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Special Measures Fund for the Least Developed Countries

SUMMARY

In pursuance of paragraph 10 of Governing Council decision 89/57 of 30 June 1989, this report presents a review of the Special Measures Fund for the Least Developed Countries since its inception. The report covers the steps taken by the Council in favour of least developed countries since 1972 until the introduction of new approval procedures and eligibility criteria in 1986. These reorientations having fallen short of producing the intended results, the administrator now proposes to focus the Special Measures Fund for the Least Developed Countries more sharply on fewer activities responding more directly to the characteristic needs of least developed countries while also strengthening the institutional framework for project approval.

Appended to this report is a brief update on the participation of the United Nations Development Programme in the preparations for the Second United Nations Conference on Least Developed Countries.

INTRODUCTION

1. This report presents a review of the Special Measures Fund for the Least Developed Countries (SMF/LDC) in pursuance of Governing Council decision 89/57 of 30 June 1989, whereby the Council requested the Administrator (a) to review projects financed from the SMF/LDC since the adoption of the new approval procedures in 1986 and to assess the relevance and results of these projects in the light of the Fund's objectives; (b) to assess the Fund's mandate; (c) to examine alternate funding arrangements; and (d) to report thereon to the Council at its special session in February 1990.

2. The report is in three sections. The first briefly reviews the measures which have been taken since 1972 by the Council in favour of LDCs and the use made of resources available through the SMF/LDC until the new approval procedures of 1986. The second provides a general evaluation of projects implemented under the new criteria and, more generally, of the modus operandi of the Fund. The Fund's mandate and alternate funding arrangements, including a proposal for new orientations in the use of the Fund are discussed in the third section.

I. THE ADOPTION OF SPECIAL MEASURES AND THEIR IMPLEMENTATION
FROM 1973 TO 1985

3. In its resolution 2768 (XXVI) of 18 November 1971, the General Assembly approved the first list of 24 "hard-core" least developed countries 1/ to be given special attention by the international community. In the same resolution, the General Assembly requested the United Nations Development Programme (UNDP) to initiate appropriate action-oriented programmes in favour of the LDCs and to take fully into account their special needs. At its fourteenth session (1972), the Council directed the Administrator to take immediate action to provide \$15 million from the estimated programme resources for the period 1973-1976. 2/ The Administrator reported to the Council on a study made of 6 representative LDCs out of the 24, with a view to identifying the main impediments to development and the measures required to mitigate them. Some significant factors emerged, in particular the low capacity for development planning and for other aspects of public administration. In response to the needs of LDCs, the Administrator expressed to the Council at its fourteenth session the view that greater assistance would have to be provided in strengthening the government capacity to plan and co-ordinate and, especially, to identify sectoral and intersectoral objectives and to formulate projects to meet them.

4. Guidelines for the special measures to be undertaken were discussed by the Council at its fifteenth session (1973). In document DP/L.263 of 14 December 1972, the Administrator listed for the Council's consideration the following general categories of proposed new measures:

(a) Measures to enhance the capacity of the countries to absorb technical and pre-investment assistance and investment itself;

(b) Measures to supplement the inputs and assure the effectiveness of ongoing programmes and projects;

(c) Special projects responding to special opportunities, such as economically and socially viable pilot plants and demonstration projects;

(d) Intercountry projects that provide particular advantages for the least developed countries participating in them.

5. Also in document DP/L.263 in providing details of what was meant by measures to enhance the absorptive capacity, the Administrator stated that these measures included:

(a) Strengthening the national development co-ordination and planning machinery, including the capacity for project selection, formulation, appraisal and control of implementation;

(b) Helping the Government to improve or establish, locally based and under its control, consultative and co-ordinating machinery to facilitate the joint assessment of needs for external assistance and the co-ordinated programming of all external aid resources and their proper integration into the country's development plans. Such machinery might include "round-table" consultations presided over by the Government, the strengthening of its own co-ordinating capacity, etc.;

(c) Financing, under controlled conditions, certain inputs into pre-investment activities normally provided by the Government, such as locally available supplies and labour and local subcontracting services; maintenance of premises and equipment; and certain recurrent expenditures of assisted projects;

(d) Assistance in finding prospective sources of investment and in negotiating agreements for the financing and execution of investment projects;

(e) Organization and administration of an integrated national programme of training for development, including the co-ordinated utilization of all external fellowships and other training resources.

6. As the first country programming cycle ended and the second began, special, separate contributions in favour of LDCs continued to be paid to what came to be known informally as the Special Measures Fund, even though in the calculation of indicative planning figures (IPFs) for the second and subsequent cycles special provision was made for LDCs. No formal decision was taken to set up the SMF/LDC as a separate trust fund. Income and expenditures were recorded separately under the UNDP account. The executing agency support costs related to projects financed from the SMF were paid from UNDP general resources. Allocations for projects were made on a fully funded basis. 3/ The relatively modest size of the Fund in relation to IPFs and other sources of funding and the unpredictability of future resources devoted to it seem to have been the reasons for selecting this approach.

7. During the period under review, few countries contributed to the Fund and fewer did so consistently (see annex I for list of contributions, by country). Neither the adoption of the new dimensions in technical co-operation by the General Assembly in its resolution 3405 (XXX) of 28 November 1975 nor that of the Substantial New Programme of Action for the 1980s for the Least Developed Countries (SNPA) adopted by the United Nations Conference on the Least Developed Countries (Paris, September 1981), nor the launching of the Third United Nations Development Decade significantly altered the picture as regards contributions to the SMF/LDC. The resolution on the New Dimensions contained the provision that special attention should be paid to the requirements of LDCs while the SNPA urged donors to make adequate special allocations to the SMF/LDC to provide the extra resources needed for the envisaged increased activities in planning, feasibility studies and project preparation.

8. In an effort to revitalize the SMF, the Administrator submitted, in document DP/1985/11, several proposals to the Governing Council at its thirty-second session (see annex II). The Council, having approved the proposals, the decision was taken to concentrate SMF financing, starting in July 1986, on two groups of activities, namely the following, as set out in documents UNDP/ADM/FIELD/1378-UNDP/UNDP/ADM/HQTRS/693 of 10 January 1986:

(a) The strengthening of national capacity to (i) conduct macro-economic structural and policy analyses to serve as a framework for policy reform and development planning, and programming and management; (ii) conduct technical co-operation needs assessments in order to determine sectoral requirements and relative priorities; (iii) formulate human resources development strategies and plans; and (d) conduct action-oriented feasibility and viability studies to substantiate national development programmes and projects;

(b) The strengthening of non-governmental economic activity in LDCs such as grass-roots programmes, income-generating activities in the rural sector, the strengthening of extension and support services, and the implementation of structural adjustment with a direct effect on the productive capacity of the poorer segments of the population and the promotion of the Transfer of Knowledge through Expatriate Nationals (TOKTEN), the United Nations Volunteers programme (UNV) and operational assistance (OPAS).

9. SMF resources have since then been allocated by regions, on a pro rata basis of the region's total IPF but without distribution by country. A central reserve, to be managed by the Co-ordinator of Assistance to the LDCs, was set up to complement regional allocations. It has been used to provide flexibility to the regional distribution.

II. THE SPECIAL MEASURES FUND FOR THE LEAST DEVELOPED COUNTRIES SINCE 1986

10. While somewhat recasting the criteria for approval of projects, the new procedures did not substantially alter the mandate of the SMF. The gradual shift over the years to additionality without a complementary, qualitative dimension in the selection of projects was arrested thanks to the allocation of funds to the

most relevant projects in light of the redefined criteria. With some exceptions, most projects qualified under the revised criteria. In this respect, a scrutiny of the list of the 146 projects approved since 1986 reveals that country projects appear to fail the test in one fifth of cases, representing one sixth of commitments. These figures include projects which did not squarely fall into the ad hoc classification established as a result of the Council's decision of June 1985, namely economic management, grass-roots activities and non-governmental organizations (NGOs), TOKTEN, UNV and OPAS. None the less, the list of projects approved since 1986 points to a welcome tightening in the application of the relevant guidelines. For the projects that apparently meet the SMF criteria, the breakdown of the funds committed, according to the area of concentration, shows more than half the funds going to economic management, some 10 to 15 per cent to public works, about 20 per cent to grass-roots activities and NGOs with TOKTEN, UNVs, OPAS and others sharing the remaining 10 per cent or so.

11. Commitments have moved in the past three and a half years between 72 per cent and 68 per cent of allocations. The main reason that this rate is not higher is the lack of predictability of SMF resources from one year to the next. As a result, funds cannot be committed until expected resources have materialized. In fact, UNDP has had to delay approval in certain cases until expected contributions had effectively been received. Also, the innovative nature of SMF/LDC assistance under at times difficult LDC operating conditions has contributed to delays in the commitment and expenditure of SMF resources.

12. Following the change in management and the modus operandi of the Fund in 1986, commitments and disbursements initially slowed down, presumably in part because of the adjustment of LDC Governments and the Bureaux to the new criteria. However, expenditures again increased in 1988 to a level more than one and a half times that of the previous year. Commitments during 1989 continued to run smoothly after announcements were made to the Bureaux on funds available. Expenditures recorded by end October 1989 reached \$9.58 million. Contributions to the SMF for 1986-1989 amount to \$57.6 million (\$15.2 million for 1989), as shown in annex III.

13. It has become apparent that the new approval procedures have helped to channel SMF/LDC funds into areas of high priority to LDCs in their efforts to strengthen their planning and development administration capability, their aid absorptive capacity and the promotion of innovative programmes of the grass-roots type able to generate increased employment, income and social welfare. At the same time, other activities which particularly favour LDCs such as round-table conferences, national technical co-operation assessment and programmes (NaTCAPs) 4/ and the United Nations Capital Development Fund (UNCDF), to mention only three of the most important, have not been financed by the SMF for various reasons. For instance, round-table conferences and NaTCAPs have been financed principally by the Special Programme Resources (SPR) and through other bilateral contributions. This was believed preferable in order to ensure continuity of funding levels for these important aid co-ordination activities and also because to some extent non-LDC countries also wished to avail themselves of these services.

14. With only three main contributors, the Fund did not have an assured existence. The failure of any of them to contribute in the future could reduce it

to insignificance when compared with the needs it could have satisfied. With the list of LDCs (see annex IV) longer today by 18 countries than originally (not counting the "as if LDCs", i.e., Angola, Nicaragua and Senegal, which are also eligible to the SMF), the notional amount available annually to each country on average has fallen below the corresponding figure for 1973 in nominal terms and even lower in real terms. ^{5/} These facts certainly indicate that the Fund has so far failed to attract the full support of donors and point to the necessity of reviewing its priorities and procedures with a view to increasing its attractiveness as a vehicle for addressing priority LDC needs in the 1990s. In reviewing the options before him in response to decision 89/57, the Administrator is submitting the proposal contained in chapter III for the consideration of the Council.

III. THE FUTURE OF THE SPECIAL MEASURES FUND

15. The initial assumption on which the proposal below is founded is that the Second United Nations Conference on the Least Developed Countries, to be held in Paris in September 1990, will adopt new measures to improve the situation of these countries. Developing countries in crisis - be they LDCs or not; an increase in their number; little prospect of a reversal in the sinking prices of commodities; the growing debt burden - these are the trends that will have to be reversed. In this endeavour, LDCs deserve special support from the community of nations and UNDP must adapt its own instruments to make them more effective in this regard. At present, financing through the SMF remains scattered among several unrelated areas of activity. To a certain extent, the type of projects and activities it finances are not different from those financed by the IPF, although they appear to address the specific problems of the LDCs: lack of planning and development administration capacity; lack of aid absorptive capacity; and lack of local community-oriented economic and social development programmes targeted on the needs of the least-advantaged population groups.

16. It appears logical to review the SMF rationale and objectives in the context of the SNPA. It was hoped that the Fund could play a role of some importance in the implementation of the latter during the 1980s. While it did this to a certain extent, the major objectives of the SNPA have in general not been fulfilled. In the light of the results so far, it was decided at UNCTAD VII and by the General Assembly at its forty-third session to hold a second conference in 1990 to review progress in the implementation of the SNPA during the past decade and recommend an appropriate course of action for the future.

17. The Administrator suggests, subject to any adjustments arising from the recommendations of the Second Conference, that future SMF/LDC assistance be limited to those activities described in paragraphs 18-20 below.

18. With these primary considerations in mind, a first priority is the strengthening of the national socio-economic planning and development administration capability, including the formulation of human resource development strategies, economic management and development administration in order to help to

improve the utilization of domestic and external human and financial resources for national development. The need to strengthen economic management and aid absorptive capacities is, of course, not unique to LDCs. However, the problem is undoubtedly much more acute in these particular countries. The SNPA (as well as the United Nations Programme of Action for Africa's Economic Recovery and Development (UNPAAERD), which directly concerns the 28 LDCs located in Africa) emphasizes the need for policy reforms in these countries and the consequent necessity to strengthen their capacity to manage their economic development. This particular area of assistance has also been a priority for the UNDP's IPFs; nevertheless, the core funds have been insufficient in quantity. An increasing number of LDCs, in Africa and elsewhere, are embarking on sweeping programmes of structural reforms, including economic liberalization, that can be successful only if the capacity of their human resources and support for economic and social infrastructure are substantially strengthened. As the first section of this paper makes clear, the need for special assistance to the LDCs in planning their social and economic policies has been recognized since the very creation of this category of countries.

19. A second, related, area of special need is assistance in helping least developed countries to assess and plan external technical assistance requirements for the successful implementation of national development programmes. In the Africa region, this has generally taken the form of NaTCAPs intended to help to identify external technical assistance requirements for the successful implementation of priority national development programmes. This type of assistance has also commonly been provided to the LDCs in other regions, on occasion in the context of national planning, Consultative Groups or round-table exercises. This assistance is intended to help strengthen indigenous public service performance and in this way also to improve the utilization of external aid resources, including those which are channeled through NGOs.

20. A third priority area of concentrated activity proposed for SMF/LDC financing relates to the strengthening of the capacity of indigenous NGOs to carry out innovative community-based programmes intended to improve economic and social conditions of the most disadvantaged populations, and also, to a related measure, to improve government understanding and support for indigenous NGOs contributing to national development. This has recently taken on added importance as LDC Governments, in recognition of public sector limitations, have given greater priority to the mobilization of the energies and resources of private sector institutions in support of national development.

21. Alternative financing arrangements have been examined with a view to increasing commitments in relation to allocations and accelerating disbursements. The recommended approach is to introduce a partial funding approach similar to that for the UNDP core IPF, as the basis for advance programming, thus giving Governments and UNDP more advance time to plan the use of SMF resources in support of priority requirements. As a first step, the SMF/LDC has been included in the study on partial funding of other funds administered by UNDP, to be carried out by a consultant. Based on the findings of this study, which is expected to be completed at the beginning of 1990, the Administrator will submit a proposal to the Council on possible alternative financing arrangements for the SMF.

22. The procedures adopted for the management of the SMF in 1986 have proved to be well adapted since they ensure that the resources are used in certain priority areas while giving the regional bureaux the flexibility required for allocating the financing to the most relevant projects. It is therefore proposed to maintain them in the future. The Project Approval Committees of the regional bureaux (PACs) will review all projects proposed for SMF financing and assure their conformity to the criteria adopted. The Co-ordinator of Assistance to the LDCs will participate in the PAC meetings whenever projects are proposed for SMF financing. Depending on the same rules and thresholds applying to IPF-financed projects, the projects could then be submitted to the Action Committee.

23. By approaching the future of the SMF/LDC through this reform of the criteria for the selection of activities, the Administrator believes that the Fund would be more appealing to donors.

Notes

1/ The criteria for qualifying as an LDC were established in 1971 by the Committee for Development Planning as follows (see document E/1987/23):

(a) Per capita gross domestic product as an indicator of both the broad dimension of prevailing poverty and the general capacity of the economy to produce goods and services;

(b) Share of manufacturing in total gross domestic product (GDP) as an indicator of the extent of structural transformation in the economy;

(c) The adult literacy rate - the proportion of literate population in the age-group of 15 years and above, as an indicator of the size of the base for enlarging trained and skilled human resources.

The three criteria were quantified and applied as follows: a country qualified as least developed if it had a per capita GDP of \$100 or less in current prices, a share of manufacturing in total GDP at factor cost of 10 per cent or less, and a literacy rate of 20 per cent or less. In addition, the Committee considered two types of borderline cases as also being eligible. These were:

(a) Per capita GDP of \$100 or less but with a share of manufacturing or a literacy rate somewhat exceeding the above limit, if their average real rate of growth during recent years had been exceptionally low and;

(b) Countries whose per capita GDP was over \$100, but did not exceed \$120, and satisfied the other criteria. In considering borderline cases, however, the Committee emphasized that judgement would have to be exercised to take account of special circumstances which might have disturbed the recent picture.

The per capita GDP criterion has been periodically revised and the adjusted lower and upper cut-off points were \$383 and \$459 as of March 1988, when they were last revised.

Notes (continued)

2/ A total of \$12 million was to come from programme resources and \$3 million from savings achieved with resources earmarked for overhead cost payments to the agencies.

3/ These rules continue to apply.

4/ While NaTCAPs are not, of course, an exercise limited to LDCs, they have proved of particular interest for these countries. Of the 21 NaTCAP exercises under way at the end of 1989, 17 were carried out in LDCs.

5/ By dividing the total contributions for 1989 (\$15.2 million) by 45, which is the total number of LDCs and "as if LDCs", the theoretical share of each would be \$338,000 on average.

Annex I

DAC MEMBERS: CONTRIBUTIONS TO SPECIAL MEASURES FUNDS,
 1972-1985

	<u>US dollars</u>	<u>Year</u>
Belgium	327 932	1973
	641 026	1974
	789 474	1975
	<u>1 025 641</u>	1976
Subtotal	2 784 073	
Canada	500 000	1973
	515 464	1974
	500 000	1975
	505 051	1976
	<u>2 727 273</u>	1977
Subtotal	4 747 788	
Denmark	1 744 186	1982
Finland	550 459	1983
	701 754	1984
	<u>724 638</u>	1985
Subtotal	1 976 851	
France	507 710	1973
	1 470 588	1983
	1 851 852	1984
	<u>689 655</u>	1985
Subtotal	4 519 805	
Germany	3 529 412	1975
Japan	1 500 000	1973
	<u>2 000 000</u>	1974
Subtotal	3 500 000	

	<u>US dollars</u>	<u>Year</u>
Norway	2 469 697	1972
	1 166 667	1973
	1 305 970	1974
	1 422 764	1975
	3 079 710	1976
	1 338 432	1977
	1 930 502	1978
	2 040 816	1979
	2 061 856	1980
	4 312 251	1981
	4 833 108	1982
	2 857 143	1983
	2 838 710	1984
	<u>662 252</u>	1985
Subtotal	32 319 878	
Sweden	3 000 000	1973
	3 409 091	1974
	3 846 154	1975
	3 378 378	1976
	4 366 812	1978
	7 025 761	1979
	7 177 033	1980
	6 542 227	1981
	7 485 013	1982
	6 474 187	1983
	5 972 757	1984
	<u>5 965 909</u>	1985
Subtotal	64 643 322	
Switzerland	1 000 000	1973
	1 000 000	1974
	700 000	1975
	1 724 138	1978
	2 409 639	1979
	2 500 000	1980
	2 030 457	1981
	2 365 591	1982
	4 674 341	1983
	2 208 333	1984
	<u>2 440 711</u>	1985
Subtotal	23 053 210	

TOTALS

2 469 697	1972
8 002 309	1973
8 871 551	1974
10 787 804	1975
7 988 780	1976
4 065 705	1977
8 021 452	1978
11 476 216	1979
11 738 889	1980
12 884 935	1981
16 427 898	1982
16 026 718	1983
13 573 406	1984
<u>10 483 165</u>	1985

Grand total 142 818 525 a/

a/ For the same period, contributions to the LDC from other countries amount to \$122,470.

Annex II

PROPOSALS BY THE ADMINISTRATOR TO REVITALIZE THE SPECIAL MEASURES FUND

1. The following proposals were submitted by the Administrator (DP/1985/11) to the Governing Council at its thirty-second session.

- "[20] ... It is, therefore, recommended that consideration be given to the use of SMF/LDC for sustained assistance to LDCs in such areas of special concentration where the application of additional resources could make a difference and have special impact on a country's capability to manage its development process.
- "[21] Such assistance, representing adaptations and modifications, in part, of the initial terms of reference for SMF/LDC, would include, inter alia, the strengthening of national capacity to (a) conduct macro-economic structural and policy analyses to serve as a framework for policy reform and development planning, and programming and management; (b) conduct technical co-operation needs assessments in order to determine sectoral requirements and relative priorities; (c) formulate human resources development strategies and plans; and (d) conduct action-oriented feasibility and viability studies to substantiate national development programmes and projects.
- "[22] Other special activities which might be considered for SMF/LDC support would include: (a) the strengthening of non-governmental economic activity in LDCs such as grass-roots programmes, income generating activities in the rural sector, the strengthening of extension and support services and implementation of structural adjustments with a direct effect on the productive capacity of the poorer segments of the population; and (b) the promotion of TOKTEN (transfer of knowledge through expatriate nationals) type arrangements which mobilize foreign-based national human resources for short-term special assignments, and of United Nations volunteers and OPAS (operational assistance) type arrangements to temporarily fill gaps in national expertise.
- "[23] If SMF/LDC is to support selected development activities in LDCs, the continued validity of the current system of a pro rata distribution of available Fund resources to all LDCs should be examined. Depending on the size of SMF/LDC, it might become necessary to reserve all or a part of those resources for the financing of such activities. This might call for the central management of all or part of the Fund.
- "[24] The advantages of such an arrangement would be several. The dispersal over many users of limited resources would be avoided and, therefore, the loss of opportunity to make the additional funds contribute to development in a meaningful way. It would also provide the assurance that the funds are used in accordance with the objectives of SNPA which is not always the case when SMF/LDC resources are programmed along with the country IPF."

Annex III

FUNDING FOR SPECIAL MEASURES FUND FOR THE LEAST
 DEVELOPED COUNTRIES

Table 1. Voluntary contributions

(Millions of US dollars)

1972	2.5	1986	12.0
1973	8.0	1987	14.5
1974	7.9	1988	15.9
1975	11.1	1989	<u>15.2</u>
1976	8.7		
1977	4.1	Subtotal	57.6
1978	8.0		
1979	11.5	Total	<u>200.6</u>
1980	11.7		
1981	12.9		
1982	16.4		
1983	16.1		
1984	13.6		
1985	<u>10.5</u>		
Subtotal	143.0		

Table 2. 1989 pledges

(US dollars)

Bhutan	1 900
Central African Republic	3 391
Finland	1 408 451 <u>a/</u>
Democratic People's Republic of Korea	10 000
Lao People's Democratic Republic	1 000 <u>a/</u>
Sweden	9 176 050 <u>a/</u>
Switzerland	4 573 171 <u>a/</u>
Malawi	816 <u>a/</u>
United Republic of Tanzania	9 677 <u>a/</u>
Total	<u>15 184 456</u>

a/ Dollar equivalent at payment date, unpaid pledges are based on November 1989 rates.

Annex IV

LIST OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES

<u>Country</u>	<u>Date of inclusion on the list</u>	<u>Country</u>	<u>Date of inclusion on the list</u>
1. Afghanistan	1971	22. United Republic of Tanzania	1971
2. Benin	"	23. Burkina Faso	"
3. Bhutan	"	24. Yemen	"
4. Botswana	"	25. Bangladesh	1975
5. Burundi	"	26. Central African Republic	"
6. Chad	"	27. Democratic Yemen	"
7. Ethiopia	"	28. Gambia	"
8. Guinea	"	29. Cape Verde	1977
9. Haiti	"	30. Comoros	"
10. Lao People's Democratic Republic	"	31. Guinea-Bissau	1981
11. Lesotho	"	32. Djibouti	1982
12. Malawi	"	33. Equatorial Guinea	"
13. Maldives	"	34. Sao Tome and Principe	"
14. Mali	"	35. Sierra Leone	"
15. Nepal	"	36. Togo	"
16. Niger	"	37. Vanuatu	1985
17. Rwanda	"	38. Tuvalu	1986
18. Samoa	"	39. Kiribati	"
19. Somalia	"	40. Mauritania	"
20. Sudan	"	41. Burma	1987
21. Uganda	"	42. Mozambique	1988

