element of quasi perpetual negotiations of resource levels may offset the advantages that the rolling system may present;

(c) As the system would be aimed at assuring at all times firm resources for the first three years of any period, there may be a need for an increase in the operational reserve to ensure that commitments originally planned for these years can indeed be financed even when indications are that allocations for future years will have to be at a much reduced level.

II. RESOURCE SCENARIOS TO BE USED FOR ALLOCATION DECISIONS

A. Growth rates in voluntary contributions

13. Paragraph 13 of the 1970 consensus states that:

"The resources to be devoted to country programming will be a specified percentage of the total resources for the current year projected over a given period of time and including a rate of growth per annum over that period."

14. For the earlier programming cycles, the annual growth rates in voluntary contributions endorsed by the Council and used for the resource scenarios which underly allocation decisions were set respectively at 9.6 per cent for the first cycle, 14 per cent for the second cycle, 14 per cent for the third cycle and 8 per cent for the fourth cycle. As shown in table 1, actual average annual growth rates in voluntary contributions for the three complete cycles were respectively 18.7 per cent for the first cycle, 8.9 per cent for the second cycle and 3.1 per cent for the third cycle. The latest figures show an average annual growth in voluntary contributions for the first three years of the fourth cycle of about 8.2 per cent. All these percentages are based on the realized dollar value of contributions.

Table 1. Average annual growth rates in voluntary contributions as endorsed by the Governing Council and those actually achieved in United States dollars terms and in local currencies

(in percentages)

<table>
<thead>
<tr>
<th>Cycle</th>
<th>As endorsed by the Governing Council</th>
<th>In US dollars terms</th>
<th>In local currencies</th>
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<tbody>
<tr>
<td>1st cycle (1972-1976)</td>
<td>9.6</td>
<td>18.7</td>
<td>18.6</td>
</tr>
<tr>
<td>2nd cycle (1977-1981)</td>
<td>14</td>
<td>8.9</td>
<td>9.9</td>
</tr>
<tr>
<td>3rd cycle (1982-1986)</td>
<td>14</td>
<td>3.1</td>
<td>5.9</td>
</tr>
<tr>
<td>4th cycle so far (1987-1989)</td>
<td>8</td>
<td>8.2</td>
<td>6.3</td>
</tr>
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</table>
15. For the third cycle the substantial downward revision of earlier agreed programme allocations was a result of (a) the discrepancy between the annual growth rate endorsed by the Council and actual growth rates in local currencies and (b) the strengthening of the dollar versus other currencies. This caused a major disruption in programme activities. Fluctuations in the dollar exchange rates versus other currencies were also a major factor for the need for an upward revision of fourth cycle allocations, as endorsed by Governing Council decision 88/31 of 1 July 1988. For instance, mainly as a result of the strengthening of the dollar in 1986, the level of 1986 voluntary contributions in dollar terms amounted to $775 million, as compared to the $700 million assumed for this base year in the resource scenario underlying decision 85/16.

16. The primary purpose of setting an agreed resource target for the programming cycle period is to provide a reasonably firm base on which Governments, the executing agencies and UNDP can build and plan for a meaningful programme. It is important therefore that the agreed annual growth rate used for calculating the resource target for the fifth cycle is a realistic one. Of course, continuing uncertainties with regard to the effect of future exchange rate fluctuations of the dollar versus the currencies of other major donor countries will make it difficult to ensure that the target in dollar terms remains valid throughout the planning period. This would be so even if the annual growth rate of voluntary contributions in local currencies went according to plan.

17. In the light of this, the Council may wish to consider the possibility of an arrangement under which the Administrator would be given a certain flexibility in setting and adjusting the levels of IPFs and other programme allocations within an agreed margin of, say, 15 per cent on either side of the amounts established on the basis of the resource scenario and allocation criteria endorsed by the Council. Under such an approach, the Administrator would initially establish the IPFs within the lower range. Subsequently, after each annual pledging conference, he would review the resource situation and, considering the latest forecast of resources available for the cycle as a whole, determine whether an across-the-board percentage increase in IPFs is warranted. So long as the established IPFs and other programme allocations remained within a margin of 15 per cent (on either side) of the initial programme allocations for the cycle as a whole, no prior endorsement of such changes in the programming level would be required from the Governing Council. Any adjustments would, of course, be reported to the Council, together with the underlying resource analyses, at the special session following the financial review. To some extent, such an arrangement would be similar to the one endorsed by the Council in paragraph 14 (b) of its decision 88/31 A with respect to the supplementary programme allocations authorized for the fourth programming cycle. This concept could also be applied either to a cycle of more than five years or to a rolling cycle. In either case, the width of the range in setting IPFs and other programme allocations would be reconfirmed or modified at the time of the periodic financial reviews.

18. Irrespective of whether the Council wishes to pursue some of the concepts elaborated upon in the foregoing paragraphs or whether it decides to retain the current system, the Administrator also seeks the Council’s guidance on the basic parameters to be used in establishing the resource scenario for the next cycle on
which allocation decisions will be based. Crucial in this respect is the
establishment of a realistic annual growth rate percentage to be applied to a base
level of voluntary contributions for 1991, as anticipated in February 1990. In
this connection, the Administrator wishes to point out that for the period
1972-1989 (i.e., from the start of the first cycle up to the current year) the
average annual growth rate of voluntary contributions, both in dollar terms and in
local currencies, amounts to about 10 per cent. For the period 1977-1989, i.e.,
from the start of the second cycle up to the present, the percentage is about
7 per cent. A minimum annual growth rate of 8 per cent may therefore be considered
as realistic for calculating the fifth cycle resource target, especially if the
Administrator is given some flexibility in making adjustments to IPFs and other
programme allocations within a certain margin of the programme allocations
calculated on this basis. A further reason to apply a minimum 8 per cent annual
growth rate is that it would be the same rate negotiated and agreed upon for the
fourth cycle. Based on the level of inflation experienced during recent years, it
would provide for an annual growth in real terms of about 3 per cent. However, it
would be considerably below the annual growth rate of about 23 per cent required to
double UNDP resources for the fifth cycle (as compared to the fourth cycle). As
elaborated upon in document DP/1989/14 on the future of UNDP, such a doubling of
resources would be required if UNDP wishes to keep up with the new thrusts foreseen
in the 1990s.

B. Carry-forward and/or borrowing of IPF entitlements

19. Within the context of its decisions on the resource scenarios to be used for
the fifth cycle, the Council may also wish to address issues related to the carry-
forward and/or borrowing of IPF entitlements between cycles. With respect to
borrowing from the fifth cycle during the final years of the fourth cycle, the
Administrator proposes that, subject to the outcome of the financial review in
early 1990, the Council endorse a similar arrangement as was approved for borrowing
from the fourth cycle during the final years of the third cycle, as detailed in
paragraph 11 of its decision 84/16 of 29 June 1984. In this decision, the Council,
inter alia, authorized borrowing for those countries/programmes where the fourth
cycle IPF was expected to be larger than the third cycle IPF, up to a maximum of
15 per cent of the concerned third cycle IPF and subject to certain caveats.

20. With regard to a carry-forward of IPF entitlements from the fourth to the
fifth cycle, the Administrator seeks the Council's views on the establishment of a
possible ceiling to such carry-over. This may be desirable as the current
arrangement of unlimited carry-over of non-utilized IPF entitlements has a direct
impact on UNDP resource planning. Carry-forward of IPF entitlements between cycles
has shown a gradual increase from $4 million from the first to the second cycle;
$72 million from the second to the third cycle; and $237 million from the third to
the fourth cycle. In principle, the present arrangement, which sets no limits to
such carry-forward, requires the Administrator to hold during each cycle an
increased amount of liquid resources, since in theory such holdings should be of
the same magnitude as the total of outstanding IPF entitlements. In this respect,
it should be noted that for previous programming cycle allocations, decisions on
the level of new allocations did not take into consideration either the balance of
resources at the end of the cycle or the magnitude of outstanding unutilized IPF entitlements. To set a limit to possible resource planning distortions caused by the carry-forward effect, the Administrator would, therefore, like to obtain the Council's views on the possibility of introducing a ceiling to the carry-forward of IPF entitlements from the fourth to the fifth cycle. Such a ceiling could, for example, be set at an amount equal 60 to 75 per cent of the IPF established for the fourth cycle. Based on the carry-over pattern from the third to the fourth cycle only five to six countries would be affected.

C. Operational reserve and other programme allocations

21. Within the context of decisions on resource allocations and the underlying resource scenarios, the Administrator also seeks the views of the Council on the level of the operational reserve as well as on the formula used to determine its magnitude. Similarly, decisions are sought as to the level of funding of other special programmes/allocations financed from the general resources, such as the Special Industrial Services (SIS) programme and the sectoral support programme. Any possible issues in this respect will be identified by the Administrator once further guidance has been received as to the various resource scenarios to be used as the basis for resource utilization decisions.

III. THE MAIN ALLOCATION PRINCIPLES

22. In past cycles, programme allocations were made on the basis of adhering to the following principles:

(a) A reasonable balance between IPF-financed programmes and programmes financed by Special Programme Resources (SPR);

(b) A reasonable balance between country IPFs and intercountry IPFs;

(c) The major share of country IPF resources is allocated to the least developed countries (LDCs);

(d) The "floor principle", i.e., a gradual transition in the level of UNDP assistance to countries whose relative socio-economic situation has improved since the establishment of their previous IPF;

(e) The "reimbursable IPF" or net contributor principle, i.e., countries with a per capita gross national product (GNP) above a certain threshold are to make voluntary contributions to the Programme of a magnitude at least equal to the cost of any assistance provided by UNDP.

23. The last three principles are directly related to the distribution of country IPF resources among the individual country IPFs and are dealt with in chapter 4. However, the first two principles pertain to allocation decisions to be taken prior to the calculation of country IPFs. The Administrator sets out below a number of issues which the Council may wish to address in translating these two broad
allocation principles into more specific guidelines for resource utilization
decisions.

A. A balance between IPF resources and resources for centrally managed programmes

24. In its decision 85/16 on fourth cycle resource utilization, the Governing Council allocated to the SPR 1.24 per cent of the total of foreseen new resources - the same as that endorsed for the third cycle. However, in recognition of the increasing needs for the SPR-financed type of activities, the Council also agreed that an additional amount of $20 million would be allocated to the SPR from the resources normally set aside for an increase in the operational reserve in accordance with the established formula. Subsequently, when additional fourth cycle resources became available, the Council, in its decision 88/31 of 1 July 1988 made an additional allocation of $110 million to programmes financed under the SPR-umbrella. In consequence, total fourth cycle resources allocated to SPR-financed programmes, including the Management Development Programme and the Special Programme for Assistance to Latin American countries, currently amount to $186.4 million or 3.6 per cent of the total fourth cycle resources.

25. On the basis of earlier Governing Council decisions, the principles underlying the allocation and use of SPR resources under the various earmarkings have been clearly established. These funds are designed to be used for:

(a) Financing activities aimed at providing assistance in the wake of unforeseen natural disasters;

(b) Financing activities of a catalytic nature which will increase the overall effectiveness of UNDP programmes of assistance at the country level, e.g., in the field of aid co-ordination and national capacity building;

(c) Financing activities in new areas of technical assistance in order to allow the programme to play a leadership role in finding new approaches or solutions to either specific problems or to the enhancement of technical assistance in general;

(d) Financing activities (i) in specially mandated areas; (ii) in support of special programmes or dimensions of technical assistance such as Technical Co-operation among Developing Countries (TCDC), etc.; (iii) aimed at enhancing the overall quality of the programme, i.e., for programme research, programme-wide evaluations and programmes aimed at better project formulation and design such as the Project Development Facility (PDF).

26. As elaborated upon in the Administrator's report of the future role of UNDP (document DP/1989/14) the demand for a further strengthening and expansion of such activities is likely to grow so that UNDP could reinforce its leadership role both in existing priority areas of technical co-operation as well as in emerging priority areas. As an example of areas where initiatives and catalytic programmes may be essential, one could cite assistance to countries in debt management,
environment, strategies for poverty alleviation, urbanization. However, as each cycle progresses, other areas are identified for important initiatives.

27. Similarly, an expansion of the scope and nature of some of the traditionally SPR-financed activities is increasingly called for. For instance, at present SPR-financed disaster relief activities are confined to assistance in the wake of natural disasters. However, given the sometimes fine borderline between man-made and natural disasters, the Council may wish to consider a broadening of the criteria for SPR allocations under this heading to enable UNDP to respond, under certain conditions, to specific technical assistance needs arising from natural disaster problems of which the origins may be man-made. Examples in this respect would include environmental damage caused by oil spills at the coast of developing countries and major urban fires. Moreover, as the International Decade for Natural Disaster Reduction is nearing, UNDP will be expected to play an increasing leadership role in all areas of disaster management and to assist recipient Governments in strengthening their capacities. A catalytic effort will be called for from non-IPF sources. Round tables and national technical co-operation assessments and programmes (NATCAPs) have now been recognized as activities central to UNDP and their continuation and expansion is essential. The PDF has proven to be of major catalytic importance in building a project pipeline of quality projects and a significant expansion of this programme is more than desirable. TCDC promotional activities are having an increasing impact and need further enhancement. Considering the above, it is the Administrator's view that the percentage of UNDP resources to be allocated for SPR-financed activities should be 5 per cent of the total resources available during the fifth cycle.

28. This proposed increase in the percentage share of the SPR-financed programmes for the fifth cycle reflects a consolidation of past trends in demand for special programmes of technical assistance rather than the beginning of a future trend. In no way should this percentage be viewed as contradictory to the most important principle of allocation of the majority of resources on the basis of IPFs.

B. **A balance between country and intercountry programmes**

29. As shown in table 2, the share of intercountry IPFs in the total of IPF resource allocations has increased gradually over the four cycles from 15 to 19 per cent.
### Table 2. Percentage shares of country and intercountry IPFs of total IPF allocations

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<td>Country IPFs</td>
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</tr>
<tr>
<td></td>
<td>85</td>
<td>83.9</td>
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<tr>
<td>Intercountry IPFs</td>
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<tr>
<td>Regional</td>
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<td>16.1</td>
<td>18.9</td>
<td>19</td>
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<td></td>
<td>83.6</td>
<td>78.8</td>
<td>79.5</td>
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<tr>
<td>Interregional</td>
<td>9.7</td>
<td>8.5</td>
<td>8.0</td>
<td>7.8</td>
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<tr>
<td>Global</td>
<td>6.7</td>
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<tr>
<td>Total IPFs</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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</table>

a/ At 55 per cent in accordance with decision 83/14.

b/ Including 100 per cent of the supplement authorized by decision 88/31 of 1 July 1988 and $20 million allocation to global programme from money normally set aside for operational reserve as authorized by decision 85/16.

30. The above gradual increase in the share of intercountry IPFs reflects both growing needs and an increased awareness that many development issues must be addressed at the intercountry level, which in turn would provide effective support to national efforts. These trends are likely to be reinforced in the foreseeable future. Cases in point are global environmental issues, worsening external debt problems, the continuing threat of the disease known as acquired immunodeficiency syndrome (AIDS), communications and trade issues and many more. The Council may therefore wish to examine as an option an increase in the share of the UNDP intercountry programmes by one percentage point. This would bring the intercountry IPF share in the total of IPF resources to 20 per cent, of which 78 per cent would be for regional IPFs, 7 per cent for interregional IPFs and 15 per cent for the global IPF.

31. In considering the desirability of an increased share of resources for the intercountry programmes, the Council may also wish to review the linkage between the regional programmes and certain programmes currently financed under the SPR, which are clearly of a regional nature. A case in point is the allocations for the Decades for Transport and Communications. In addition, a modest increase in the share of regional IPFs may be considered justified in order to complement and/or undertake activities in areas of common concern directly related to the supplementary criteria used for IPF calculations i.e., environmental issues, terms of trade issues, specific island development issues, etc. In reviewing the possibility of such increased allocations to the various intercountry programmes, the Council may also wish to consider whether an agreed percentage of the concerned allocations would be set aside for certain earmarkings, to be endorsed by the Council, for specific activities.
IV. CRITERIA AND PRINCIPLES FOR THE DISTRIBUTION OF COUNTRY IPF ALLOCATIONS

32. The various main principles and criteria used for past country IPF calculations can be summarized as follows:

(a) A fixed share is provided for the group of lower income countries;

(b) The basic criteria - GNP per capita and population;

(c) Supplementary criteria, as specified in paragraphs 44 through 46 below;

(d) The floor or transition principle;

(e) The ceiling principle;

(f) The reimbursable IPF or net contributor principle.

33. In paragraphs 33 through 61 below the Administrator raises a number of issues that the Council may wish to consider with respect to each of those principles and/or criteria.

A. Distribution of the total of IPF resources among specific categories of countries, in accordance with their per capita gross national product

34. In accordance with Governing Council decisions, country IPF resources are proportionately greater for lower income countries. During the fourth cycle, countries with per capita GNP below $750 received 80 per cent of total resources available for country IPFs. On the basis of decision 85/16, 65 countries shared $2,040 million. The 86 remaining countries with per capita GNP above $750 shared $510 million. The threshold of $750 per capita GNP, which divides these groups, was decided upon as it provided rough parity with the previous cycle in respect of the absolute number of countries in each group.

35. Within these two groupings, the function of weighting per capita GNP yielded proportionately greater IPF resources for lower-income countries. Table 3 illustrates the effect, in the fourth cycle, of dedicating a percentage of resources to selected groups of countries as well as the effect of weighting the IPF calculation in favour of lower-income countries.
Table 3. IPFs calculated in accordance with decision 85/16

<table>
<thead>
<tr>
<th>GNP per capita (US dollars)</th>
<th>Number of countries</th>
<th>IPF amount (thousands of US dollars)</th>
<th>Per capita weight coefficients</th>
<th>Percentage of total resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-375</td>
<td>40</td>
<td>1 594</td>
<td>9.31-5.063</td>
<td>64</td>
</tr>
<tr>
<td>376-750</td>
<td>25</td>
<td>401</td>
<td>5.062-2.595</td>
<td>16</td>
</tr>
<tr>
<td>0-750 subtotal</td>
<td>65</td>
<td>1 995 a/</td>
<td></td>
<td>80</td>
</tr>
<tr>
<td>751-1 464</td>
<td>37</td>
<td>295</td>
<td>2.596-.25</td>
<td>12</td>
</tr>
<tr>
<td>over 1 465</td>
<td>49</td>
<td>200</td>
<td>.25</td>
<td>8</td>
</tr>
<tr>
<td>Subtotal</td>
<td>86</td>
<td>495 a/</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>Totals</td>
<td>151</td>
<td>2 490</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a/ Excludes amounts of unallocated IPF resources as established at the time of decision 85/16.

36. With respect to the overall distribution of country IPF resources among designated groups, the Council may wish to review four principal options:

Option 1. Retain the same ratio and numerical groups: 80 per cent of resources shared by the poorest 65 countries, 20 per cent of resources shared by 86 countries;

Option 2. Modify the present threshold of $750 to either reduce or increase the current number of countries sharing country IPF resources in each group. For example, on the basis of data available for 1987, 69 countries would have per capita GNP below $750 and would thus share 80 per cent of country IPF resources, compared to 65 countries if 1983 data were used. Therefore, should the Council not adjust the $750 threshold, four additional countries will share 80 per cent of the resources in the fifth cycle;

Option 3. Modify the percentage of resources dedicated to each group consisting of the same number of countries. For example, 82 per cent of country IPF resources could be shared by countries with per capita GNP below the established threshold, and 18 per cent of resources could be shared by those countries above the threshold;

Option 4. Increase the number of groupings and dedicate a percentage of resources to each group. For example, four designated groups could share 70, 15, 10, 5 per cent of country IPF resources respectively. This could be especially significant for countries immediately above the current 80:20 threshold, since the...
IPFs of most countries belonging to the group with GNP per capita between $750 and $1,100 have been lowered to pay for the cost of the floor for countries with per capita GNP above $1,100 (see also paras. 47 and 48).

37. With reference to the effect of weighting the IPF calculations in favour of lower income countries, the Council may wish to know that while the relationship between per capita GNP and GNP weight was adjusted to retain rough equilibrium between the third and fourth cycles, the GNP weight coefficients used in the fourth cycle reflect those accepted in decision 80/30 of 26 June 1980. Table 4 illustrates the effect on the relationship between GNP and GNP weights if per capita GNP breakpoints are adjusted for the rate of dollar inflation between 1983-1987 (12.77 per cent). A change in weighting coefficients for countries with a per capita GNP above $1,464 may also be desirable, and should be reviewed by the Council, especially if the floor principle were either abolished or modified (see also paras. 48 through 54).

Table 4. Per capita GNP groupings and coefficients used in the calculation of country IPFs in accordance with decision 85/16 compared to per capita GNP groupings and coefficients adjusted for dollar inflation 1983-1987

In accordance with decision 85/16

<table>
<thead>
<tr>
<th>Per capita GNP (US dollars)</th>
<th>Weight coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-375</td>
<td>9.31-5.070</td>
</tr>
<tr>
<td>376-750</td>
<td>5.069-2.596</td>
</tr>
<tr>
<td>751-1,464</td>
<td>2.595-.25</td>
</tr>
<tr>
<td>Above 1,464</td>
<td>.25</td>
</tr>
</tbody>
</table>

Adjusted for dollar inflation

<table>
<thead>
<tr>
<th>Per capita GNP</th>
<th>Weight coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-425</td>
<td>10.50-5.73</td>
</tr>
<tr>
<td>426-850</td>
<td>5.72-2.94</td>
</tr>
<tr>
<td>851-1,650</td>
<td>2.93-.28</td>
</tr>
<tr>
<td>Above 1,650</td>
<td>.28</td>
</tr>
</tbody>
</table>
B. Basic criteria used for the calculation of country IPFs:
per capita gross national product and population

1. Per capita GNP

38. Given the experience of the past four cycles, there would seem to be broad
agreement to retain in the fifth cycle the same basic criteria of per capita GNP
and population. Precedent would again favour the World Bank as the primary source
of basic data, in particular since it has semi-universal coverage of per capita
GNP. The United Nations Statistical Office has been suggested as a possible
alternative for primary data, particularly because of its extended coverage of
countries beyond that of the World Bank. However, use of data from the latter
source may add conceptual and methodological problems in view of the need to apply
data which is consistent between cycles. Furthermore, the Bank's Atlas methodology
for converting national currency to dollars may offer some advantages with respect
to consistency between countries.

39. Consistent with the emphasis in decision 85/16 on the least developed of
recipient countries, the Council may wish to review the method of application of
these criteria. In this context, it is widely recognized that comparisons between
countries at similar levels of per capita GNP may be distorted by the distribution
of income within the society or economy. In this instance, the standard of living
may widely diverge while absolute per capita GNPs remain seemingly comparable. A
more meaningful measurement of per capita GNP might be based upon the lower half of
the population. By this method, UNDP could better identify and respond to needy
populations. However, it may be difficult to obtain data by strata of population
for all countries. This will require further research. Moreover, there may be an
undesirable side effect of rewarding countries for a more skewed income
distribution profile.

2. Population

40. The methodology underlying decision 85/16 utilizes weight coefficients based
upon actual population during the base year. As indicated in table 5, a country's
individual population falls within a designated grouping and corresponds to a
progressive scale of weight coefficients. These coefficients are adjusted by an
incremental value for each individual inhabitant above the threshold of the
population grouping. The result is a population coefficient equivalent to the
total recorded population. In consequence, recipient countries with relatively
high rates of population growth can realize significant increases in resources
between cycles.

41. In effect, the present methodology rewards countries with higher growth rates
while penalizing those countries which undertake efforts to control growth in
population. The Council may wish to reconsider whether the methodology for
calculating country IPFs should reward population growth rates, be neutral on
population growth, or in fact reward efforts to control population growth. For
example, any incremental increase in population above a certain norm, say a
2 per cent annual growth rate, could be disregarded in the weighting of population.
42. The second policy issue before the Council with respect to population relates
to the weight coefficients used in the IPF calculations. Table 5 illustrates
population grouping and weight coefficients used to calculate fourth cycle IPFs.
The questions before the Council are (a) whether each of these groupings should
remain the same or be adjusted to reflect different sizes of population; and
(b) whether or not the population coefficients and increments should be altered.
For example, the Council will note a significant decline in the incremental
increase for countries with populations above 100 million.

Table 5. Distribution of weight coefficients
by population grouping, 1987-1991

<table>
<thead>
<tr>
<th>Population (millions)</th>
<th>Number of countries</th>
<th>Weight coefficient</th>
<th>Increment per million</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-.99</td>
<td>50</td>
<td>.05</td>
<td>0.475</td>
</tr>
<tr>
<td>1-9.99</td>
<td>58</td>
<td>.525</td>
<td>0.100</td>
</tr>
<tr>
<td>10-99.9</td>
<td>39</td>
<td>1.425</td>
<td>0.02083</td>
</tr>
<tr>
<td>100-499.9</td>
<td>2</td>
<td>3.3</td>
<td>0.0035</td>
</tr>
<tr>
<td>500-999.9</td>
<td>1</td>
<td>4.7</td>
<td>0.0035</td>
</tr>
<tr>
<td>Over 1,000</td>
<td>1</td>
<td>6.45</td>
<td>0.0035</td>
</tr>
</tbody>
</table>

C. Ratio of basic IPF to supplementary IPF

43. During the fourth cycle, the weight ratio between the basic criteria and the
supplementary criteria was established at 75:25. This represented a significant
reorientation of the country IPF away from reliance on basic criteria and towards
greater emphasis on the set of supplementary criteria. Consistent with this
approach, the Council may wish to consider a further increase of supplementary
criteria in the calculation of fifth cycle IPFs. Table 6 illustrates the impact a
five-point shift in the ratio (to 70:30) would have had if the fourth cycle IPF had
been calculated on this basis, compared to the actual fourth cycle IPFs for three
per capita groupings.

44. Several comments are relevant to the Council's review of this data. A change
in the ratio of basic and supplementary IPF would shift resources among individual
countries in each group. An increased share of resources for the supplementary
criteria benefits primarily those countries with smaller IPFs and those with a
higher number of supplementary points. Conversely, most countries with a large IPF
and those with fewer supplementary points benefit less from this changed ratio.
Any change in the ratio of basic to supplementary IPF should, therefore, be
considered in conjunction with a possible expansion of the number of supplementary
criteria. Lastly, as explained in detail in paragraph 53 of this document,
countries with per capita GNP above $1,500 are limited in the fourth cycle to the
level of IPF they received in the third cycle. As a result, modification of the
ratio of basic to supplementary IPF has no significant effect on those countries,
which therefore are not included in this analysis.
Table 6. Ratio of basic to supplementary IPF a/

<table>
<thead>
<tr>
<th>GNP groups</th>
<th>Present</th>
<th>Alternative</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. $0-375</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of countries</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Net change</td>
<td>receiving more</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>receiving less</td>
<td>13</td>
</tr>
<tr>
<td>Floor value (millions of dollars)</td>
<td>21.5</td>
<td>29.3</td>
</tr>
<tr>
<td>II. $376-750</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of countries</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Net change</td>
<td>receiving more</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>receiving less</td>
<td>5</td>
</tr>
<tr>
<td>Floor value (millions of dollars)</td>
<td>12.5</td>
<td>15.7</td>
</tr>
<tr>
<td>III. $751-1,464</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of countries</td>
<td>37</td>
<td>37</td>
</tr>
<tr>
<td>Net change</td>
<td>receiving more</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>receiving less</td>
<td>0</td>
</tr>
<tr>
<td>Floor value (millions of dollars)</td>
<td>71.5</td>
<td>67.72</td>
</tr>
</tbody>
</table>

a/ Figures based on allocations and basic data at the time of decision 85/16.

D. Supplementary criteria used for the calculation of country IPFs

45. The Administrator believes that the set of supplementary criteria applied to the calculation of country and intercountry IPFs as set out in table 7, should be based upon three main principals:

- **Objectivity** - i.e., measurable or identifiable phenomena that have an impact on the development process;
- **Universality** - i.e., readily available data universally applied;
- **Simplicity** - i.e., transparent criteria readily identifiable.
Table 7. **Supplementary criteria**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Existing points</th>
<th>Possible alternative points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Least developed country</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Landlocked</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Island</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Independence</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Ecological/geographic</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Economically disadvantaged</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Social justice</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Debt service</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Current accounts deficit</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Terms of trade</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

46. The criteria should serve to identify unique obstacles to development which would warrant special recognition in the distribution of country IPF resources. The Council's view is being sought on the continuing validity of criteria applied in the fourth cycle as well as any possible additional criteria to be applied in the fifth cycle. In this context, the Administrator wishes to advise the Council that the present criterion "Social justice" (i.e., the magnitude of a country's development effort and social justice) fails to meet the aforementioned principles. He therefore recommends that it should not be included in the set of supplementary criteria to be applied in the fifth cycle.

47. There are some additional considerations relevant to the Council's review of the supplementary criteria. These relate to the application of the criteria, as follows:

(a) Since the supplementary criteria are intended to recognize unique conditions and problems experienced by developing countries, should the application of a specific criterion be linked to specific programme activities designed to address the underlying problem(s)?

(b) The significance of LDC status is recognized in the calculation of fourth cycle IPFs by the application of three points, while other criteria receive one point. Should any other criteria carry more than one point? For example, do the problems experienced by small island developing countries warrant two additional points?

(c) In order to maximize the impact of these criteria, should a maximum be placed on either the number of points awarded to each country or to the total number of supplementary criteria?

(d) Decision 85/16 stipulates that the total value of the supplementary IPF should not exceed one half of the basic IPF. However, the effect of this on the calculation of several country IPFs is that the amount withheld greatly exceeds the amount actually awarded. This cap was introduced to protect the system from...
awarding a particularly high IPF derived from supplementary rather than basic
criteria. Nevertheless, the Council may wish to consider a modification to the
supplementary cap to, say, 75 per cent of the basic amount calculated, again on the
understanding that this will mean a slight shift of resources, especially to those
countries with smaller IPFs, for which no floor or ceiling exists.

E. The floor principle

48. In reaching its decision regarding the criteria for calculation of IPFs for
the second cycle (1977-1981), the Council introduced the concept that the country
IPF should not be less in a current cycle than in the previous cycle. This has
been referred to as the "floor" concept. Its main purpose is to ensure that
countries will not see an abrupt downward change in the level of UNDP assistance in
dollar terms, even if their relative socio-economic situation has improved during
the previous cycle.

49. In the cycles which followed, this principal was retained and guaranteed a
minimum IPF regardless of intervening changes in the underlying criteria. However,
in subsequent cycles, the subsidy has been somewhat reduced. For the second cycle,
a 100 per cent floor was applied to all countries. For the third and fourth cycle,
the floor was reduced to 80 per cent of the previous IPF for countries with a per
capita GNP above $3,000 (excepting small island developing countries with a per
capita GNP below $4,200 for the fourth cycle). A 100 per cent floor was retained
for all other countries. With respect to the IPF calculations for the fourth
cycle, in accordance with decision 85/16, a total of 82 out of 151 IPF recipients
received a floor supplement: 8 out of 65 countries with per capita GNP below $750,
and 74 out of 86 countries with per capita GNP above $750. Regarding those
countries in the group above $750 to which the floor principle applied, the amount
added as a floor supplement exceeded the amount calculated for the IPF in over
70 per cent of the cases (52 countries); over 40 per cent (31 countries) in
this group received a supplement still partly based upon the first cycle IPF
(1972-1976).

50. The total amount added as floor supplement has a significant impact on the
overall distribution of country IPF resources, especially for the group above
$750. Since the floor is a variable amount added to the calculated IPF, the
resources required to meet this obligation must be deducted from the total
distribution of resources. For the group of countries with a per capita GNP above
$750 which received 20 per cent of country IPF resources, the amount used for the
floor is $227 million, or 45 per cent of the total available resources of
$510 million.

51. The floor principle overrides all other allocation criteria and, in
consequence, rechannels resources from those most in need of UNDP assistance
towards higher per capita GNP countries, as measured in accordance with all other
criteria. It has an especially profound impact on the distribution of country IPF
resources for those countries just above the threshold of $750 per capita GNP. The
Council may, therefore, wish to consider the options of either abolishing the floor
altogether or to modify previous arrangements in order to reduce its impact when
applied. For example, by limiting the value of the floor supplement to a maximum of 50 per cent of the difference between the third cycle IPF and the calculated IPF for the fourth cycle, the amount required to meet the floor obligation is reduced to $83 million, while recipient countries with per capita GNP between $750 and $1,464 realize an increase in total IPFs of 21 per cent as a group. Table 8 illustrates the fourth cycle IPF calculated according to decision 85/16 compared with two alternatives at the same resource level; when no floor is in effect for countries above per capita GNP $750; when the floor is limited to 50 per cent of the difference between the calculated IPF for the fourth cycle and the third cycle IPF.

52. With respect to countries with per capita GNP below $750, the scenarios which are illustrated do not apply. The reason for this omission is that the total value of the floor is only marginal; less than two per cent of the total IPF distributed.

53. Table 8 also refers to the number of countries benefiting from each scenario. This reference means that the respective alternative IPF exceeds that which was established on the basis of decision 85/16.
<table>
<thead>
<tr>
<th>GNP group</th>
<th>85/16</th>
<th>100 per cent</th>
<th>No floor</th>
<th>50 per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. $750-1,464</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of countries</td>
<td>37</td>
<td>37</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>Floor recipients</td>
<td>28</td>
<td>0</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Countries benefiting</td>
<td>n.a.</td>
<td>28</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Amount of floor (millions of dollars)</td>
<td>71.5</td>
<td>0.0</td>
<td>13.7</td>
<td></td>
</tr>
<tr>
<td>Total IPF (millions of dollars)</td>
<td>294.9</td>
<td>406.1</td>
<td>355.8</td>
<td></td>
</tr>
<tr>
<td>II. $1,465-3,000 a/</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of countries</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Floor recipients</td>
<td>30</td>
<td>0</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Countries benefiting b/</td>
<td>n.a.</td>
<td>0</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Amount of floor (millions of dollars)</td>
<td>123.1</td>
<td>0.0</td>
<td>53.6</td>
<td></td>
</tr>
<tr>
<td>Total IPF (millions of dollars)</td>
<td>161.4</td>
<td>57.0</td>
<td>101.9</td>
<td></td>
</tr>
<tr>
<td>III. Above $3,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of countries</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Floor recipients</td>
<td>16</td>
<td>0</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Countries benefiting b/</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Amount of floor (millions of dollars)</td>
<td>32.4</td>
<td>0.0</td>
<td>15.3</td>
<td></td>
</tr>
<tr>
<td>Total IPF (millions of dollars)</td>
<td>38.3</td>
<td>20.4</td>
<td>32.4</td>
<td></td>
</tr>
<tr>
<td>Subtotal IPF (millions of dollars)</td>
<td>494.6</td>
<td>483.5</td>
<td>490.0</td>
<td></td>
</tr>
<tr>
<td>Unallocated c/ (millions of dollars)</td>
<td>15.9</td>
<td>26.9</td>
<td>20.4</td>
<td></td>
</tr>
<tr>
<td>Total (millions of dollars)</td>
<td>510.4</td>
<td>510.4</td>
<td>510.4</td>
<td></td>
</tr>
</tbody>
</table>

a/ Including small island countries between $3,000-4,200.

b/ Countries with 1983 per capita GNP above $1,500 are limited to the level of IPF received in the previous cycle in accordance with paragraph 5 (d) (v) of decision 85/16.

c/ Unallocated amount derived from effect of supplementary cap, as explained in paragraph 47 (d). This amount differs between scenarios because net resources distributed are different for each scenario, as a result of the value of the floor.
F. The ceiling principle

54. In its decision 80/30, the Council decided that each country with per capita GNP above $1,500 should receive an IPF for the third cycle not in excess of its IPF for the second cycle. This is generally referred to as the ceiling concept. In the fourth cycle, the effect of the ceiling has been marginal with a total limit of $1 million placed on three countries. However, at higher levels of resources, or under scenarios which significantly alter the floor value, the impact of the ceiling could be more consequential. The Administrator is of the view that limited IPF resources for upper level economies are helpful for the transition from grant to reimbursable technical assistance.

G. The reimbursable IPF or net contributor principle

55. In its decision 85/16, the Council established the obligation for those recipient countries with per capita GNP above $3,000, excluding small island countries with per capita GNP between $3,000-4,200, to reimburse the programme for the costs of delivering the IPF. The implementation of these requirements and the problems which have arisen as a result of their implementation are well documented in four separate reports submitted to the Governing Council, contained in documents DP/1989/5, DP/1988/70, DP/1988/9 and DP/1987/22.

56. Most recently, in its decision 89/5 of 24 February 1989, the Council confirmed the programme planning arrangements for net contributor countries as outlined in paragraphs 4 and 5 of document DP/1989/5. In effect, they require that the Administrator curtail programme activities in net contributor countries to the level of their actual and anticipated voluntary contributions to the programme. The decision also introduces the possibility of deferring net contributor obligations for those countries whose per capita GNP is expected to fall during the period 1987-1991 below the threshold established for net contributor countries.

57. The Council further decided to defer discussion on the other issues raised in the document to its thirty-sixth (1989) and thirty-seventh sessions (1990), so that they can be considered within the context of the discussion on this document and as part of the discussion on UNDP and World Development by the Year 2000, DP/1989/14.

58. In the context of these discussions, several questions warrant the special attention of the Council with respect to the reimbursement of the costs of programme activities for certain countries during the fifth cycle. First among the Council's choices is the criteria to be used in designating which countries should be requested to achieve net contributor status. Secondly, consistent with the Council's decision 89/5, under what conditions should these obligations be waived/deferred?

59. One option would be to retain the threshold at per capita GNP of $3,000. Under conditions of economic expansion and current dollar exchange rates, it may be expected that an increasing number of countries would reach this level. However, the recent decline in economic activities in many developing countries may make it undesirable to retain the same threshold. A possible basis for adjusting the...
threshold for net contributor obligations would be to increase it in order to reflect the dollar inflation experienced since 1983, the base year for the fourth cycle.

60. With respect to the question of deferring or waiving net contributor obligations in response to special conditions or a recent significant deterioration of a country's economic situation, the Administrator informally circulated a list of possible hardship criteria during the special session held in February 1989. These criteria are intended as a basis for establishing objective, empirical standards for providing relief from the net contributor obligations. For the information of the Council, this list is attached as an annex to this document. Also, the Council may consider higher thresholds with regard to net contributor obligations for certain categories of countries faced with special problems, in a manner similar to the arrangement agreed upon for the fourth cycle, which included a higher threshold of $4,200 for small island developing countries.

61. The Council may also wish to consider separating government local office cost obligations (GLOC) from net contributor obligations. This would be on the understanding that the accounting linkage, approved in decision 84/6 of 29 June 1984, would continue to be a second call on the voluntary contributions for these countries. As elaborated upon in document DP/1989/5, the obligations to reimburse UNDP for local office cost are clearly established through such legal instruments as the Standard Basic Agreement and earlier Governing Council decisions, irrespective of any net contributor obligations. They became an integral part of net contributor obligations on the basis of decision 85/16. In consequence, outstanding issues with regard to GLOC obligations have affected the actual implementation of net contributor provisions in accordance with decision 85/16. By now, most net contributor countries have accepted their obligations to reimburse UNDP for the cost of the IPF programme delivered but many are still questioning their GLOC obligations, especially in view of the relatively high cost of some field offices in relation to the size of the UNDP-administered programme in the country.

62. With respect to the possible separation of GLOC obligations from net contributor obligations, the Administrator wishes to stress that it should only be considered if it is combined with clear guidance from the Council as to UNDP policy for maintaining field offices in net contributor countries. Such a policy should make it mandatory for UNDP to start the process of regionalizing a field office in all cases where either (a) the country does not cover all local office costs under the current formula or (b) where the total costs to be borne by the UNDP administrative budget exceeds a certain percentage of the UNDP-administered programme delivered to the country concerned. In applying these two options, the Administrator would be required to select the option which entails the least cost for UNDP.
Annex

COUNTRIES FACING AN ECONOMIC CRISIS, WITH
1983 PER CAPITA INCOME OVER $3,000

Paragraph 11 of decision 85/6 requires that countries with 1983 per capita income in excess of $3,000 (for island developing countries with a population under 1 million, the figure is $4,200) shall reimburse the IPF spent in the country each year, as well as the cost of the local office, excluding the cost of the Resident Representative and Deputy Resident Representative.

Some countries in the above category have stated that since 1983, their economic conditions have seriously declined and have required the imposition of large budgetary cuts and the adoption of an austerity economic régime. Although their per capita income measured in conventional terms may not yet have declined to below $3,000, countries in a downward slide and with large declines in living standards are in a more difficult position than those with lower per capita income but having relative stability in their budgets and economies.

Such countries are known to experience serious political upheavals in the process of downward adjustments and would, during this period, require all available help from donors and international institutions. The Council might wish, therefore, to consider a waiver of their mandatory obligations to refund the IPF and office costs as defined for those countries which meet certain objective criteria.

The suggested criteria, which are all measurable, are as follows:

(a) The country since 1983 has been undertaking a structural adjustment programme;

(b) Between 1983 and 1987, the Government has had to reduce its budget in real terms by more than 20 per cent;

(c) Between 1983 and 1987, the country’s export earnings have declined by 20 per cent or more and its current account deficit has exceeded 10 per cent of its GNP for at least three of those years;

(d) The country’s terms of trade have declined by at least 15 per cent between 1983 and 1987;

(e) Unemployment has increased beyond 20 per cent between 1983 and 1987;

(f) The country has had to reduce public sector salaries in real terms by at least 20 per cent since 1983;

(g) The country’s debt service exceeds 20 per cent of total export earnings for at least three of the years from 1983 to 1987.