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S U P P O R T

OTHER FUNDS AND PROGRAMMES

UNITED NATIONS CAPITAL DEVELOPMENT FUND

Report of the Administrator

Summary

This report is submitted in accordance with General Assembly resolution 2186 (XXI) which established the United Nations Capital Development Fund (UNCDF) as an organ of the General Assembly and resolution 2321 (XXII) which invited the Administrator of UNDP to perform the functions of Managing Director of the Fund. The report is prepared for information purposes in accordance with the biennial reporting established in General Assembly resolutions 36/200, para. 11, and 39/217.

The report presents an overview of the management of the UNCDF programme, highlighting operational activities and the steps taken in 1985 to improve programme quality, relevance, effectiveness and co-ordination. The report also provides information on the distribution of the resources of the Fund, by region and by sector. Descriptive and statistical data on the financial status of UNCDF are also included.

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## I. OVERVIEW OF PROGRAMME MANAGEMENT

A. Project commitments

1. In 1985, the United Nations Capital Development Fund (UNCDF) continued to adhere strictly to the financial control formula on commitment levels presented to the Governing Council in document DP/1982/39. <sup>1/</sup> Under this partial funding system, the projected level of approvals from the general resources of the Fund for 1985 was \$30.9 million. In fact, UNCDF was able to approve \$33.4 million in new commitments for 1985 from general resources, as shown in the annex, table 1. The level of approvals from general resources, which was higher than projected, was made possible by project savings during 1985: a total of \$5.5 million, which resulted from the provision of inputs at lower than budgeted costs. Additional project commitments for 1985 in the amount of \$4.0 million were made possible by the conclusion of fully funded joint-financing arrangements. The total UNCDF project approvals for 1985 were \$37.4 million: \$29.2 million for 22 new projects; \$8.2 million for grant increases in existing project budgets. The 1985 total of \$37.4 million can be compared with the 1984 total of \$38.9 million.

B. Project expenditures

2. UNCDF began 1985 with 182 ongoing projects totalling \$122.4 million in outstanding commitments against general resources. These projects, which were located in 42 countries, were designed to be implemented primarily by national executing agencies. Project expenditures in 1985, exclusive of delivery under trust fund and cost-sharing arrangements, amounted to an estimated \$27.0 million. An additional estimated amount of \$2.0 million was disbursed against trust fund and cost-sharing arrangements. While the estimated expenditure level from general resources of \$27.0 million was slightly below the 1984 level of \$28.1 million, the amount represented 22 per cent of outstanding commitments, a higher percentage than in the two previous years, as shown in table 1. As long as the nature of UNCDF projects is such that implementation is spread over a period of four to six years, expenditures are expected to be in the range of 20 per cent to 25 per cent of outstanding commitments from the preceding year.

Table 1. Annual expenditures as a percentage of outstanding commitments, 1983-1985

(excluding trust fund and cost-sharing arrangements)

<u>Year</u>	<u>Outstanding commitments from preceding year (million US\$)</u>	<u>Annual expenditures (million US\$)</u>	<u>Expenditures as percentage of commitments</u>
1983	148.0	24.6	16.6
1984	143.9	28.1	19.5
1985	122.4	27.0	22.0

### C. Programme developments

3. Regional and sectoral distribution: In 1985, the Fund continued to direct a large proportion - 54.5 per cent - of its resources to Least Developed Countries (LDCs) in Africa, beset by critical economic and drought-related problems. A further 30.6 per cent of approvals were for Asian countries, while the remaining 14.9 per cent of approvals were for countries in Latin America or the Middle East.

4. The concentration of UNCDF assistance in 1985 continued to be in the rural areas, with approvals for projects in agriculture accounting for 43.4 per cent of total approvals, as shown in table 2.

Table 2. 1985 approvals by sector

<u>Sector</u>	<u>1985 approvals</u>	
	(Thousand US\$)	(Percentage)
Agriculture	16 263	43.4
Shelter	5 260	14.1
Health	3 872	10.3
Transport	3 702	9.9
Industry	3 492	9.3
Water Supply	2 771	7.4
Education	2 077	5.5
Energy	0 020	0.1
Total	<u>37 457</u>	<u>100.0</u>

5. Complementarity: In 1985, UNCDF continued to seek complementarity between capital assistance provided by the Fund and other sources of financing, especially UNDP. Of the 193 UNCDF-funded projects underway at the end of 1985, 82 projects were receiving technical assistance financed by UNDP through the resources of the Indicative Planning Figure (IPF), the Special Measures Fund for Least Developed Countries (SMF) and the United Nations Sudano-Sahelian Office (UNSO). Joint-financing arrangements with bilateral donors or other multilateral agencies accounted for 24 of these projects as well as a further 21 UNCDF-funded projects underway at the end of 1985.

6. Loan operations: In line with the agreement reached by the Governing Council at its thirty-second session on the activation by the Fund of a concessional loan facility for revenue-producing projects, UNCDF has taken the necessary steps to finalize the legal and administrative arrangements of such a facility. During 1985, UNCDF began its project identification and formulation activities under loan operations, but no loan agreement had been concluded as of the end of the year.

7. Evaluation: In 1985, UNCDF continued to evaluate its projects on the systematic basis introduced in late 1983. The 1985 evaluation activities were of three kinds: (a) continuation of ongoing project evaluation activities; (b) organization and initiation of a thematic evaluation of credit projects

having revolving funds or working capital arrangements; and (c) preparations for a country programme evaluation. By the end of 1985, the evaluation of eight ongoing projects and seven completed projects had been conducted in nine countries in the sectors of agricultural production and credit; community water supply and sanitation; and primary health care. By and large, evaluation findings in 1985 were in line with those reported to the Council in document DP/1985/45. On the positive side, it was found that, for the most part, projects were funded in appropriate complementarity between the various partners, promoted self-help and responded quickly and directly to the needs of low-income groups. On the other hand, the evaluations revealed the need to introduce corrective measures in a number of projects. The foremost of these was the need to improve the institutional arrangements both for monitoring the ongoing activities of the project and for ensuring optimal utilization of the project's outputs. Corrective measures have been introduced into the projects concerned. In addition, evaluation findings are being fed back to the planning, appraisal and implementation processes. In preparation for evaluation activities scheduled for 1986, eleven desk reviews were prepared in 1985.

8. Taking account of its evaluation findings and recognizing that the quality of its programme in terms of effectiveness and relevance is a continuous challenge, requiring constant application and efforts, UNCDF continued in 1985 to give priority to the improvement of its project identification, appraisal and monitoring activities. The participation of the Fund in the Administrator's review of the funds under his authority, requested in Governing Council decision 85/42, provided UNCDF with a valuable opportunity for a critical assessment of its procedures. UNCDF has attached particular importance to the project design and appraisal stages and to strengthening its monitoring and reporting procedures. In this connection, UNCDF established in 1985 a task force to review the current reporting system of the Fund with a view to making it more compatible with (a) the reporting capacity of the field; and (b) the recently introduced UNDP reporting system.

9. Information activities: In its decision 85/24, the Governing Council encouraged UNCDF to make its programme better known to the international community. During 1985, the Fund, in close collaboration with the UNDP Division of Information, prepared for publication and distribution in early 1986 an illustrated brochure on UNCDF. UNCDF held frequent meetings in 1985 to exchange views with recipient countries and donors, and also began the distribution of information materials to Governments on the operational activities of the Fund. In 1986, the Fund will continue to give priority to its information activities.

## II. FINANCIAL STATUS

### A. Resources from voluntary contributions

10. As reported to the Council at its thirty-second session, the anticipated pledges for 1985 amounted to \$21.0 million. Following currency fluctuations during 1985, these pledges were valued at \$21.5 million at year-end. Contributions paid in during 1985 against these pledges amounted to \$21.4 million, while an additional \$0.5 million was received in 1985 against pledges from 1984 and prior years.

11. Following the pledging conference held in November 1985, contributions to the general resources of UNCDF for 1986 are expected to total \$24.0 million. Actual pledges for 1986 announced by 37 countries amounted to \$22.1 million. Two other major donors to the Fund, whose budgetary and/or legislative processes had not concluded before the Conference took place, are expected to pledge an additional \$1.9 million for 1986. Thus, the anticipated contributions for 1986 represent a twelve per cent increase over 1985 contributions to UNCDF.

12. In contrast to the period 1981-1984, when the strength of the US dollar substantially reduced the dollar equivalent both of pledges to UNCDF and of the amounts paid in, the decline in the value of the US dollar against major donor currencies, which set in during the second half of 1985, has had a favourable impact on the dollar equivalent of 1986 pledges to UNCDF. Furthermore, seven of the ten largest donors to UNCDF increased their national currency pledges for 1986 by an average of 15.8 per cent; by country, the increases ranged from 5 per cent to 25 per cent.

#### B. Resources from joint-financing arrangements

13. In 1985, UNCDF continued to fund some of its projects through various joint-financing modalities. New joint-financing agreements for \$4.0 million were concluded during 1985, bringing the total of such arrangements entered into by UNCDF since 1981 to \$32.1 million. During the year, \$7.6 million was paid in against trust fund and cost-sharing arrangements (see annex, table 2).

14. Trust funds: Two of the trust funds concluded by UNCDF in 1985 had no conditions attached on procurement. The Government of Norway agreed to a \$1.0 million untied trust fund for a project in Nicaragua, while the Government of Switzerland undertook to provide a \$1.0 million untied trust fund for a project in Bhutan. Since the latter project was originally approved in 1984 against UNCDF general resources, the effect of this untied trust fund was to free \$1.0 million from general resources for additional programming.

15. Following Governing Council decision 83/5, which authorized the Administrator to continue to accept trust funds conditioned on procurement in the donor country, and as reported in document DP/1986/62, UNCDF reached agreement in 1985 on one new tied trust fund of \$0.7 million from the Government of Belgium for a project in Mali. This is the sixth tied trust fund accepted by UNCDF since 1982.

16. Cost-sharing: In 1985, UNCDF concluded a cost-sharing agreement with the U.S. Government Child Survival Fund, under which the Child Survival Fund would provide \$0.66 million for two projects in Somalia. This is the first such arrangement entered into between UNCDF and the Child Survival Fund.

17. Funding for UNCDF projects from UNDP-administered trust funds: During the year, UNCDF obtained funding totalling \$0.7 million for a portion of two water-development projects in drought-affected areas of Africa from the UNDP Trust Fund for Developing Countries Afflicted by Drought, Famine and Malnutrition.

C. Financial situation of the Fund

18. At the end of 1985, the outstanding commitments of UNCDF stood at \$123.3 million, a sum which is within the limits of the financial control formula of the Fund. An amount of \$39.1 million, representing the difference between outstanding project commitments at the end of 1985 and available resources exclusive of the operational reserve, is expected to be covered by the resources pledged to the Fund for 1986 and by part of the anticipated contributions for 1987.

D. Projections for 1986-1987

19. UNCDF projections for 1986 and 1987 are based on the expected contribution level following the November 1985 pledging conference. The resource planning tables (actual and projected) for the period 1983-1987 are provided in the annex, table 1, which focuses solely on general resources under the partial-funding system, while table 2 provides data on joint-financing arrangements.

20. As indicated in the annex, table 1, and based on the financial control formula for determining commitment levels, new project commitments in 1986 funded only from general resources would total approximately \$37.9 million. Project expenditures for 1986 under general resources are projected at \$30 million, which represents 24.3 per cent of the preceding year's outstanding commitments and is in line with expenditure patterns of 1985. Joint-financing arrangements of \$3.0 million targeted for 1986 are under negotiation. Thus, new commitments in 1986 funded by both general resources and joint financing arrangements are targeted at \$40.9 million while combined expenditures under these two funding sources are estimated at \$36.0 million.

Note

1/ Under the financial control formula of UNCDF, the commitment level of the Fund cannot exceed the sum of available resources, exclusive of the operational reserve, plus two years of annual contributions at the level of the preceding year. This is known as the partial funding system.

Annex

UNITED NATIONS CAPITAL DEVELOPMENT FUND

Table 1. General resource availability and utilization 1983-1987 a/  
(millions of US dollars)

	Actual		Estimated	Projected	
	1983	1984	1985	1986	1987
I. <u>Financial resources (from previous year)</u>					
Total financial resources	97.4	104.3	106.4	109.9	110.5
Less operational reserve	29.6	28.6	24.1	24.7	26.2
Less non-convertible currencies	2.0	1.7	1.2	1.0	1.0
Available resources from previous year	65.8	74.0	81.1	84.2	83.3
II. <u>Resources made available during the year</u>					
Voluntary contributions received	24.2	21.2	21.9	24.0	24.0
Other income	9.3	11.3	11.0	9.0	9.0
Decrease in operational reserve	1.0	4.5	-	-	-
Decrease in non-convertible currencies	0.3	0.5	0.2	-	-
Total resources made available during year	34.8	37.5	33.1	33.0	33.0
III. <u>Use of resources during year</u>					
Project expenditures	24.6	28.1	27.0	30.0	30.0
Administrative expenditures	2.0	2.3	2.4	2.4	2.4
Total programme expenditure	26.6	30.4	29.4	32.4	32.4
Increase in operational reserve	-	-	0.6	1.5	0.2
Increase in non-convertible currency	-	-	-	-	-
Total use of resources	26.6	30.4	30.0	33.9	32.6
IV. <u>TOTAL AVAILABLE RESOURCES AT YEAR-END</u> ( I + II - III )	74.0	81.1	84.2	83.3	83.7
V. <u>Operational reserve and non-convertible currency</u>					
Operational resources level from previous year	29.6	28.6	24.1	24.7	26.2
Change in operational reserve	-1.0	-4.5	+0.6	+1.5	+0.2
Operational reserve level at year-end	28.6	24.1	24.7	26.2	26.4
Level non-convertible currency at year-end	1.7	1.2	1.0	1.0	1.0
VI. <u>Project commitments outstanding</u>					
Project commitments from previous year	148.0	143.9	122.4	123.3	131.2
Plus project approvals during year	23.9	20.4	33.4	37.9	30.5
Less project expenditure during year	24.6	28.1	27.0	30.0	30.0
Less project savings and deobligations during year	0.1	13.8	5.5	-	-
BALANCE OUTSTANDING AT YEAR-END	143.9	122.4	123.3	131.2	131.7

a/ This chart shows the annual level of project approvals made possible from UNCDF general resources. It does not show additional project approvals made possible from cost-sharing and/or trust fund arrangements.

Table 2. Other resource availability and utilization 1983-1987a/  
(millions of US dollars)

	Actual		Estimated	Projected	
	1983	1984	1985	1986	1987
I. Available resources as at 1 January	1.1	1.6	.2	5.8	5.8
II. Resources made available during the year	4.4	.6	7.6	6.0	6.0
Total	5.5	2.2	7.8	11.8	11.8
III. Use of resources during the year (project expend.)	3.9	2.0	2.0	6.0	6.0
IV. Available resources as at 31 December	1.6	.2	5.8	5.8	5.8
V. Project commitments outstanding as at 31 December <sup>b/</sup>	5.6	17.1	18.4	15.4	12.4

a/ Funding from cost-sharing and sub-trust funds. The totals do not include any UNDP administered trust funds in order to avoid double counting on UNDP statements.

b/ Project commitments outstanding for 1983-1985 covered by firm commitments from donors.

