

**UNITED NATIONS
DEVELOPMENT
PROGRAMME**

Distr.
GENERAL

DP/442

5 March 1980

ORIGINAL: ENGLISH

GOVERNING COUNCIL
Twenty-seventh session
June 1980
Agenda item 4(c)

INVESTMENT FOLLOW-UP**Report of the Administrator****Summary**

The report describes the measures taken by the Administrator during the past year to intensify investment follow-up activity. Considerable progress has been made under the co-operative arrangement with the Food and Agriculture Organization of the United Nations (FAO) whereby multi-disciplinary teams of the FAO Investment Centre are used to enhance the investment potential of selected UNDP projects. Accordingly, the Administrator recommends the continuation of the arrangement, with costs to be financed from project budgets to the maximum extent possible. Since the co-operative arrangement may incur limited costs in the initial phase of its extension to other agencies and may involve further work on completed projects, the Administrator would cover these costs on a one-time basis up to a limit of \$100,000 from savings in the 1980/1981 programme support costs and administrative services budget. The Administrator will report in an addendum to this document on action taken in response to the request of the Council for studies on investment development (decision 79/10, III).

I. BACKGROUND

1. At its twenty-fifth session the Governing Council requested the Administrator, in co-operation with member Governments and United Nations specialized agencies, to intensify investment follow-up activities for UNDP-assisted projects. Several measures were reported to the Council at its twenty-sixth session, including the establishment in January 1979 of an Investment Development Office; agreement for an experimental arrangement with the FAO Investment Centre to use multidisciplinary teams in order to make UNDP-assisted projects more bankable; closer collaboration with multilateral and bilateral sources of finance; and initiation of a study on the linkages of pre-investment and investment. The results of these efforts have been encouraging and are described in this report.

II. FORMULATION OF INVESTMENT-ORIENTED PROJECTS AND COUNTRY PROGRAMMES

2. In order to assist Governments in ensuring that successful pre-investment projects attract either domestic or external investments, it is essential that investment-oriented projects are suitably designed and potential investors are associated with them as early as possible in their development. The Investment Development Office therefore reviews whether investment-oriented projects are properly formulated and, subject to the recipient Government's agreement, seeks to interest potential investors in the project. It further helps to strengthen UNDP's contacts with the various financial and development institutions and has initiated, where appropriate, the application of "special interest arrangements" (see paragraphs 9-11 below) with these organizations.

3. An examination of many country programmes shows that the pre-investment content has declined appreciably in recent years. At its last session, the Governing Council invited Governments "to give due priority to pre-investment studies in their country programmes" (decision 79/10, III). In view of the importance of pre-investment studies in facilitating new capital investment, the Governing Council may wish to re-iterate this invitation. The Resident Representatives work with Governments to ensure that in the formulation of country programmes, projects with investment potential are included, as appropriate, when determining priorities for UNDP assistance.

III. UNDP/FAO CO-OPERATIVE AGREEMENTS TO IMPROVE THE INVESTMENT POTENTIAL OF SELECTED AGRICULTURAL PROJECTS AND EXTENSION OF THE CO-OPERATION ARRANGEMENT TO OTHER AGENCIES

4. The Council will recall that in early 1979 UNDP entered into an experimental agreement with FAO to use multidisciplinary teams from the FAO Investment Centre for analysing a selected group of agricultural projects in order to enhance their economic, financial and technical viability with a view to attracting investment.

5. At that time twenty-five projects in twenty-two countries and five regional projects were identified for desk review. With the co-operation of Governments and project authorities, missions from the FAO Investment Centre visited eleven of these projects and, based on their conclusions and recommendations, six projects have been re-oriented to meet the requirements for possible follow-up investment by domestic and external sources of finance. The projects concerned include agriculture and resettlement in Ethiopia, production of rice in the United Republic of Tanzania,

integrated rural development in the Yemen Arab Republic, tube-well irrigation in Bangladesh, crop production in Antigua, and forestry management and community development in Morocco. There are good prospects for the investment from these projects in the order of \$200 million. Development and financial institutions have expressed special interest in some of the projects and included others in their pipeline of projects for future financing. UNDP and FAO have selected a further group of projects for intensive review in 1980. In the selection process, due consideration was given to geographic distribution among regions and particular emphasis was given to projects in the Least Developed Countries (LDCs) in response to the directives of the Governing Council.

6. An important point which has emerged from the UNDP/FAO co-operative experience is the need for Governments in formulating projects for UNDP assistance to ensure that sufficient funds are included in the proposals to enable the project to benefit from the necessary investment analysis. The relatively minor additional costs of bringing a project to the investment stage should be foreseen in the project budget and should be sufficient to permit the type of work done under the arrangement with FAO. Investment-oriented projects would thus routinely receive the required expertise from the FAO Investment Centre and other agency sources as appropriate. The cost would be met from the project budgets, thus reducing to a minimum the number of "completed" studies which lack essential data for immediate submission to investment sources.

7. The co-operative arrangement between UNDP and FAO has proved useful in attracting investment interest in UNDP-assisted projects and the Administrator recommends its continuation. At its twenty-sixth session the Governing Council requested the Administrator "to review, on the basis of experience, the possibility of continuing this arrangement and extending it to other executing agencies" (decision 79/10, III). The Administrator has vigorously pursued the possibility of similar arrangements with other agencies, in particular with the United Nations Industrial Development Organization (UNIDO) and the World Health Organization (WHO) for projects in the fields of industry, and water supply and sewage, respectively. These arrangements are still under discussion and the Governing Council will be kept informed of the progress made.

8. There may be initial costs involved in extending similar co-operative arrangements to other agencies as well as exceptional cases where completed projects which are to be reviewed will require investment and financial expertise. The Administrator expects to finance these costs on a one-time basis up to a limit of \$100,000 from savings in the 1980/1981 programme support costs and administrative services budget.

IV. CO-OPERATION WITH MULTILATERAL AND BILATERAL SOURCES OF FINANCE

9. The special interest arrangements with the International Bank for Reconstruction and Development (World Bank) and the regional development banks have been reviewed and strengthened over the last year. Expression of special interest in a project enables the development bank concerned to monitor its formulation and execution by another agency so that the pre-lending activities which are needed to facilitate appraisal for a loan or credit are carried out on a systematic basis.

10. In the past year the World Bank has expressed special interest in six investment-oriented projects and is additionally executing twenty-five projects with investment potential. Countries where special interest projects are under way have been advised and the Bank routinely receives information on their progress from the executing agencies and field offices concerned. Use of the special interest procedure is expected to increase among development banks as UNDP pre-investment activity is stepped up.

11. A working relationship has been developed with the International Fund for Agricultural Development (IFAD) through which the Fund may express special interest in projects. UNDP regularly draws the attention of IFAD to projects in the areas of food production, nutrition and poverty-oriented rural development which may be of interest for possible follow-up financing. Preliminary discussions have been held on how to increase follow-up financing to projects by the European Development Fund, the Arab Bank for Economic Development in Africa and some bilateral sources of finance. In addition, projects assisted by UNDP through the country IPFs often undertake pre-investment studies and provide investment support for United Nations Capital Development Fund projects.

V. STUDIES ON INVESTMENT DEVELOPMENT

12. At the last Council session the Administrator was asked to carry out investment development studies as proposed in document DP/363/Add.3, on how to maximize investment development through UNDP-assisted projects. The studies were to analyze the factors which are influential in determining the success of pre-investment projects in attracting investment and to make recommendations on how to make UNDP projects more bankable. The Administrator will report in an addendum to this document on the action taken in response to the Council's request.

VI. INFORMATION ON FOLLOW-UP INVESTMENT

13. Action is under way to develop more accurate information on the amount of investment generated by UNDP projects. Specific measures include, inter alia, clear definition of follow-up investments, computerization of data on investments recorded, and development of channels of communication with sources of finance which at present are not reporting such information.

VII. RECOMMENDATIONS

14. Action to promote investment follow-up has substantially increased during the past year and a foundation has been laid for a progressive increase in such activity in future years. The Council may wish to consider recommending action along the following lines.

The Governing Council,

1. Takes note of the report of the Administrator on investment follow-up activities of UNDP (DP/442) and of its addendum (DP/442/Add.1), as well as the views expressed thereon by delegations during the session;

2. Reiterates its invitation to Governments to accord due priority to pre-investment activities in the country programmes;

3. Endorses the recommendation of the Administrator for the continuation of the UNDP/FAO co-operative arrangement along the lines described in DP/442, and requests the Administrator to continue his discussions with a view to facilitating similar arrangements with other agencies and to meet the costs from savings in the 1980/1981 appropriation for the UNDP programme support costs and administrative services budget, up to a limit of \$100,000 on a one-time basis;

4. Requests the Administrator to report on new developments for increasing investment follow-up at the Council's twenty-eighth session.

15. In finalizing the decision, the Council may also wish to take account of the follow-up action taken by the Administrator in response to the Council's request for investment development studies, which is to be contained in an addendum to this report.