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Evaluation

Evaluation of UNDP non-core resources

Note by the Administrator

I. Background

1. The evaluation of UNDP non-core resources was launched by the UNDP Evaluation Office in 2000 in compliance with Executive Board decision 98/2 to provide an assessment of UNDP experience with non-core funding, following Executive Board decision 98/2.

2. The present paper provides the Executive Board with a preliminary response by the Administrator to the executive summary (see annex). The full evaluation report, which contains detailed information on findings, statistics and data, will be made available to the Board at the current session.

II. General remarks

3. There has been a significant evolution since the time the evaluation was requested by the Executive Board over three years ago. In the years immediately preceding the Board's review of non-core funding in January 1998, the non-core market was characterized by a number of specific features. In particular, only a limited number of donors were contributing significant amounts to non-core resources. In addition, the situation was marked by rapidly increasing volumes of programme country cost-sharing. Today, the situation is characterized by a broader interest in non-core funding from the donor community. The increase in donor non-core resources in recent years is referred to by the evaluation report. In addition, programme country cost-sharing has actually declined over the last two years compared to the late 1990s. The Administrator believes that in the interests of clarity and transparency, resource tables and analytical presentations must differentiate clearly between donor (external) sources of financing and programme country cost-sharing (local) sources of financing.

4. The evaluation stresses the importance of a coherent framework to provide the instrument needed to be able to reconcile the supply and demand factors influencing the non-core market. The Administrator concurs with this assessment. The multi-year funding framework (MYFF) provides precisely such an instrument. It covers development results irrespective of sources of funding. It is an instrument specifically designed to reconcile the need for focus with responsiveness to country-level demand as the overarching principle of UNDP work. The MYFF is an instrument that has been designed since the time at which the evaluation was requested. It provides a completely new basis on which to ensure a coherent programme in which core and non-core sources of financing are fully aligned behind a set of common objectives and goals.

5. The executive summary concludes that there is broad alignment between core and non-core funding across themes. UNDP will review this analysis in more detail. The thematic trust funds currently being launched in UNDP priority areas will help to strengthen the alignment between core and non-core programmes. The assessment of the evaluation report is that there are instances in the case of programme cost-sharing where UNDP is providing services outside its areas of focus. The evaluation recommends a measure of pragmatism at the margin. While the Administrator concurs with the need for pragmatism and responsiveness to specific circumstances, he nonetheless remains strongly committed to the need for increased focus and for the organization to stop undertaking activities that can better be provided by others. The Administrator attaches particular importance to the finding of the report that the critical issue of ownership is not a function of the source of funding. By the same token, the commitment of UNDP to strengthen ownership holds for all programmes with which UNDP is associated.

6. The evaluation stresses the need for institutional learning in resource-mobilization techniques, the replication of successful practices, and for capacity-building of country offices for resource mobilization. The Administrator strongly endorses these findings. He is in particular committed to strengthening non-core resource mobilization efforts in least developed countries (LDCs). The Administrator believes that by addressing this issue and by giving it high priority, UNDP can make a contribution to redressing the regressive tendencies of Official Development Assistance (ODA) flows with regard to LDCs in recent years. An intensive programme of country office support, training and dissemination of best practices is being initiated.

7. The Administrator also concurs with the need to strengthen various aspects of the management of non-core resources. Client responsiveness and accountability are critical. Improvements in both financial and substantive reporting are a priority. Measures have been initiated in 2001 that should lead to significantly improved performance by the end of the year. Non-core performance is also affected by the effectiveness of implementation arrangements. The non-core environment, combined with emerging substantive requirements, makes speed and flexibility indispensable to success. The Administrator will revert to this in the context of existing ongoing reviews.

8. Action has already been taken on the issues raised by the evaluation relating to cost-recovery. The UNDP strategy is outlined in the biennial budget proposals being submitted to the Executive Board at its second regular session 2001. The Administrator is committed to ensuring that appropriate costing practices are applied in all country offices.

9. Finally, the Administrator notes the importance attached by the evaluation to an adequate level of core resources. He wishes to reiterate his belief that core resources remain the bedrock of UNDP, enabling it to serve as the operational arm of the United Nations at the country level and preserving its fundamental, multilateral character. Non-core resources provide an important complement to core funding but they are not interchangeable.

III. Conclusion

10. The Administrator is in broad agreement with the recommendations put forward by the evaluation. He looks forward to reviewing the full report in detail. He will revert with any further observations on the occasion of the Executive Board's full discussion on this item.

Annex

EVALUATION OF UNDP NON-CORE RESOURCES

EXECUTIVE SUMMARY

I. Introduction and context

Over the past decade, non-core resources have emerged as a substantial funding source for UNDP programmes. The increase in non-core funds, concomitant with a steady decline in core funds, has spurred an extensive debate within UNDP as well as with the members of its Executive Board. At the heart of the debate is the role of non-core funding in furthering the UNDP mandate, particularly in the countries with substantial amounts of non-core funding and as it relates to the development of national capacities. The rise in non-core funding also brings to the fore issues germane to the internal organization of UNDP, such as its capacities to mobilize non-core resources effectively, to function and deliver efficiently in a more market-oriented environment, to coordinate with third parties and to align its micro-level activities with its macro mandate.

These issues present themselves within the context of a rapidly transforming UNDP. Over the past several years, UNDP has introduced results based management (RBM), the strategic results framework (SRF) and the multi-year funding framework (MYFF)—the 2000-2003 version of which presents for the first time an integrated approach to core and non-core funding in support of the development results the organization is striving to influence. The Administrator also presented his new vision for the organization in his Business Plans, 2000-2003: The way forward (DP/2000/8). These new tools and strategies are both influenced by and need to take account of the rise in non-core funding.

To explore and address the issues presented by non-core funding, in its decision 98/2, the Executive Board of UNDP requested the Administrator to submit at the annual session 2001 "an evaluation, in consultation with programme countries, relevant units of the United Nations system, and with members of the Board, on all aspects of the activities funded by non-core resources, including government cost-sharing, and on their impact on national capacities particularly concerning the modalities applied by the United Nations Development Programme."

From January to May 2001, a team of three consultants assisted by a research analyst undertook the evaluation. In order to provide UNDP and the Executive Board with a clear analysis of UNDP non-core activities and their value added to the development mandate of the organization, the evaluation team was asked to complete the following four tasks:

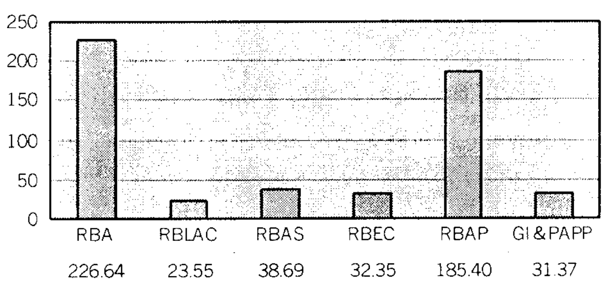
(a) Analyse the trends in the various non-core modalities applied by UNDP and review the key issues involved;
(b) Highlight the lessons learned from the above analysis;
(c) Identify successful experiences and their potential for replication; and
(d) Explore the existing concepts of implementation/execution and make operational recommendations on their role vis-à-vis the organization's shift towards a more policy-oriented role.

The team began its work with a desk review of all pertinent materials, documents and relevant Executive Board decisions. Financial data for the period 1996-2000 was analysed to highlight trends in both core and non-core funding. The evaluation also incorporated, as appropriate, the findings and conclusions of the evaluation of direct execution (DEX). Next, and in order to acquire an understanding of the issues surrounding the non-core funds, the team conducted in-depth interviews with senior UNDP managers and attended an informal meeting of the Board on the subject. Finally, the evaluation included a number of country visits. The countries were selected to reflect adequate geographical representation, an appropriate mix of country typology (least developed countries (LDCs), middle-income countries, net contributor countries (NCCs) as well as countries with varied amounts of non-core funds). The countries visited were Brazil, Bulgaria, Honduras, Lao People's Democratic Republic, Niger, Pakistan, Saudi Arabia and Zimbabwe.

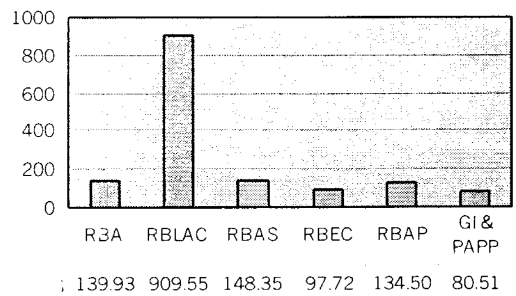
II. Core and non-core funds – basic facts and trends

The nature of development aid has changed dramatically over the past 10 years. For UNDP, it has meant a sharp decline in core expenditures from $1.1 billion in 1990 to $538 million in 2000.[1] In contrast, non-core expenditures have emerged as a substantial source of funding for UNDP-assisted activities: overall non-core expenditures totalled more than $1.6 billion in 2000, representing 75 per cent of UNDP total expenditures for the year.

Core expenditure by region, 2000
(in millions of dollars)



Non-core expenditure by region, 2000
(in millions of dollars)



Looking at the composition and distribution of non-core funds, the following basic facts and trends are evident:

- **There are different sources of non-core funding.** There are three major sources of non-core funding: government cost-sharing, third-party cost-sharing and trust funds. In 2000, of the $1.6 billion of non-core expenditures, 54 per cent or $866 million came from government cost-sharing (from the host government's own resources or loans from international financial institutions (IFIs)). Third-party cost-sharing (grants to host governments from donors or IFIs) accounted for 11 per cent of non-core expenditures or $183 million. From 1998 to 2000, third-party cost-sharing demonstrated the sharpest increase among the non-core funding sources, rising by 35.8 per cent (although the overall gain was high, it should be noted that between 1999 and 2000, third party cost sharing posted a slight decline of 5 per cent). Trust funds—the major examples are the Global Environment Facility (GEF) and the Montreal Protocol, the Programme of Assistance to the Palestinian People (PAPP), the Iraq Oil for Food Programme and those for special development situations (e.g., in Cambodia, Mozambique and Rwanda) and for unexploded ordnance in the Lao People's Democratic Republic—represented 28 per cent of non-core expenditures in 2000 or $461million and MSAs 7 per cent with $111million.

  The magnitude of non-core resources and their importance to UNDP activity are striking. Indeed, even the two less-common sources of non-core funding—third-party cost-sharing and trust funds—when taken together accounted for $644 million of UNDP expenditures in 2000. This figure represents 120 per cent of core expenditures during the same year.

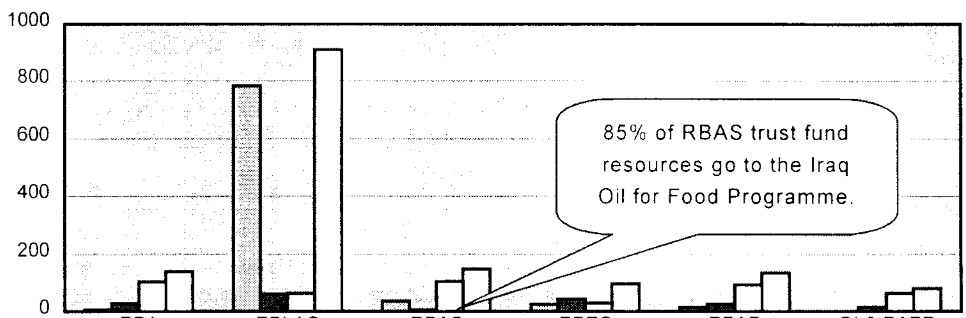
- **The distribution of non-core funds among regions is skewed.** The region with the highest concentration of non-core funds is Latin America and the Caribbean with close to $1 billion dollars delivery in 2000. Core funds in Latin

[1] The source for all figures is the Office of the Comptroller, Bureau of Management, UNDP. In these and subsequent tables, all non-core figures exclude management services agreements.

America and the Caribbean are, on the other hand, negligible. The regions with the lowest non-core expenditures in terms of actual dollar figures are, in order, Europe and the Commonwealth of Independent States, Africa and Asia and the Pacific, with $98 million, $140 million and $148 million, respectively. It should be noted, however, that even though the non-core-funding figure in the Europe and Commonwealth of Independent States region was low in 2000, it still represented 75 per cent of expenditures in the region. In terms of core funds as a percentage of delivery, the region with the highest percentage in 2000 was Africa, where core funds were 62 per cent of expenditures in the region in 2000, followed by the Asia and the Pacific region, where core funds represented 58 per cent of expenditures.

- **Regions attract different sources of non-core funding.** In Latin America and the Caribbean, the major source of non-core funding comes from government cost-sharing delivered via host government resources and government loans from the World Bank and the Inter-American Development Bank. In 2000, government cost-sharing accounted for 85 per cent of total expenditures in the region. This phenomenon is particularly visible in five countries, Argentina, Brazil, Colombia, Panama and Peru ("the Big Five"), that rely on UNDP to conceptualize, formulate and execute their projects and programmes and to act as the vehicle for Governments to turn from IFIs loans into workable projects. In 1999, the combined delivery of the five countries represented approximately 78 per cent of the region's total delivery on government cost-sharing. The Arab States region, which has a high concentration of net contributor countries (NCCs), is the region with the second highest level of government cost-sharing, albeit with levels significantly lower those in the Latin American region. Even so, in 2000 government cost-sharing expenditures alone virtually equaled core expenditures in the region. In other regions, government cost-sharing is minimal; for example, it is at its lowest in Africa, where it comprised only 2 per cent of the region's total expenditures in 2000. On the other hand, third-party cost-sharing and trust funds are featured more prominently in Asia and the Pacific and Africa. The Arab States region also features a significant share of the trust funds, largely as a result of the Iraq Oil for Food programme.

Non-core expenditure types by region, 2000
(millions of dollars)



	RBA	RBLAC	RBAS	RBEC	RBAP	GI & PAPP
Government cost-sharing	7.48	782.53	37.24	24.80	14.37	0.00
Third-party	28.67	62.14	6.41	43.30	26.44	15.76
Trust funds	103.78	64.88	104.70	29.62	93.68	64.75
Total	139.93	909.55	148.35	97.72	134.50	80.51

III. Findings and conclusions

Since the early 1990s, the 'development aid' environment has been characterized by a sharp shift away from "aid-as-entitlement" concepts towards an emphasis on results and performance. This shift is affecting both the core and the non-core segments of UNDP funding and is putting pressure on the organization to emphasize effectiveness and results. Within this context, the non-core segment, largely referring to third-party cost-sharing and trust funds, can be viewed as a special category regulated by its own institutional frameworks and motivations. Given the uneven distribution of non-core funds among regions and countries, a quick observation is that they are not necessarily driven by the criterion of need. Underlying the growth of non-core funding are supply and demand factors: on the supply side are specific policy interests of donors, bilaterals and multilaterals, who, in pursuit of their respective political mandates, supply financing, grants and performance incentives to achieve their objectives. Hence, they promote their "own" projects largely in the thematic areas of their choice and are willing to develop partnerships with UNDP in that context. On the demand side are requests of governments to finance or co-finance their own programmes and projects, within a specific policy framework. While governments may be concerned by a proliferation of third-party financing, they are understandably interested in not missing funds that could help them to carry out their development agenda.

There is a need to understand better the attributes of non-core funding before establishing its relationship with core funding in UNDP; the purpose of the evaluation is to analyse UNDP experience in relation to these attributes and identify some key consequences for the organization. In recognition of the highly competitive and donor driven nature of non-core funding, UNDP will have to act as an honest broker to align demand and supply within its mandate. From all evidence, non-core funding will continue to grow and will continue to put pressure on the traditional institutional aid environment. In this context, the pressure will be for the organization to change and to adapt to a situation that is competitive and focused on results and effectiveness. This leaves little choice for the organization but to position itself or the funds will go elsewhere. The ability for UNDP to adapt and compete in this new environment is closely linked to the further upgrading of its technical and managerial capacity and the use of performance-driven incentives.

1. Establishing a coherent framework for core and non-core becomes essential

In the final analysis, the real issue may well be not so much the individual dynamic of non-core funding, but rather its synergies with the core funding. In the end, the bottom line is the effectiveness of the core/non-core funding in terms of development.

The MYFF, as well as the emphasis on results-based management, within UNDP itself and at the programme-country level, are critical initiatives as they create a coherent framework for the UNDP mandate, its mode of operation and the achievement of development results. The interdependence of core and non-core and the pressure on UNDP to become more efficient and results oriented highlight the complexity of the environment in which the organization conducts its business.

At the country level, the SRF/MYFF process may need to be further intensified. For instance, in order for core and non-core to work well, as highlighted in countries such as Bulgaria and Pakistan, this may warrant a strengthened effort to have a solid country policy framework for UNDP and the Government to be able to manage the changing circumstances and varied offers of financing.

With the MYFF as a framework, UNDP will still have to take charge of the transition from the present system into a more competitive one. With its core funding, it can maintain a role at the multilateral level in responding to a wide typology of programme countries and with an enhanced technical and institutional base, it can interact positively through partnerships with all actors in the aid environment. Both aspects are necessary to deliver the mandate of UNDP and to maintain its strengths of trust and neutrality.

2. The alignment of core and non-core funds to the UNDP mandate is not a critical issue

Attracting non-core funding implies the development of partnerships and specific arrangements between UNDP and a broad range of partners: host governments, bilateral and multilateral donors and IFIs.

Based on the ROAR analysis, the countries visited and consultations with donors and recipients, such arrangements involving UNDP do not appear to have caused thematic misalignments at the broad macro level.

In the ROAR for 1999, the ranking of the seven most important sub-goals does not vary when comparing core with non-core funding. This highlights empirically the relative success of UNDP in maintaining its core priorities regardless of funding source. The ROAR 2000 also reveals that similar to 1999, for both core and non-core resources, the greatest share of total programme resources was delivered in the areas of governance (42 per cent), poverty reduction (31 per cent) and the environment (14 per cent). Further analysis reveals a growing trend of non-core resources in the areas of governance and poverty reduction, two areas in which UNDP is being asked to play a greater role. When looking at third-party cost-sharing and trust funds, the largest share goes to special development situations (30 per cent) followed by the environment (28 per cent) and governance (26 per cent).

The finding on the macro alignment is by and large supported by evidence gathered during country visits, irrespective of geographic location or social and economic levels of development. In the countries visited, the breakdown of expenditures of non-core funds shows that they fall within the priority areas of the country cooperation frameworks (CCFs). Going a step further, while it could be argued that the fast growing non-core financing (third party) in some countries, Bulgaria, Lao People's Democratic Republic and Pakistan, for example, may have induced projects towards areas such as environment, gender and governance, this has not created significant policy divergence between the countries' priorities and the UNDP global mandate or the policy framework of a specific country. Rather, the main difference appears to be in terms of the level of funding rather than in the chosen priority areas.

Addressing the Latin America case specifically in this context, it was observed that in the big cost-sharing countries, most of the programmes with UNDP are driven by a development agenda consistent with UNDP priorities, replacing the experience of the 1980s, when large transfers of resources were channeled through UNDP for specific administrative services (e.g., procurement). Brazil in particular is an excellent example of this trend.

While there is a macro alignment, there may nevertheless be issues at the micro level:

(a) Certain projects may not appear to align fully with the goals and mandate of UNDP. In the countries visited, there are projects such as those for civil aviation, telecommunications or road-building, which in principle fall outside the current focus of UNDP. While this issue has been recognized at the senior-management level, including an articulation of areas in which UNDP should no longer be involved, there is a broader question here, given the diversity of country needs. For instance, it has been argued that being involved in creating infrastructure potentially gives UNDP the opportunity to build trust and lay the basis for a future policy-oriented role, as was noted in the case of the Lao People's Democratic Republic. The imperative for the organization to be sensitive to country demands presents a case for UNDP to take a pragmatic policy position on this at the margin and not to push for too strict an alignment, as long as the bulk of interventions fall within the SRF/MYFF framework;

(b) Another example is the situation where there is an excessively narrow focus of attention on one or just a few functional activities, such as programme management, as observed in the case of some of the Latin American countries. The importance of managing programmes well is not in question but it does raise the issue of the long-term substantive and technical capacity of the country office. While this may equally be a reflection of long-established roles, i.e., governments may only expect from UNDP what has been delivered in the past, the issue of balance needs to be kept in mind so that the substantive agenda of the organization can also be successfully driven.

3. A single, coherent framework for core and non-core resources should not obscure the need for an adequate level of core resources

The domination of non-core funding and the pressures of an "imperfect market" may adversely affect some aspects of the role and mandate of UNDP.

The comparative advantage of UNDP—universality of presence, neutrality and experience—is linked to the organization's ability to provide core funds. It places the organization at a unique vantage point in responding to the needs of a wide typology of programme countries in priority areas and in addressing special needs that markets neglect, such as global issues and development outcomes within the context of the Millennium Declaration development goals and targets and other goals and targets.

The erosion of core funding can seriously jeopardize the organization's role as trusted partner and its ability to pursue its sustainable human development (SHD) mandate in programme countries. This is particularly critical in the LDCs, which do not attract high levels of non-core funds.

Traditionally, the core funds of UNDP have financed the fostering of policy dialogue, advocacy, innovation and coordination in the organization's priority areas. In order to be credible in driving policy changes and advocating for issues it wants to be associated with, the organization needs to maintain an adequate amount of core funding. Core funds are also needed as seed money for innovation and demonstration effect in specific areas and to bring together broader alliances. Small initial core funding has also helped programmes and projects to raise non-core resources (e.g., in the case of Bulgaria and the Lao People's Democratic Republic, core monies catalysed a significant amount of non-core funding).

Core funding also impacts on coordination. In some countries, it was found that heavy reliance on non-core funding severely limits the possibilities for effective, broad coordination at the country level. A good case can be made for a mutually reinforcing synergy between core and non-core funding in this area, as in several countries, Bulgaria and Honduras included, non-core growth has been positively influenced by the good coordination role of the UNDP country office.

Beyond programme activities, core funds are also essential to finance an adequate country-level infrastructure for UNDP and the United Nations system as a whole. An inappropriate level of core funding jeopardizes the substantive and technical strength of the organization and, ultimately, its ability to mobilize non-core resources. The lack of such infrastructure in special development situations, most recently in the case of Bosnia and East Timor, can have serious consequences on UNDP responsiveness and, ultimately, its effectiveness.

A comment can also be made on the thematic trust funds, which arguably can be treated as an 'as if core' category. Apart from voluntarily pledged resources, UNDP may need flexibility to attract additional funding from specific market niches. Funds to tackle global concerns and/or to respond to international community interest in specific regions represent these market niches. A good example is HIV/AIDS. Like core funds, these funds are managed centrally. The challenge for these funds is to define criteria for resource allocation that balance performance incentives and needs. The evaluation team is of the view that based on an understanding of the current aid environment, there is a definite opportunity here for UNDP to benefit from such market niches linked to global community issues, which should not detract from the need to mobilize resources locally at the country level.

Drawing on the above observations, the evaluation team concludes that the absence of a minimum amount of core funding causes a serious risk for the organization's ability to deliver its mandate, as a knowledge-driven, trusted policy advisor to programme countries and a strong advocate for human development.

4. Replication of successful experiences is contingent on prevailing policy and institutional conditions

There are wide variations among countries and regions in terms of non-core resource mobilization. Successful experiences are widespread; however, the conditions for success seem to vary according to the type of resources and the prevailing policy and institutional conditions.

In terms of government cost-sharing, a particularly successful example is the Latin American region, which attracts substantial amounts from government funds and IFIs loans. The phenomenon is concentrated in five countries: Argentina, Brazil, Colombia, Panama and Peru (the "Big Five"). Government cost- sharing features less prominently in other countries of the Latin American and the Caribbean region. Another successful example of government cost-sharing is provided by the NCCs, which operate in a somewhat different market from the "Big Five" with availability of substantial financial resources, but low national capacity.

Several factors have contributed to the success of government cost-sharing in the "Big Five":

- Political factors. When civilian governments replaced military regimes in the 1970s and early 1980s, long-neglected goals such as public-sector reform, capacity-building and poverty reduction became important

priorities for the new Governments. UNDP, as a neutral agency, was called upon to assist the Governments in articulating their goals and translating them into programmes and projects;
- Economic factors. The democratization of Latin America led the IFIs to increase substantially loans and technical assistance funds to many of the countries;
- Trust factor. With inadequate human resources, cumbersome bureaucratic systems, laws and regulations, many countries relied on UNDP—viewed as a neutral, transparent and corruption-free organization—to conceptualize, formulate and execute their projects and programmes;
- Management factor. Regional bureau commitment to resource mobilization and strong leadership/management at the country-office level have played decisive roles. The introduction of modern management techniques and client-responsive approaches have been key to fostering strong partnerships and broad alliances.

The experiences in other regions have been quite different when it comes to government cost-sharing, raising the question of potential replicability of the Latin American experience. In countries and regions that have not been so successful at attracting government cost-sharing, several factors may have had an effect:

- Low capacities and lack of visible success from governments to economic reforms;
- Lower volume of loans from IFIs in countries that were already heavily indebted;
- Lack of perceived transparency and accountability in government structures;
- Perception of uneven capacity of UNDP to deliver services efficiently;
- Well-established donor and NGO infrastructure, especially in countries where donors have a long-standing presence (e.g., former colonies);
- Lack of strong partnerships with IFIs.

When looking at third-party cost-sharing and trust funds, the successful experiences appear more widespread. Of particular notice are Cambodia and Indonesia in Asia, Mozambique and Rwanda in Africa, Guatemala, Honduras, and Nicaragua in Latin America. In the Arab States region, Iraq received 90 per cent of the total share of cost-sharing in the region and in Europe and the Commonwealth and Independent States, Bosnia, Tajikistan and Ukraine received 50 per cent of the region's share. In Bulgaria, it was observed that the existence of clear global agreements between the United Nations or UNDP and donors greatly facilitates local agreements; the examples cited being the European Union and the Netherlands.

Similarly, large amounts of trust funds are recorded in various regions. It should be noted, however, that the largest share of these funds has been delivered under special development situations and for the environment, notably through GEF.

The growth of third-party financing can be explained by a number of global factors as well as by specific country and institutional ones at each source of funding. Generally speaking, all of them reflect a dynamic aid market, which seeks to specialize itself and to adapt to changing circumstances in thematic areas, in country priorities and in regional conditions. Those factors also reflect the dynamics of relative comparative advantages among bilaterals, financial institutions, and NGOs.

The success of certain countries in mobilizing non-core resources raises the question as to whether the experiences can or should be replicated in other countries or regions. An expeditious answer to that question would be "yes" but only if the conditions can also be duplicated or dealt with. It argues for a differentiated approach, which reflects country and regional circumstances and challenges. A differentiated approach requires an analysis of the policy and institutional conditions prevailing in the countries or regions where the model might be considered to be applicable.

In sum, the evaluation team found that replicability depends on at least some of the following factors being evident: the existence of a propitious policy framework and environment; the specific interests and willingness of multilaterals, bilaterals, donors, IFIs and NGOs; the government willingness to use its own core funds to support priority programmes (in the case of government cost-sharing); and substantive partnerships with donors and IFIs for discrete tasks and functions. By far the most critical common element of success, however, is the technical, managerial and leadership capacity of UNDP country offices. This capacity, the importance of which cannot be underscored enough, is determinant and particularly significant when there is low capacity at the national level.

5. Capacity-building is key

- **National capacity**

Building national capacity is the cornerstone of UNDP interventions, as development is a process of the accumulation of skills and capacities, of tangible and intangible wealth. The MYFF classifies the majority of UNDP outcomes (70 per cent) in the capacity-building category. The pattern remained consistent in the ROARs for 1999 and 2000.

It is not always easy to define and measure capacity development, ascertain that it is taking place or determine the factors that influence it.

Given the varied mix of programmes and country-specific circumstances, it is difficult to arrive at one single overall conclusion as to whether capacity development has been significantly improved or not at the national level by the expansion of non-core funding. In the countries visited, there seems to be a convergence of views between national entities, the donor community and UNDP country offices that the nature and quality of the programmes themselves and the degree of national ownership are more critical to the building of national capacity than the source of funding. This finding should not obscure the fact that in some cases, Bulgaria and Honduras being two examples, there is a perceived correlation between non-core funds and capacity-building, essentially the fact that the increased availability of funds allowed the perceived capacity-building needs to be met.

A different dimension is brought out when specifically looking at third-party financing (third-party cost-sharing and trust funds). The fast growth of third-party financing has significant implications on capacity-development requirements, both at the national level and for UNDP local offices. As highlighted in countries such as Bulgaria and Pakistan, third-party financing implies, inter alia, new approaches, new methodologies, market-based evaluation systems and dynamic management frameworks based on effectiveness and results. This poses a capacity-building challenge for both the governments and UNDP country offices. Fortunately, these challenges are being acknowledged in UNDP with the advent of the SRF/MYFF approach and the development of new policy and operational developments based on the focus on results rather than on inputs and procedures.

- **UNDP capacity**

Country-office capacity and pro-active leadership are key to successful resource mobilization. As observed in the countries visited, the capacity of country offices to mobilize resources in support of country-level priorities varies greatly. Several factors affect UNDP country-office capacity to raise funds effectively, such as entrepreneurial skills, availability of technical substantive expertise, risk-taking mentality, existence of broad-based alliances and partnerships, and appropriate management and incentive systems.

The evaluation team observed that the issue of country-office capacity is even more critical when national circumstances are difficult and local capacities constrained. In the case of the Lao People's Democratic Republic, the low level of qualified technical capacity at the national level is pushing UNDP to enhance its own capacity both at the managerial and the technical level. While the same 'push' factor should be present in regions such as sub-Saharan Africa, particularly in view of the challenges that this region is facing, it is also a fair comment that UNDP has not always adequately responded to the challenge with well-organized country offices and strong capacities that could help recipient governments to mobilize and deliver key development outcomes. However, there are notable exceptions in the region, such as Zimbabwe, where the evaluation team noted the exemplary upstream brokerage role that UNDP played.

The evaluation also found that local country-office capacities to mobilize resources can be hampered by the corporate systems and procedures associated with the three different types of co-financing. While some authorities have been decentralized to the country level, systems for agreements, reporting and accounting could be further improved. This conclusion is supported by the more detailed analysis of the DEX evaluation.

In order to remedy the deficiency of corporate systems, several country offices are designing their own systems. The DEX evaluation pointed to numerous examples where offices—despite limitations—were able to rise to challenges in speed, responsiveness and quality when confronted with expectations by funding partners.

Overall, it was found that as circumstances evolve and countries upgrade their own capacities, UNDP is facing the challenge of developing a more technical substantive ability to remain relevant and respond to the emerging challenges.

6. Implementing the UNDP mandate in a results-based, performance-driven situation

For UNDP, the ability to function in a results-based and performance-driven situation implies the development and promotion of operational tools adapted to the new environment.

The chosen execution modality can affect UNDP ability to mobilize resources. The increase of the non-core market highlights the need for UNDP to increase efficiency and effectiveness in implementing programmes and projects and in delivering services. The general opinion is that current systems are not adequate, forcing local initiative as country offices experiment with systems in order to respond to competitive pressures at the field level. As also noted in the DEX evaluation, moving away from old modes of execution better suited to an entitlement market is key for the organization to remain competitive as donors are attracted by responsiveness, rapid delivery and transparent accountability.

The bulk of UNDP non-core programmes/projects are under national execution (NEX). In several instances, the capacity of national governments to carry the administrative financial management of UNDP-financed programmes is limited and UNDP provides support with what has become known as "country office support to NEX". This comes across particularly in countries with weak national capacities. Interestingly, partly a reflection of high national capabilities, NEX appears to work well in countries with large government cost-sharing.

Unfortunately, confusion has arisen because national ownership has been equated with the national execution modality as practiced by UNDP. As brought out clearly in the DEX evaluation, and confirmed in the country visits of the evaluation team, national ownership is a function of the commitment to substantive development results and needs to be de-linked from compliance with and knowledge of UNDP regulations and rules. The DEX evaluation concluded that direct implementation services provided by UNDP are not detrimental to national ownership.

National execution has sometimes proven to be a deterrent to resource mobilization, particularly in situations where governments are perceived as having low capacity and where there is weak accountability. In cases where there is high capacity at the national level, NEX is not seen as a constraint to resource mobilization.

The challenge for UNDP is to reduce processes and transaction costs and to devise a system that will offer country offices the flexibility to choose the most appropriate and efficient mode to deliver services.

The various modalities of attracting non-core resources and the multiplicity of reporting, owing to various donor requirements, are increasing considerably the transaction costs for UNDP. In addition, both financial and knowledge systems are currently not organized to provide adequate, easily accessible information on non-core resources. Financial systems do not support the financial management of non-core-funded programmes and projects in terms of income and expenditure reporting, cost-accounting and reporting to donors. Several donors have made a point of underscoring the lack of regular, adequate reporting. Current knowledge systems are not designed to capture and apply best practices and lessons learned. Inadequate information systems hamper UNDP accountability vis-à-vis donors and, ultimately, its ability to raise resources.

- **Cost-recovery**

Cost-recovery is not well documented in the country offices, since, in most cases, there is no cost-accounting system. However, the 3 per cent generally charged by UNDP for handling non-core money in the context of NEX does not appear sufficient to most observers. That the issue is seen as a pressing one is evidenced by the fact that several countries are in the process of carrying detailed out studies on this issue.

The policy in UNDP, in the spirit of Executive Board decision 98/2, is to charge a suggested 3 to 5 per cent for the additional costs resulting from the administration of non-core activities. In order to attract funding, UNDP sometimes accepts less than the payment of 3 per cent it is entitled to. Economies of scale are achieved on large programmes and where systems are well established; however, in less fortunate regions or countries, there is a genuine concern that inadequate cost-recovery reduces the availability of funds for development of new activities. With the surge in non-core funding, UNDP headquarters is increasingly concerned about this situation and is systematically insisting that efforts be made to recover full administrative costs in all trust funds and cost-sharing projects.

At times, the question is raised whether the situation is the other way around and that non-core resources, through net proceeds of cost-recovery or from other financial arrangements derived from non-core partnerships, are in fact subsidizing core programmes. This point is raised in Latin America in particular.

The debate is an interesting one, as it suggests that somehow, one source of financing is better at contributing to development effectiveness. For many outside observers, the source of funding is not important if the programme has been judged to have been effective for the purpose for which it was designed and if it has contributed to development results.

IV. Recommendations

The evaluation of UNDP non-core resources has been conducted in a prospective manner, keeping a close eye on the ongoing transformation effort under way within UNDP as it relates to the subject under review. The following recommendations are meant to provide additional information to help the organization to formulate its strategy and policy on non-core funding.

1. Strengthen the links between core and non-core funding

The integrated approach to core and non-core funding developed in the MYFF and SRF is the right approach, at the right time, especially given the emerging realities of the aid market. An integrated approach enables UNDP to present a coherent framework for its mandate, its mode of operation and ultimately the results it is trying to influence.

At the country level, however, the process of putting core and non-core funding into a coherent framework could be driven more forcefully and more consistently. To do this, UNDP should strive for tighter coherence between core and non-core funding in the country-level programming processes, as in the SRF/MFFF, so that they can become true 'country-level policy frameworks', allowing for resource mobilization to be handled in a coherent, integrated and dynamic fashion. This may in part mitigate some of the complaints on the lack of predictability of non-core funding. It will be also of particular support to governments in assuring the consistency, continuity and effectiveness of their overall economic policy framework.

2. Address the core/non-core funding imbalance

The team has little doubt that unless core levels are increased, the ability of UNDP to fulfil its development mandate in general and specific commitments such as the Millennium Declaration goals, are likely to be seriously jeopardized. The comparative advantage of UNDP in responding to the programme country demand in key priority areas is linked to its universality and neutrality. The availability of core funding is key to keeping and building upon this comparative advantage and in enabling the organization to advance its SHD mandate. It is difficult to judge which levels of core funding are adequate in relation to the tasks expected of the organization. This may warrant reopening the debate to examine practical measures to reverse the decline of core resources. In most of the countries visited, the decline in core funds has put extra pressure on the organization and has constrained its ability to fulfil its mandate. The success of the MYFF/ROAR notwithstanding, there is little evidence that core levels of funding are being substantially increased in the short term.

3. Re-examine the relationship between core and non-core funding

UNDP needs to re-examine the link between core and non-core funding and devise a more balanced responsive approach to their use. Non-core categories need to be more tightly aligned to the imperfect market for aid and the specific market niches they are expected to fill. As has been argued, each non-core modality—government cost-sharing, third-party cost-sharing and trust funds—has its own dynamic that should be carefully analysed and incorporated into the overall UNDP strategy.

At the same time, driven by the logic of the market, a case can be made for UNDP having the flexibility to attract additional funds centrally—via, for example, thematic trust funds—to finance global or regional concerns not adequately covered by core funding. Thematic trust funds that respond to emerging development priorities represent an important emerging market within the overall aid economy. UNDP needs to adopt a competitive positioning strategy to attract and manage these "core-like" funds centrally. Such a strategy will need to mimic the speed, responsiveness and substance of strategies for non-core resource mobilization. The positioning strategy should also address criteria for using thematic trust funds, including how best to factor the issue of need versus performance.

4. Adopt a differentiated approach to resource mobilization

Given the wide variations among countries and regions in mobilizing non-core resources, UNDP should focus on developing a differentiated strategy that is specific to and consistent with the prevailing social, economic and political conditions in each region and in countries within the respective regions. As part of this, in order to account for the different patterns emerging in resource mobilization and the lessons learnt, UNDP should have the capacity to analyse the policy and institutional conditions prevailing globally and at the country level that affect the ability to raise non-core resources.

Whereas overall the UNDP resource mobilization strategy will be driven by clearly articulated principles, the specifics of the strategy at the field level are likely to vary country by country, reflecting different country and regional circumstances. In some ways, each country has to prepare its own resource-mobilization strategy drawing on lessons learned and an assessment of how the key factors come together in a specific context.

As part of the overall strategy, strong UNDP partnerships with key bilateral and multilateral agencies (especially IFIs) are essential. In that context, clear global agreements between UNDP and donors should facilitate similar agreements at the country level.

A common critical element will be the clear commitment and priority accorded by UNDP to resource mobilization in support of key development priorities. This commitment has to be an integral part of an overall organizational approach that, inter alia, conveys clear performance expectations which, given country diversity, should be individually negotiated. To meet the challenge of raising resources, the competencies and skills of UNDP country office teams need to be substantially upgraded, focusing on (a) results orientation; (b) substantive technical competencies in the thematic areas of priority for UNDP; and (c) leadership and entrepreneurship with emphasis on communication (internal and external), interpersonal skills and client orientation.

5. Adapt systems to increase UNDP efficiency and accountability

An increasingly competitive market presses UNDP to acquire the attributes that would make it an attractive organization to do business with, namely: responsiveness, speed, performance, and accountability. This implies the development of adequate operational tools and systems.

Current execution modalities should be revisited and a broader set of options should be considered, offering UNDP more flexibility in choosing the most appropriate modes of service delivery. As noted in the DEX evaluation, in some cases a direct delivery approach may be the most cost-effective, considering factors such as speed, national capacities and accountability. In other cases, more structured partnerships and delivery methods may make the most sense.

Financial systems, particularly as they relate to non-core funding, need to be upgraded. The upgrading of these systems should incorporate: (a) a simplified system to account for and report on various types of non-core resources, thereby enhancing transparency and accountability for these funds; (b) a facility to analyse non-core data with a regional cut and country typology in order to provide for a differentiated approach for analysis and resource mobilization; (c) a reliable system to account for expenditures (particularly non-core) by thematic areas of priority -- the goals and sub-goals of the SRF; (d) a cost-activity based accounting system to enable the organization to determine the cost of doing business and allow for the design of a market-oriented approach to cost-recovery.

UNDP should enhance its corporate memory on the experience of various regions/countries on non-core resource mobilization and its capacity to analyse the enabling and constraining factors with a view to sharing lessons learned in support of a differentiated approach to resource mobilization.