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SUPPORT

PROGRAMME PLANNING

Project Development Facility

Report of the Administrator

SUMMARY

This report gives an overview of the activities undertaken through the Project Development Facility with emphasis on the period commencing June 1988, when the current operational arrangements were established. In response to Governing Council decisions 88/17 of 1 July 1988 and 89/36 of 30 June 1989, the report presents quantitative and qualitative analyses of the missions undertaken, as well as information on consultants assigned to Project Development Facility missions.

I. BACKGROUND

1. This section presents a review of the operations of the Project Development Facility (PDF), in response to Governing Council decisions 88/17 of 1 July 1988 and 89/36 of 30 June 1989.

2. In decision 85/4 of 29 June 1985, the Governing Council supported the establishment of a PDF on an experimental basis until the end of the third programming cycle. This Facility, funded from Special Programme Resources (SPR), was established in support of the efforts undertaken by the United Nations Development Programme (UNDP) to improve the quality and effectiveness of programmes and projects financed by the Organization, and, in particular, the project development aspects of that effort: project identification, formulation and appraisal. The Facility meets the costs of the missions associated with the process.

3. The PDF was originally set up on a reimbursable basis. Missions that led to projects financed from the indicative planning figure (IPF) were to be reimbursed from the project budgets. The costs of missions that did not generate projects were to remain chargeable against the SPR. PDF operations began late in 1985 with a \$1 million initial allotment. The Governing Council increased the allocation to \$2 million by decisions 87/6 of 20 February 1987 and 87/25 of 19 June 1987. For simplicity, this portion of the PDF is referred to as PDF1.

4. By its decision 88/31 of 1 July 1988, the Governing Council assigned additional funds to the SPR, which, *inter alia*, increased the earmarking for the PDF. The Council also noted the Administrator's intention to modify the operation of the PDF in order to further enhance the pipeline generation process that was needed for the fourth cycle. The essence of the proposed modifications consisted in the abolition of (a) the reimbursement requirement and (b) the required written formal approval of the mission by the recipient country, it being understood that the Government's concurrence would be obtained before the submission of the request by the Resident Representative. Internally in UNDP, the management of the Facility was decentralized from the Bureau for Programme Policy and Evaluation (BPPE) to the Regional Bureaux. The Governing Council approved a sum of \$3.5 million for this modified PDF (PDF2), which started to operate as of 1 July 1988. The funds were allocated in proportion to the IPF distribution by region and released in tranches, reaching 100 per cent of the allocations by March 1989.

5. With the exception of the allocation for global and interregional activities, all available PDF2 funds had been committed by May 1989. As the demand for the Facility continued, the Council authorized, by its decision 89/36 of 30 June 1989, the use of funds eligible for reimbursements under PDF1 for additional missions. Additional funds of \$1 million were released in November 1989, again in proportion to the IPF distribution by region. Table 1 shows the regional distribution of these funds.

6. An analysis of the results of PDF1 was presented to the Council at its thirty-fifth session (1988) (DP/1988/19). The following report covers primarily activities under PDF2. References to PDF1, mainly for comparative purposes, are identified in the text. The report is based on information provided by the users as represented by the Regional Bureaux, which are currently managing these resources. A qualitative assessment of the Facility's impact was also requested from the users and is summarized below.

Table 1. PDF2 allocation by region

(United States dollars)

<u>Region</u>	<u>First tranche</u>	<u>Second tranche</u>	<u>Total</u>
Africa	1 385 000	402 000	1 787 000
Asia and Pacific	1 368 000	398 000	1 766 000
Arab States and Europe	358 000	94 000	462 000
Latin America and the Caribbean	330 000	96 000	426 000
Global and interregional	59 000	-	59 000
Total	3 500 000	1 000 000	4 500 000

II. OPERATIONS

7. Missions funded by the PDF are undertaken either by independent consultants, by UNDP technical staff or by specialized agency personnel. Only travel-related expenses are covered for UNDP and almost all United Nations system personnel. Requests are normally approved by each bureau (through the bureau Project Appraisal Committee or other similar arrangement). Missions are undertaken with the concurrence of the recipient Government. The missions, which are normally undertaken prior to project approval, can be classified as follows:

(a) Project identification, undertaken during the country programming exercise, shortly following approval of country programmes or where a review of a project proposal so merits;

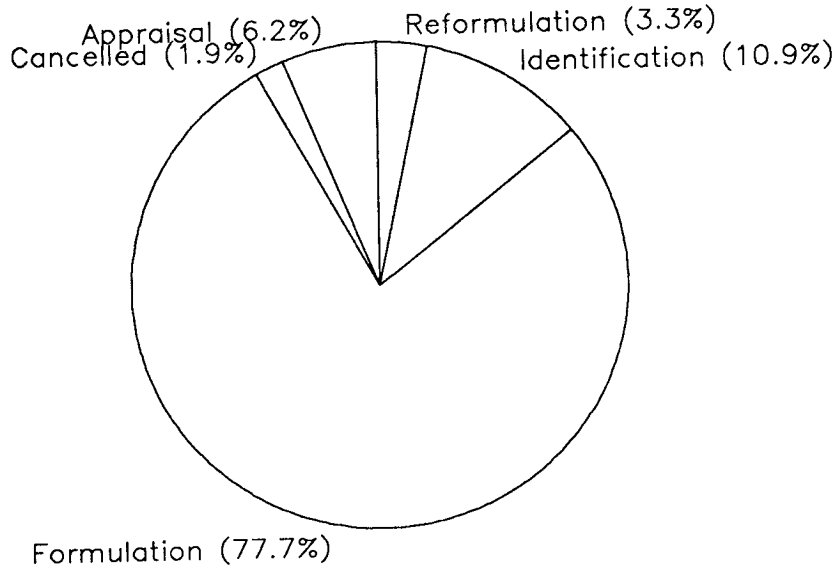
(b) Project formulation, especially of complex or technically difficult projects;

(c) Project appraisal, especially of innovative or controversial projects;

(d) Reformulation of ongoing projects.

Figure 1 shows the distribution of missions by type. Almost 78 per cent of the missions were formulation missions - including about 10 per cent classified as identification-formulation. Eleven per cent were identification missions, slightly over 6 per cent appraisal mission and about 3 per cent reformulation missions, showing a strong preference for using the Facility as a way to finalize pipeline activities. About 2 per cent, or four of the missions considered were cancelled, that is, did not take place or were interrupted.

Figure 1
PDF2 MISSIONS BY TYPE



8. By 31 December 1989, a total of 211 missions were approved under PDF2, compared with 159 under PDF1. Of the PDF2 missions, 106 had been completed, 4 were cancelled, and the remaining 101 were either ongoing or awaiting clearances of documents or final payments. Table 2 provides some details on the missions.

Table 2. PDF2 missions, cost and average cost per mission by region

Region	Number of missions	Total cost (United States dollars)	Average cost per mission
Africa	71	1 385 000	19 507
Asia and the Pacific	88	1 350 577	15 347
Arab States and Europe	34	309 784	9 111
Latin America and the Caribbean	18	240 635	13 369
Total/average	211	3 285 996	15 573

9. Table 3 shows that 81 users took advantage of the Facility (76 countries, the 4 regional programmes and the Central American Programme). The average duration of a mission was 19.2 days.

Table 3. Number of PDF2 users and mission duration

<u>Region</u>	<u>Number a/ of users</u>	<u>Mission duration (days)</u>
Africa	30	17
Asia and the Pacific	18	18.6
Arab States and Europe	21	26.7
Latin America and the Caribbean	12	11.8
Total/average	81	19.2

a/ Includes the regional programmes of each bureau as well as the Central American Programme.

III. USE OF CONSULTANTS

10. A total of 272 consultants were utilized in the missions. Of these, the affiliation of 175 was identified. Figure 2 shows that 26 per cent were agency staff, 6 per cent were UNDP staff, 3 per cent came from Governments and 64 per cent were independent contractors. This statistic reflects the contractual status of the consultant. Thus, the agencies and UNDP were involved in the substantive process of selecting most of the independent consultants although from the administrative point of view they are considered independent.

11. The nationality of 107 consultants was reported in the survey of the bureaux. The nationality of some consultants, particularly staff of organizations of the United Nations was not registered, and instructions are being issued to ensure that they will be recorded in the future. The distribution of nationalities between developed and developing countries is shown in figure 3. A detailed list of the nationalities of these consultants is shown in table 4. Thirty-four countries are represented, with the main providers of consultants being the United States with 23, followed by the United Kingdom with 17 and India and France with 6 each.

Figure 2
PDF2 CONSULTANTS BY AFFILIATION

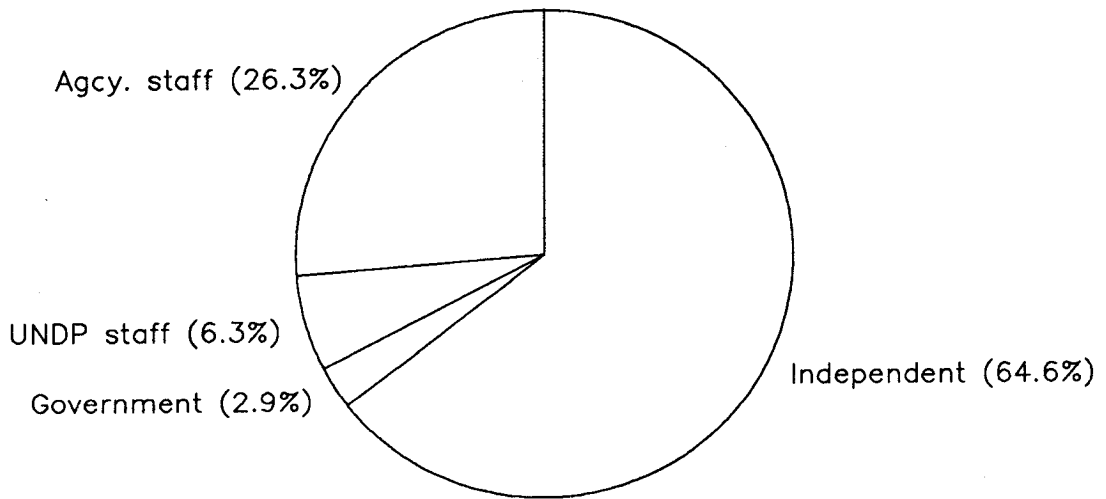


Figure 3
PDF2 EXPERTS NATIONALITY CLASSIFICATION

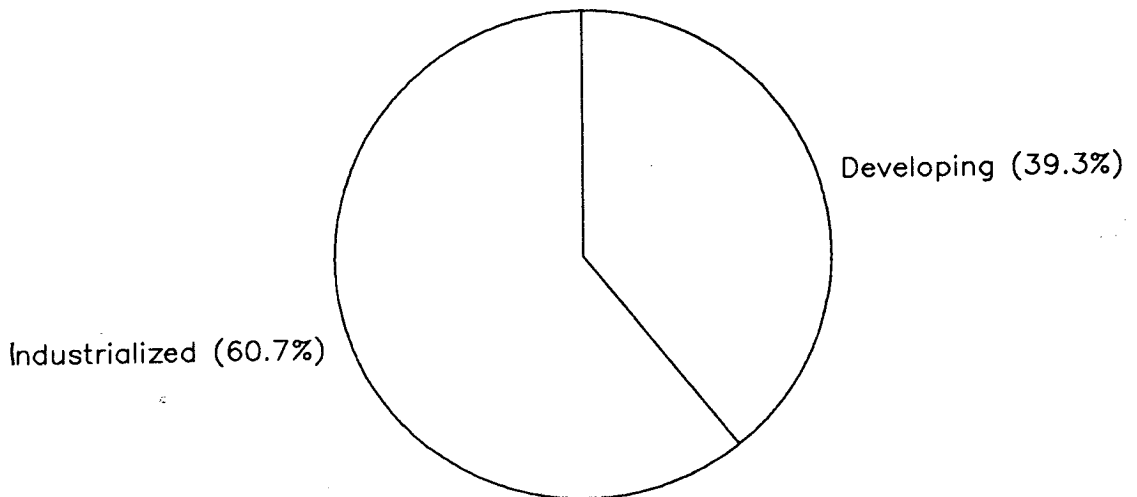


Table 4. PDF2 consultants by nationality

Country	Number of consultants	Per cent
United States of America	23	21.5
United Kingdom	17	15.9
France	6	5.6
India	6	5.6
Sri Lanka	5	4.7
Australia	5	4.7
Argentina	4	3.7
Brazil	4	3.7
Egypt	3	2.8
Belgium	3	2.8
Canada	3	2.8
Tunisia	2	1.9
Chile	2	1.9
Colombia	2	1.9
Denmark	2	1.9
Germany, Federal Republic of	2	1.9
Guyana	1	0.9
Hungary	1	0.9
Italy	1	0.9
Cyprus	1	0.9
Pakistan	1	0.9
Netherlands	1	0.9
Nigeria	1	0.9
Poland	1	0.9
Venezuela	1	0.9
Spain	1	0.9
Morocco	1	0.9
Costa Rica	1	0.9
Peru	1	0.9
Singapore	1	0.9
Mozambique	1	0.9
Bangladesh	1	0.9
Mexico	1	0.9
Ireland	1	0.9
Total	107	100.0

12. Table 5 shows the distribution among agencies of IPF projects resulting from PDF2.

Table 5. Executing agency of IPF projects generated by PDF2

<u>Agency</u>	<u>Projects</u>	<u>Per cent</u>
UNIDO	22	16.8
FAO	22	16.8
ILO	14	10.7
Government	11	8.4
UNDP/OPS	11	8.4
UNESCO	11	8.4
UNDTCD	9	6.9
IBRD	5	3.8
ASDB	5	3.8
ITU	4	3.1
UNCHS	3	2.3
Govt/UNIDO	2	1.5
ICAO	2	1.5
ITC	2	1.5
WHO	2	1.5
ECLAC	1	0.8
WTO	1	0.8
IMO	1	0.8
ESCAP	1	0.8
WMO	1	0.8
UNCTAD	1	0.8
Total	131	100.0

It can be seen that most agencies are represented in the resulting IPF projects. Of interest also is that direct national execution was used in 8.4 per cent of the cases, or 10 per cent if joint UNIDO/Government execution is included. This share compares with the overall delivery of IPF and cost-sharing for nationally executed projects, which was 11.2 per cent in 1988. Similarly, the proportion of OPS-executed projects resulting from PDF2, 8.2 per cent, is in line with overall OPS participation in total IPF and cost-sharing projects, which was 8.1 per cent the same year. At the inter-agency consultative meeting that took place in New York in December 1989, agencies expressed their satisfaction with the PDF2 activities in general, as well as with the fact that the intra-agency distribution of projects was not significantly affected by the use of these funds in their preparatory stage.

IV. PDF IMPACT

13. The multiplier effect of the PDF, that is, the volume of IPF budgets generated per PDF dollar spent on completed missions has been calculated at \$62 for PDF2. In other words, on the average, \$62 worth of IPF budgets can be expected to be generated per each dollar spent in PDF2 missions that generated projects, assuming a similar pattern for all missions. This seems to be a fairly stable value, as PDF1 had a comparable effect of \$50. It should be pointed out that the multiplier effect measures only the direct IPF budget resulting from the PDF missions. As such, it may underestimate the impact of the PDF, especially when cost-sharing or other donors' contributions complement the IPF effort. For example, the IPF multiplier for the Latin American and Caribbean region amounted to 45. However, the projects included in the study had associated (i.e., non-IPF) project budgets in excess of \$9 million (from other funding agencies or Government cost-sharing), which would have increased the multiplier value to over \$200 per PDF dollar. This additional effect depends on the particular situation of each region regarding the availability of funds to supplement the IPF, hence the Latin American and Caribbean figure is illustrative only.

14. To forecast the effects of the PDF, a more precise approach would be to look at the effect of the total cost of missions. In other words, not just those that actually generated projects but also those that did not. As some missions do not result in projects, this figure would be expected to be somewhat lower than the above-mentioned multiplier. However, that figure would be misleading for PDF2 at this time, as a considerable number of projects are still in the pipeline. Until the necessary historical perspective is available for PDF2, the PDF1 experience constitutes a full cycle that can be used as a basis for assessment. Based on a review of PDF1, and assuming similar behaviour of the approval process, a volume of slightly over \$180 million in IPF budgets can be expected to be generated by the first tranche of \$3.5 million PDF2 missions. By the same token, the recently released \$1 million second tranche mentioned in paragraph 5 should generate a level of budgets around \$50 million before all the funds are exhausted, which, at the current rate, should happen before the end of June 1990.

15. As noted above, a qualitative assessment was also conducted to review the experience of the different bureaux with PDF2. The overall assessment is highly positive, the only reservation being the lack of additional funds under the modality. For example, in their regional operational meeting of March 1989, Resident Representatives of the Arab States and Europe unanimously endorsed the Facility as a tool for addressing delivery problems through the formulation of pipeline projects.

16. By and large the most attractive feature of PDF2, especially as compared with the preparatory assistance mechanism, the main existing alternative, seems to be its flexibility. In certain ways, PDF complements the preparatory assistance mechanism by assisting in the project formulation process. In other ways, PDF provides for a more flexible and expeditious system by not requiring the formal documentation associated with the preparatory assistance mechanism. Governments have an incentive to try new approaches to their technical co-operation needs, as no IPF funds are charged. Above all, the PDF helps in the build-up of the pipeline and allows for project appraisal activities, areas that cannot be covered through the preparatory assistance mechanism. This is perceived from many angles:

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(a) Speed of implementation. Regional bureaux report that missions can be fielded in a matter of 1 or 2 months rather than the several months needed in the case of the preparatory assistance mechanism. This reflects the considerably less formal requirements involved in the PDF documentation. Actual project finalization lapse has been reduced from 8-9 months to 3-4 months by comparison with the preparatory assistance mechanism. In some countries, the governmental machinery requires several months to process a preparatory assistance mechanism approval, given its formal nature. For example, UNDP was able to organize swift co-ordination of technical co-operation by several donors to support a \$300 million International Development Association (IDA) loan in Bangladesh thanks to the Facility. A request for a formulation mission for a water-supply project in Democratic Yemen received at the end of December 1988 saw its high-level consultants in the field by February 1989, less than two months for the complete process. An emergency formulation mission for a hospital in the Sudan was also manned at a speed that would not have been possible under the regular preparatory assistance mechanism;

(b) Independence of advice. In the view of the regional bureaux, the use of the preparatory assistance mechanism entails a quasi-commitment to an agency. The use of independent consultants through PDF (even if identified by agencies) provides a more detached view. It is felt that the appraisal process is strengthened by this objective advice, particularly in cases where the comparative advantage of a particular modality of execution is not evident. For example, an extremely complex rural development project - from the logistical, managerial and developmental point of view - to meet the needs of island inhabitants in Democratic Yemen was difficult to classify under the mandate or competence of a particular agency. PDF allowed an independent formulation of this project. Furthermore, in projects of a highly sensitive nature, this independence enables UNDP to maximize its role as a neutral broker. An example of this situation was the provision of a high-level adviser to Poland to assist in the establishment of a centre for debt restructuring. This has not affected the participation of agencies in the resulting projects, however, as paragraph 15 indicates;

(c) Additionality of resources and catalytic effects. PDF has also proved an important incentive for generating projects with third-party financing in smaller countries where IPFs were almost fully committed. Guinea Bissau, the Gambia, Liberia and others have used the Facility to formulate, reformulate and identify projects when resources were fully earmarked. This allows the maintenance of a healthy pipeline. Similar effects were obtained in the Caribbean, where projects to be funded under other sources have been identified through PDF in countries with small IPFs that were fully earmarked, such as St. Kitts and Nevis. In emergency cases where IPF resources were exhausted, as in Mauritania, a marine resource policy mission was mobilized at the request of the Secretary-General, producing a plan of action the funding of which is currently being negotiated with bilateral donors and development banks. This action would not have been possible without PDF2. In the Arab region, particularly in some net contributor countries, the PDF has proven useful in generating follow-up resources, most notably cost-sharing.

(d) Risky and innovative projects. PDF has also been of help by providing Governments with an effective means to tackle risky, unconventional or innovative projects. This also applies in situations where even the use of the preparatory

assistance mechanism was perceived as too much of a commitment of the national IPF, given the risks involved. Examples are a castor oil production factory in Chile and high performance computing and crystal growth technology projects in India. In this sense, it is important to note that a few of the projects which were not pursued after the PDF mission proved that the Facility, with a relatively inexpensive mission, could save the country considerable financial and human resources by having an independent negative assessment of proposed projects before major commitments were made.

(e) Appraisal of programmes and projects. PDF provides a means to complement the skills of UNDP personnel in the appraisal process, particularly in high technology. The preparatory assistance mechanism modality does not offer an alternative in this sense. Examples are joint appraisal exercises with OECD in programmes in technology, science and trade, which have generated over \$1.5 million in regional projects in Latin America. A project on the use of oil-well stimulation technologies in China, and another on the use of genetic engineering in Mongolia, were considerably modified as a result of the review before approval. An appraisal mission for a key industrial development project in Cyprus allowed the Government to undertake a second phase quite successfully under national execution, as the local counterpart had been sufficiently prepared to do so.

V. CONCLUSIONS

17. PDF has developed into an efficient mechanism for generation and improvement of the pipeline projects, as the users progressed along the learning curve and the procedures were streamlined. The bulk of the activities (81 per cent of the missions) have been focused on the formulation or reformulation of projects, that is, in the consolidation of identified projects from pipeline into actual project approvals. This reflects a very prudent and judicious utilization of a scarce but very useful resource. The decentralization of the administration of PDF to the bureau level has proved to be a most effective modus operandi. The allocation of funds at the regional level has provided an equitable distribution of resources while allowing enough flexibility to respond to specific country needs with the speed required while maximizing the use of the Facility.

18. The increasing speed with which the funds have been utilized by the bureaux also points to the perceived need for the Facility. The last tranche of PDF2 was practically exhausted in three months, a considerable increase in speed from previous tranches that reflects the familiarization of both Headquarters and the field offices with the advantages of the Facility and its procedures. The current allocation of PDF is expected to be exhausted by June 1990.

19. The level of fifth cycle programming is likely to be above \$4.5 billion. The level of pipeline of projects needed to sustain such a programme will be quite substantial. Assuming that the PDF2 multiplier remains constant, the requested \$15 million for the fifth cycle should assist in the formulation of \$700-800 million worth of pipeline projects. Together with the preparatory assistance mechanism, this will ensure a timely and effective build-up of the project pipeline for the fifth cycle.

