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BUILDING DEVELOPMENT PARTNERSHIP THROUGH CO-FINANCING

Executive Summary

This document contains the executive summary of an evaluation of the UNDP non-core resources and co-financing modalities prepared for UNDP by an evaluation team in February 1996.

The foundation for a solid UNDP co-financing venture is laid when there is a convergence of UNDP's global development priorities with those of governments and donors.

FROM A REGIONAL INITIATIVE TO GLOBAL OPPORTUNITIES

In September 1983, Resident Representatives of the Regional Bureau for Latin America and the Caribbean (RBLAC) met in Santo Domingo. One of the main topics on their agenda was the question of the future of UNDP operations in the region. The meeting was prompted by the news that indicative planning figure (IPF) core funds would be reduced substantially, raising the question of whether the UNDP country offices in the region could survive. It was clear that without other sources of funds, the country offices would not be sustainable with their small IPFs. This situation activated a determined effort to mobilize funds for UNDP administration that were additional to UNDP's IPF country budgets for the region and that would respond to a new set of priorities--among them the war against poverty and sustainable environmental management.

Although there had been earlier instances of co-financing in the LAC region, the RBLAC decided in October 1990 to formulate and implement a resource mobilization strategy to "consolidate what until then had been ad hoc initiatives without clear goals by country and for the region as a whole". As the Bureau reports, "the Strategy established the mechanisms that allowed the RBLAC Directorate to assume full corporate responsibility and to exercise the necessary management discipline to move each and every one in the Region into achieving the Strategy's objectives."[1] A few months earlier, in May 1990, the Administrator's report to the Governing Council had outlined a "funding strategy for UNDP". One feature of this strategy was a statement of "principles to guide the mobilization and programming of non-core resources within the context of expanded country programmes..." (referred to in the discussion of terminology in annex I).

The Movement to Mobilize Non-core Resources

This determination to mobilize non-core resources has led to the movement in the RBLAC that is now being encouraged throughout UNDP. The movement is further prompted by the fact that UNDP's core funding worldwide is declining--a reduction of $130 million between 1991/1992 and 1993/1994. As a consequence, there was an extraordinary growth in UNDP's non-core funding by over 200 per cent between 1991 and 1994.[2] According to data on the fifth programming cycle, non-core re-sources now exceed the IPF resources for the same period, with the LAC region providing about 60 per cent of the non-core resources--primarily from middle-income countries through government cost-sharing.[3]

Emerging Concerns

The current worldwide drive to increase non-core funding is forcing major changes in UNDP's role and operations; it is leading to a major impact on UNDP's organizational culture. For country offices to have to raise their own funds and provide project services to others and not simply administer funds allocated to them, they must change their mindsets and reorient their practices and staffing. In the LAC region, this reorientation has been largely made, but the other regions have only recently been awakening to the challenge. This reorientation is occurring at the same time that other important initiatives are under way in UNDP's operations, such as the refinement of UNDP's focus on sustainable human development (SHD), the introduction of the programme approach, the widespread adoption of national execution, and the reframing of the role of the UNDP resident representative/UN resident coordinator. From a larger perspective, it is occurring at a time when the United Nations Agenda for Development is raising questions about the structure and operations of the United Nations as whole and considering a move towards a more unified and integrated system for assisting countries in achieving their development objectives. The movement, in this setting, to mobilize resources through co-financing arrangements can profoundly affect, both positively and negatively, the accomplishments of these important initiatives. The mobilization of non-core resources for UNDP and its partner countries through co-financing arrangements, particularly when joined with IPF resources, provides UNDP with an important avenue for the achievement of UNDP's mission of sustainable human and capacity development. Given the limited and declining core resources and their comparatively modest levels in the larger context of donor assistance, co-financing provides a means of magnifying UNDP's initiatives and capitalizing on the potential of its country presence and rapport with host governments. At the same time, a preoccupation with raising non-core resources can distort these efforts and undercut the important initiatives for UNDP's refinement of its mission and programme strategies.

As a consequence, the evaluation team points out that UNDP now needs to address a number of underlying questions:

- As the co-financing movement becomes more pervasive in UNDP operations, will the resulting shift in the balance from core funds to non-core co-financed resources change the basic character of UNDP operations?

- What are the implications for UNDP of a shift from an operation with its own programme and core funds to an operation that provides supporting services to governments and donors for programmes designated and funded by them--from undesignated to designated funding?

- How will this shift be perceived and greeted by UNDP's partners--bilateral donors, IFIs, and benefiting countries?

- How will this shift affect programme opportunities and operations in the lower-income countries compared with middle-income countries?

Clarifying Terminology

The working definitions for the terms including and associated with resource mobilization, non-core funding and co-financing are defined in annex I. These definitions are summarized below (see box on basic working definitions). The co-financing modalities refer to the variety of ways to secure non-core funds, such as cost-sharing, parallel financing, trust funds, and government cash counterpart contributions. The resources may come from the recipient countries themselves, other UN agencies, international financial institutions (IFIs), Development Assistance Committee (DAC) donors and even the private sector.

OVERVIEW OF RESULTS

The report provides an overview of co-financing results for UNDP as a whole and for each region. It contains an analysis of the pros and cons of each modality and the preferences of donors and governments and it highlights the possibilities, limitations and risks of some co-financing modalities. The factors that affect the opportunities for a country-based co-financing strategy are identified; the Latin America experience is examined; and possible lessons for other regions are presented.

Growth

In terms of growth in resources, non-core funds now exceed the core IPF resources by about 5 per cent, which amounts to $3 billion for the fifth programming cycle. However, this growth is concentrated in the Latin America region, which provides about 60 per cent of the non-core resources.

Basic Working Definitions

Resource mobilization is a broad term that refers to securing funds for UNDP's administration and programmes either as core budgetary resources or as non-core financing for designated regional and country programmes. Non-core resources may be in the form of cost-sharing, trust funds, or government cash counterpart contributions (GCCCs) and enter UNDP's accounts for its administration.

Co-financing is an umbrella term covering the cost-sharing, trust fund, parallel financing and GCCC modalities.

The *cost-sharing modality* includes resources from governments (government cost-sharing) which may be from that country's own budget or from the technical cooperation components of loans or credits to that government from IFIs, or from donor government and/or IFI grants (third-party cost-sharing). Cost-sharing resources are for designated programmes and projects and are commingled with UNDP's core funds.

The *trust fund modality* is established for a specific purpose, such as a particular project for one or more countries, or for regional and global programmes. Donor inputs maintain their separate identity in UNDP's accounts.

The *parallel financing modality* is an arrangement in which UNDP and one or more donors agree to finance a common programme but administer their contributions separately.

The *GCCC modality* funds are government obligations to make cash payments in local currency towards UNDP-assisted projects.

Management service agreements (MSAs) are not a form of co-financing but rather a procurement service for a donor or government programme. The availability of this service may help to mobilize funds for development programmes.

UNDP-administered funds have voluntary contributions as core funds and may provide for participation in sub-trust funds and cost-sharing arrangements. These funds are established for special programme purposes and are administered like, but separate from, IPFs. Examples include UNCDF, UNFSTD, UNIFEM and UNSO.

Twenty-two DAC donors for the fifth programming cycle are contributing about $617.3 million towards cost-sharing and trust funds. The major part of these resources is for countries and programmes that are concerned with UNDP's responsibilities for peace accords and rehabilitation activities.

UNDP Relationships

Beyond the monetary achievements of non-core resource mobilization, there have been some notable accomplishments derived from employing co-financing modalities. In a number of South and Central American countries, UNDP has been able to develop a relationship of trust with the host countries and build up its credibility in moments of crisis and change. Although the total funding amounts for co-financing modalities have been modest in the other regions compared to the LAC region, UNDP has also made a distinctive mark in its work in co-financing arrangements in Botswana, Lebanon, Mongolia, Mozambique, the Occupied Palestinian Territories, Papua New Guinea and Turkey and in regional programmes. However, the pattern in many other countries is less noteworthy and opportunities for significant co-financing arrangements may come slowly or not at all.

Replicability

It cannot be assumed that the LAC experience can be replicated in scale or form in other regions and countries. The co-financing accomplishment in LAC countries is a consequence of their distinctive conditions in time and circumstance. These conditions, such as government attitudes that favour UNDP's administration of government funds to serve staffing and implementation interests, are not necessarily inherent in other regions. However, the LAC experience provides insights and lessons for considering co-financing strategies in other countries.

Sustainability

It is difficult to foresee whether co-financing can continue as a permanent funding arrangement of UNDP in the LAC region. It is likely that it will continue in the next programming period with variations among the countries. There are positive and negative factors that affect the continuation of co-financing at its present levels (see chapter three for a full analysis).

Sustainable Human Development

In many LAC country programmes, cost-sharing has added substance and impact to social-sector and environmental management projects responsive to SHD. The emphasis is on upstream measures, i.e., on institutional capacity-building and organizational reforms by which the country can design and implement its own policies to combat poverty, preserve the environment, and exploit its resources in a sustainable manner. The Governments' priorities, in more cases than not, did and do coincide with those of UNDP.[4]

It is important to note that these priorities have aligned themselves with those of the IFIs as well which, after a hiatus, renewed their activities in

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Latin America. The Governments had to accept certain conditions for new loans and assistance after the arrears had been cleared. These included public-sector reform, liberalization of the economies, poverty alleviation, and similar social programmes--precisely the conditions that UNDP advocates.

It was not difficult to see, then, why the IFIs were willing to co-finance projects with UNDP. Similarly, there has been a convergence of development priorities with many bilateral donors. Building a consensus among governments and donors on these priorities and on specific programmes to address them is an appropriate role for the UNDP country office.

The UNDP regional programme in Latin America also provides interesting insights into two additional functions essential to successful co-financing:

- advocacy, where it has played a precursor role both in the area of poverty alleviation and in gaining the support of the region for the concept of sustainable development and the preservation of the cultural patrimony; and

- managing complex multi-country projects in critical areas such as transportation, the introduction of competitive industrial technology, economic policy and integration.

It is difficult for the Inter-American Development Bank (IDB) and the World Bank to make multi-country loans. UNDP regional projects, supported by cost-sharing derived from IFI loans to the individual participating countries, are thus seen as a possible approach to the IFI financing of regional or multi-country development.

Some Concerns

Two basic concerns have been voiced with regard to massive cost-sharing in the Latin America region. One is that the availability of cost-sharing may lead UNDP to approve projects to which it can make no substantive contribution. It is thus feared that UNDP may be used for purely administrative functions (i.e., a simple crown agent or fiduciary role), as a hedge against currency fluctuations, or as a convenient device to bypass national tax legislation or generally applicable limitations on public service staffing and salaries. A related concern is that cost-sharing, especially government cost-sharing combined with national execution and the use of national consultants, may serve to finance ordinary government functions, generating durable dependencies and a two-track civil service--neither of which would be compatible with good governance and the concept of sustainability.

Both governments and UNDP country offices have become more aware of these problems. Occasionally a project may have been approved primarily to establish a relationship of trust with the host Government, and conjunctural motivations may at times also have been present in cost-sharing arrangements. However, in the four South American countries visited, for example, the UNDP country offices have rejected important cost-sharing project proposals when they were not satisfied with their substantive soundness, modalities of execution or sustainability, or if they felt that UNDP would have no substantive role and no means to exercise actual management control.

Where cost-sharing comes from the government budget, the UNDP country office generally participates in the project identification and formulation, and it is thus rare that proposals have to be rejected. Also, the danger of generating durable dependencies and a two-track civil service by using cost-shared UNDP projects to hire large numbers of staff for government departments in the four South American countries visited appears to be under control.

Two aspects of accountability should be viewed separately: financial and substantive. There are no indications that financial accountability is compromised in the projects implemented through the national execution (NEX) modality, and almost all of them are co-financed in the LAC region although audits may be necessary to confirm this conclusion.[5] The issue of substantive accountability is somewhat complex, simply because the country offices are overburdened with large numbers of projects, and programme officers usually carry the responsibility of both financial and substantive accountability. Financial accountability always tends to supersede substantive accountability for obvious reasons. So far there is no evidence that substantive accountability is compromised in the LAC region.

Major Factors Affecting Co-financing Opportunities

The evaluators have discerned a range of factors working for and against co-financing arrangements in five broad categories:

- the country's political and economic situation and government attitudes;
- the donor community circumstances and preferences (particularly in-country);
- the nature of the programme seeking financing;
- the special characteristics of the several co-financing modalities; and
- the importance of UNDP's role and image.

SUMMARY OF RECOMMENDATIONS

The evaluators conclude that realizing the potential from co-financing requires some rethinking of UNDP's policies and strategies. This is important to ensure that co-financing arrangements strengthen and not weaken UNDP's role in international development. It is also important to ensure that UNDP accommodates the highly varied circumstances of its partner countries worldwide. To this end, the evaluation team offers a number of specific recommendations that may help in this endeavour.

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Policy Framework

The evaluators point to four co-financing policy recommendations which emerge from their evaluation:

- Overarching Policy: Develop a consensus among UNDP's partners and within the UNDP staff on a policy framework for co-financing operations.

- Development Focus: Identify the functions and programmes that are distinctive for UNDP co-financing arrangements within its mandate for sustainable human development and poverty alleviation based on experience that demonstrates UNDP's value-added and development contribution.

- UNDP Role: Seek to have a substantive role and stake in all co-financing arrangements as an active participant and leader. Country offices should have access to a sufficient level of IPF funds to support this substantive role.

- Assessing Accomplishments: Develop qualitative and programmatic criteria for achievements in co-financing arrangements that emphasize UNDP's substantive participation and commitment.

Co-financing Strategies

The evaluators made the following recommendations relating to co-financing strategies:

- Identifying Opportunities: Do not simply attempt to replicate the LAC experience world-wide but draw from that experience to forge country-by-country strategies.

- Comparative Advantage: Identify and develop case studies of the replicable features of successful LAC and other regional co-financing experience.

- Regional Initiatives: Take the initiative in identifying and promoting regional programmes that address multi-country development interests.

Management and Operations

The evaluators have developed eight management and operational recommendations relating to co-financing:

- Headquarters/Country Office Relationships: Streamline headquarters/country office requirements for co-financed projects.

- UNDP Resident Representative/UN Resident Coordinator Role: Undertake measures that will enhance worldwide the UNDP resident representatives'/UN Resident Coordinators' leadership skills in programming and facilitating co-financing arrangements.

- Definitions and Relationships: Revise the guiding criteria and definitions for each of the co-financing modalities in the context of the policy framework.

- Programme Approach and National Execution: Develop guidance on the programme approach and national execution as they apply to co-financing policies, strategies and modalities.

- Financial and Substantive Accountability: Ensure that in both headquarters and country offices, procedures are well established for both financial and substantive accountability for co-financing arrangements.

- Management Information Systems: Take steps to improve the usefulness and reliability of management information systems for UNDP's co-financing operations.

- Charging Fees: Further review of the rates and rate-setting procedures is desirable; however, responsibility for the negotiation and setting of rates should reside in the country offices. n

- Private Sector Access: Review the restrictions with a view towards opening up greater but prudent access to private-sector resources for co-financing arrangements.

Recommended Studies

Finally, the evaluators suggest that UNDP undertake additional assessments to learn about existing uses and practices in co-financing arrangements with a focus on:

- selected projects;

- UNDP's regulatory impact;

- management service agreements; and

- software development in the country offices.

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Notes

[1]"A Non-core Resources Mobilization Strategy: The RBLAC Experience. A Summary Overview", *25 April 1995. See page 59 for a summary of the RBLAC strategy.*

[2]UNDP and Administered Funds: 1991-1994, *Division of Resources Mobilization, March 1995.*

[3]*Income and cash management (ICM) database.*

[4]*For details see OESP/UNDP,* Building a New UNDP, *1995, pp. 28ff.*

[5]*See UNDP/OESP,* National Execution Modality: Promise and Challenges, *New York, 1995, Chapter 3.*
