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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

EFFICIENCY AND EFFECTIVENESS OF UNDP

Note by the Administrator

Attached, for the information of members of the Governing Council, is a note on the Efficiency and Effectiveness of the United Nations Development Programme.

Introduction

1. Any assessment of the efficiency and effectiveness of UNDP must consider whether the work done is performed efficiently and at minimum cost and whether the activities and programmes are effective in achieving their objectives. Most of the attempts in the past have tended to put the emphasis on a somewhat simplistic quantitative relationship between the monetary value of project costs, usually limited to IPF projects, and the administrative and programme support (APS) costs of UNDP. Such an approach is inadequate, defective and misleading.
2. There are several questions on which a prior judgement is required. First, what are the activities or outputs against which these costs should be counted, and to what extent can these outputs be expressed adequately in volume or quantity? Second, are there portions of UNDP APS costs which serve other functions than managing the UNDP programme and which therefore should not be regarded strictly as costs attributable to the programme? Third, assuming that a discrete part of the costs can be identified as relating to the management of the UNDP programme, to what extent does the percentage relationship between the two represent a measure of the efficiency, let alone the effectiveness, of the UNDP? Fourth, if such a quantitative relationship is a valid index, what is a reasonable norm, bearing in mind the nature of the activities that the UNDP undertakes?
3. The principal concern of the UNDP secretariat (including field offices) encompasses the mobilization of resources, the planning and programming of their utilization and the management of and accountability for the activities so financed. In addition, the UNDP is involved in similarly managing certain other funds and programmes entrusted to its care, in providing a variety of services to other organizations of the UN system and, through its field offices, in assisting Governments on a whole host of development-related matters often going beyond the narrow limits of UNDP-financed programmes. While attempts have been made to try to identify or estimate the amount of time and effort devoted to each of these work areas, this is not practicable in a precise manner in all cases because of the integrated functioning of secretariat units and of the inter-locking of several of these concerns in discussions, consultations and other expenditures of time and effort, especially in the field.
4. While the major part of UNDP activities and outputs relate to the programming and delivery of UNDP-financed technical co-operation, others have to do with other programmes, including CDF, UNRFFNRE, other trust funds. Still others, especially some services provided by field offices, are not connected either with programmes under the authority of the Administrator or with technical co-operation activities at all to which a programme volume can be ascribed. This last category of services covers such items as services provided to various UN system visitors, assistance in recruitment to

secretariats and in obtaining statistical or other data, general information to Governments and others on UN system matters, and often general assistance to Governments in development-related matters. Even where a programme volume is involved, there is some question as to whether a quantitative indication of its monetary value represents an adequate description of the outputs.

5. Even when a programme volume and the related administrative costs have been identified in monetary terms, the validity of their percentage relationship as a measure of efficiency, even apart from the question of quality, is open to question. A part of the administrative costs, e.g. policy-making, research and development, planning of resources and their utilization, premises, fund-raising and information is a fixed cost or subject to a different variation from that applying to other, more direct costs like project formulation, appraisal, monitoring, etc. Also, even in respect of the latter, the adjustments in costs, especially in respect of staff, cannot be made precisely to vary with fluctuations in the programme. Trained staff cannot be fired and re-hired to fit such fluctuations without serious adverse effects on the efficiency and quality of the work. Moreover, the pattern of project and related expenditures over individual years of a programme cycle is determined by the programming patterns of developing countries and the organic evolution and pace of each country programme. This argues in favour of looking at this relationship for a programme cycle as a whole rather than from year to year.

6. The considerations set out above clearly point to the need to use purely quantitative ratios as indices of efficiency with some reservations. What follows should be viewed in this light.

The traditional method

7. The traditional way of presenting the support costs for UNDP has been to relate the total UNDP Administrative and Programme Support budget (for a year) to the amount of project expenditures in that year. Project expenditures for this purpose include expenditures on all project activities under the Administrator for which support services are provided through the APS budget, viz. IPF, Programme Reserve (now Special Programme Resources), SIS, cost-sharing, SMF/LDC, GCCC, UNCDF. 1/

8. Table I below shows the results of applying this traditional method in each of the years 1977-1981 and for that five-year cycle as a whole.

Table I

I. UNDP Administrative and Programme Support Costs as percentage of total project costs (US\$ million)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1977-1981</u>
A. UNDP APS Cost	55.4	60.0	71.4	91.6	104.6	383.0
B. Project Exp. ^{a/}	349.4	449.1	558.4	699.6	780.0	2,836.5
A as per cent of B	15.9	13.4	12.8	13.1	13.4	13.5

a/ IPF, PGR, SIS, Cost-sharing, SMF/LDC, GCCC, UNCDF

1/ Beginning in 1982, administrative and programme support costs for UNCDF activities will be met from the resources of that Fund, and not from the UNDP APS budget.

9. In addition to the questionable validity of such quantitative relationships generally to which reference has been made earlier, the traditional method is deficient in other respects. First, the Administrator's responsibility and accountability go beyond just project expenditures and encompass the use of the total resources made available to UNDP. Uses other than for project expenditures such as the arrangements for agency support costs, sectoral support and the need of prudent financial management (e.g. establishment of reserves) all involve not only his accountability but significant expenditures of time and effort by his staff and often by himself. This would argue in favour of relating APS costs to the totality of UNDP concerns, and consequently to the total use of resources not just to project expenditures. Second, the traditional approach does not allow for the consideration that some portions of the APS costs arise on account of services provided to other organizations and programmes and are not directly related to UNDP's specific responsibilities. Third, it does not take account of the fact that the support provided by UNDP to project cycle activities encompasses the total project and not merely that part of the project funded by UNDP although the extent of support involved varies among projects. Fourth, the traditional method totally ignores the consideration that the functions performed by UNDP field offices may be validly regarded as representing a part of the services delivered to Governments. Suggested modifications to the traditional method to meet these deficiencies are outlined below in sequence.

II. UNDP Administrative and Programme Support Costs as percentage of total use of resources

10. The first modification for a more meaningful analysis would be to see how the use of total UNDP resources in a given year, and more significantly for a programme cycle, breaks up by purpose of use, or, more simply, how the technical co-operation (or "aid") dollar is used. This recognizes that the Administrator has responsibilities and accountability, with the concomitant workload implications, for all uses of that dollar. The following table shows this breakdown for each of the years 1977 to 1981 and for the cycle as a whole.

Table II
Use of UNDP Resources 1977-1981
(US\$ million)

Line	Items	1977		1978		1979		1980		1981		1977-1981	
		\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
1	Project Costs ^{a/}	349.4	74.6	449.1	68.5	558.4	73.7	700.2	76.9	786.8	77.4	2843.9	74.7
2	Sectoral Support	3.6	0.8	3.6	0.5	4.7	0.6	5.1	0.6	5.6	0.5	22.6	0.6
3	Transfer to Operational Reserve	15.0	3.2	85.0	12.9	50.0	6.6	25.0	2.8	25.0	2.5	200.0	5.2
4	Sub-total; amounts spent or set aside for project activities	368.0	78.6	537.7	81.9	613.1	80.9	730.3	79.3	817.4	80.4	3066.5	80.5
5	Reimbursement to Agencies for Support Costs	45.3	9.7	58.0	8.9	73.2	9.7	87.9	9.6	94.2	9.3	358.6	9.4
6	UNDP Administrative and Programme Support Costs												
	- Headquarters	21.9	4.7	24.3	3.7	28.2	3.7	37.3	4.1	40.0	3.9	151.7	4.0
	- Field Offices ^{b/}	33.5	7.1	35.7	5.5	43.2	5.7	54.3	6.0	64.6	6.4	231.3	6.1
7	Grand Total	468.7	100.0	655.7	100.0	757.7	100.0	909.8	100.0	1016.2	100.0	3808.1	100.0

^{a/} IPF, Programme Reserve, SIS, Cost-sharing, SMF/LDC, GCCC, UNCDF, UNV and certain smaller trust funds.

^{b/} Total net cost; no adjustment for work on behalf of others.

11. It will be seen that during the cycle 1977-1981 some 80.5 per cent of all resources went current or future programme and project activities. APS costs represented some 10.1 per cent of the total use of resources. About ten cents of each dollar of resources went to provide the administrative and programme support for the effective utilization of the entire dollar. Of this, six cents went for support services in the countries themselves and only four for UNDP central support from Headquarters. 9.4 per cent of resources were provided to the executing agencies for handling project delivery.

III. UNDP Administrative and Programme Support Costs adjusted to exclude provision of services to others

12. The next refinement for greater validity is to recognize that a significant part of field office costs arises from services which those offices perform on behalf of other agencies and programmes and for which UNDP should ideally be reimbursed. The recent survey of field office workload and staffing has shown that some 34 per cent of time spent by UNDP field staff relates to such services: 13 per cent on totally non-UNDP-related business and 21 per cent on doing things for the agencies. In terms of costs, as distinct from time spent, this extra effort represents some 25 per cent of field office costs.

13. It will be seen from Table III which follows that such adjusted APS costs represented 8.6 per cent of total use of resources during the cycle 1977-1981. This is a relatively more appropriate estimate of the true relative cost of UNDP's administrative and support services.

Table III
Use of UNDP Resources 1977-1981, Modified
(US\$ million)

Line	Items	1977		1978		1979		1980		1981		1977-1981	
		\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
1	Project Costs ^{a/}	349.4	74.6	449.1	68.5	558.4	73.7	700.2	76.9	786.8	77.4	2843.9	74.7
2	Sectoral Support	3.6	0.8	3.6	0.5	4.7	0.6	5.1	0.6	5.6	0.5	22.6	0.6
3	Transfer to Operational Reserve	15.0	3.2	85.0	12.9	50.0	6.6	25.0	2.8	25.0	2.5	200.0	5.2
4	Sub-total; amounts spent or set aside for project activities	368.0	78.6	537.7	81.9	613.1	80.9	730.3	79.3	817.4	80.4	3066.5	80.5
5	Reimbursement to Agencies for Support Costs	45.3	9.7	58.0	8.9	73.2	9.7	87.9	9.6	94.2	9.3	358.6	9.4
6	UNDP Administrative and Programme Support Costs												
	- Headquarters	21.9	4.7	24.3	3.7	28.2	3.7	37.3	4.1	40.0	3.9	151.7	4.0
	- Field: UNDP Activities	25.1	5.3	26.8	4.1	32.4	4.3	40.7	4.5	48.4	4.8	173.4	4.6
	Other Activities	8.4	1.8	8.9	1.4	10.8	1.4	13.6	1.5	16.2	1.6	57.9	1.5
7	Grand Total	468.7	100.0	655.7	100.0	757.7	100.0	909.8	100.0	1016.2	100.0	3808.1	100.0

^{a/} IPF, Programme Reserve, SIS, Cost-sharing, SMF/LDC, GCCC, UNCDF, UNV and certain smaller trust funds.

IV. Adjustments to take account of total costs of projects including Government funding

14. UNDP involvement in a technical co-operation project is not limited to that part of the project financed by UNDP but extends to various aspects of the project as a whole. The project is an integral activity and UNDP assistance in project identification, formulation, design, work plans, monitoring, etc. deals with the activity as a whole. There are thus elements of support from UNDP going beyond just that part of the project directly financed by UNDP, although the specific scope and nature of these support elements vary as between projects. The time and efforts of UNDP staff are thus related to the accomplishment of this total programme of activities, and it is logical to relate UNDP support costs to the overall costs of this total programme.

15. It is difficult to establish the exact magnitude of total Government inputs, as accounting for this part of the projects is done principally by the Government itself. However, using the provision of Government inputs as declared by Governments in project budgets as a basis, the amount of Government contributions to projects assisted by UNDP approximate some 57 percent of total project budgets, with UNDP financing covering the remaining 43 percent. The figures used in the following two tables for Government contributions have been estimated on this basis.

16. Two alternative relationships are shown in tables IVA and IVB. In table IVA the total level of activity to which UNDP APS costs are related is taken to include the full amount of Government financing of projects. On this basis UNDP APS costs represented some 5.6 per cent 2/ of this total activity level during the cycle 1977-1981.

17. Two caveats must be entered in respect of this relationship: first, as stated earlier, the specific scope and nature of UNDP involvement varies as between projects, and second, the Government inputs often include some administrative support as well. Making an allowance for these factors, and based on a rough rule-of-thumb, table IVB brings into the relationship only 50 per cent of the amount of Government project financing. This results in the UNDP APS costs representing some 7.2 per cent 3/ of the adjusted total activity level during the cycle 1977-1981.

2/ Headquarters and full costs of field offices. If field costs are adjusted to exclude services to others, the percentage would be 4.7. Headquarters costs alone: 2.2 per cent.

3/ Headquarters and full costs of field offices. If field costs are adjusted to exclude services to others, the percentage would be 6.1. Headquarters costs alone: 2.8 per cent.

Table IVA
Use of UNDP Resources and Government Contributions to Projects 1977-1981
(US\$ million)

Line	Items	1977		1978		1979		1980		1981		1977-1981	
		\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
1a	UNDP Project Cost	349.4	41.7	449.1	39.1	558.4	40.7	700.2	42.3	786.8	42.6	2843.9	41.5
1b	Gov't Project Cost (100 %)	368.7	44.1	491.9	42.9	614.6	44.8	744.5	45.0	828.5	44.9	3048.2	44.5
2	Sectoral Support	3.6	0.4	3.6	0.3	4.7	0.3	5.1	0.3	5.6	0.3	22.6	0.3
3	Transfer to Operational Reserve	15.0	1.8	85.0	7.4	50.0	3.6	25.0	1.5	25.0	1.4	200.0	2.9
4	Sub-total: amount spent or set aside for project activities	736.7	88.0	1029.6	89.7	1227.7	89.4	1474.8	89.1	1645.9	89.2	6114.7	89.2
5	Reimbursement to Agencies for Support Costs	45.3	5.4	58.0	5.1	73.2	5.3	87.9	5.3	94.2	5.1	358.6	5.2
6	UNDP Administrative and Programme Support Costs												
	- Headquarters	21.9	2.6	24.3	2.1	28.2	2.1	37.3	2.3	40.0	2.2	151.7	2.2
	- Field Offices:												
	UNDP Activities	25.1	3.0	26.8	2.3	32.4	2.4	40.7	2.5	48.4	2.6	173.4	2.5
	Other Activities	8.4	1.0	8.9	0.8	10.8	0.8	13.6	0.8	16.2	0.9	57.9	0.9
7	Grand Total	837.4	100.0	1147.6	100.0	1372.3	100.0	1654.3	100.0	1844.7	100.0	6856.3	100.0

Table IVB

Use of UNDP Resources and Gov't Contributions to Projects 1977-1981
(US\$ million)

Line	Items	1977		1978		1979		1980		1981		1977-1981	
		\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
1a	UNDP Project Cost	349.4	53.5	449.1	49.8	558.4	52.4	700.2	54.6	786.8	55.0	2843.9	53.3
1b	Gov't Project Cost (50%)	184.4	28.2	246.0	27.3	307.3	28.9	372.3	29.0	414.2	29.0	1524.3	28.6
2	Sectoral Support	3.6	0.6	3.6	0.4	4.7	0.4	5.1	0.4	5.6	0.4	22.6	0.4
3	Transfer to Operational Reserve	15.0	2.3	85.0	9.4	50.0	4.7	25.0	2.0	25.0	1.7	200.0	3.8
4	Sub-total: amount spent or set aside for project activities	552.4	84.6	783.7	86.9	920.4	86.4	1102.6	86.0	1231.7	86.1	4590.8	86.1
5	Reimbursement to Agencies for Support Costs	45.3	6.9	58.0	6.4	73.2	6.9	87.9	6.9	94.2	6.6	358.6	6.7
6	UNDP Administrative and Programme Support Costs												
	- Headquarters	21.9	3.4	24.3	2.7	28.2	2.7	37.3	2.9	40.0	2.8	151.7	2.8
	- Field Offices:												
	UNDP Activities	25.1	3.8	26.8	3.0	32.4	3.0	40.7	3.1	48.4	3.4	173.4	3.3
	Other Activities	8.4	1.3	8.9	1.0	10.8	1.0	13.6	1.1	16.2	1.1	57.9	1.1
7	Grand Total	653.1	100.0	901.7	100.0	1065.0	100.0	1282.1	100.0	1430.5	100.0	5332.4	100.0

V. Treating field office costs as services delivered to Governments

18. So far in this analysis, UNDP headquarters costs and field office costs have been lumped together as constituting UNDP's APS costs. UNDP APS budgets have been presented on this basis although there have been efforts in the past to identify field office costs for what they more truly may be deemed to represent, namely, part of the services delivered to Governments. The UNDP field network performs functions most of which are in the nature of assisting host Governments in planning, programming, integrating and managing the utilization of external inputs in their national development activities. In addition, field offices provide general assistance and advisory services to Governments in a variety of development-related matters, in some countries even to the extent of assistance in elaborating their national development plans. It is not illogical, therefore, to regard UNDP field office services as part of the programme of assistance which UNDP delivers to Governments.

19. In tables II to IVA and IVB, UNDP field office costs are shown separately; also shown is the percentage they represent of the appropriate total use of resources. It will be seen that for the cycle 1977-1981 as a whole, APS costs limited to Headquarters costs alone - that is treating field office costs as part of programme costs - represented only (a) 4 per cent of total use of resources without counting Government financing, (b) 2.2 per cent, if the full amount of Government financing is included in total activity level, and (c) 2.8 per cent, if 50 per cent of Government financing is so included.

A look at staffing numbers

20. The number of staff financed from the APS budget and the changes in that number from year to year viewed in the context of fluctuations in programme level may also be a useful element in assessing efficiency. It should be borne in mind, as stated earlier, that in practice it is virtually impossible to expand and contract staff in a precise relationship to programme levels, even apart from the considerations that the programme expenditures in a given year are not a true indicator of workload arising in that year.

21. Subject to the foregoing, the numbers of staff at Headquarters and in the field, by categories, are shown in table V.

22. It should be noted that taking account of the expected level of the programme in the 1982-1983 period, significant reductions in staffing are planned for that period. This reflects the Administrator's continuing determination to keep APS costs as low as possible consistent with efficient operations.

Budgeted Posts including UNV and CDF and excluding Sectoral Staff1977 - 1981

Year	All Staff			Headquarters			F i e l d				Remarks
	Total	Int.	Local	Total	Int.	Local	Total	P	IOA	Local	
1977	3,585	705	2,880	549	219	330	3,036	379	107	2,550	DP/335/Add.1
1978	3,773	702	3,071	560	227	333	3,213	373	102	2,738	DP/335/Add.1
1979	3,838	700	3,138	571	229	342	3,267	373	98	2,796	DP/335/Add.1
1980	4,143	732	3,411	595	233	362	3,548	398	101	3,049	DP/396/Add.1
1981	4,156	741	3,415	611	247	364	3,545	399	95	3,051	DP/396 amended
1980-81 Suppl	4,219	762	3,457	648	262	386	3,571	403	97	3,071	DP/549 + DP/550
1982-83 Revised	3,890	698	3,192	592	234	358	3,298	464		2,834	DP/1982/53 <u>a/</u>

3 Regional Information Officers and 1 G.S. shown for the first time under Headquarters staff.

What is a reasonable norm for UNDP "administrative" costs?

23. The question of a reasonable norm for UNDP APS costs (with or without field office costs) hinges on the yardstick to be used for comparison. It must be recognized that UNDP operates under unique circumstances which makes any comparison with other organizations very difficult and not quite relevant. Virtually no other organization has as its almost exclusive mandate to provide technical assistance which by definition is more demanding and costly to administer than various types of capital assistance. Second, the Programme's universality means that this technical assistance has to be provided on a programmed basis for 152 different country and intercountry programmes even though resource constraints make many of these programmes small. Third, UNDP must respond to any request and to any priorities expressed by an eligible Government within the areas of economic and social development. UNDP therefore must keep a preparedness to be able to deal with any area related to the conditions of human life. Fourth, UNDP acts within the framework of the UN system in a spirit of partnership with the agencies which is designed to ensure the availability of the cumulative experience and expertise of the agencies to developing country projects but which also involves consultations and other steps giving rise to significant costs. Fifth, although UNDP is mandated to operate on the basis of five-year programmes, its resource availability is determined from year to year with additional workload implications. Sixth, it must also be acknowledged that UNDP has not in its programme been able to reach a level that would enable it to fully utilize the economies of scale available in UNDP's network of field offices. Such a network requires a long time to build up and its cost cannot be adjusted in the short run without waste and deteriorating quality. Seventh, full recognition should also be given to the fact that UNDP cannot, unlike many bilateral aid institutions, fall back upon other Governmental institutions for financial, personnel and field representation services. On the contrary, UNDP is often obliged to perform these functions in the field on behalf of other UN institutions.

24. It follows that UNDP cannot easily be compared to any other existing organization; any valid comparison would have to be with a hypothetical organization operating under the same conditions as UNDP. No information is available on such a hypothetical cost of delivery of technical co-operation.

Unit costs of UNDP-financed assistance

25. The efficiency of an activity is reflected equally, if not more, in the cost of the final product as on what may be regarded as "overheads". While there has been a concentration of attention on "overheads", very little thought has been given to the unit cost of delivery. The question then arises: what is the unit cost of UNDP-provided technical co-operation; in other words, how far does the UNDP "aid" dollar go?

26. As the major part of UNDP technical co-operation is through the provision of experts, the cost per person-month of long-term experts is a useful index. This cost for 1980 by executing agency is as follows:

World Bank	\$6,839
UN	6,116
UNESCO	5,699
ILO	5,686
FAO	5,481
UNDP (direct)	5,440
WHO	4,774
Average, all agencies	5,612.

While comparison with the cost of experts provided through other programmes may not be entirely valid, figures of \$9,000 per person-month in 1979 and of \$11,000 in 1980 for experts supplied by the EEC have been cited in a recent DAC paper (DAC(82)6, para. 54).

27. It should be noted in this regard that the UNDP and its executing agencies have access to worldwide expertise and also use substantial numbers of specialists from developing countries with experience particularly relevant to developing country problems. The use of national experts also promotes self reliance. The particular way in which UNDP uses "volunteers" often as an integral part of project staffing not only promotes the provision of appropriate expertise, but provides supplementary human resources at still lower cost.

Question of effectiveness: Evaluation

28. UNDP emphasis on securing programme quality begins with arrangements for programme and project identification and formulation in a manner which would respond most appropriately to national needs and priorities, keeping in view the special concerns and objectives of the international community expressed through various inter-governmental fora. Donor and recipient Governments alike have emphasized the importance of ensuring greater coherence and co-ordination in the programming and utilization of external resources in national development thereby obtaining the most effective and maximum use of such resources. While the primary responsibility for this rests with developing country Governments, they can be greatly assisted in this effort if external technical co-operation resources are channelled through the UNDP and brought into the framework of coherent and co-ordinated programming and utilization across sectors and based on national priorities which the Governments and UNDP jointly undertake.

29. In UNDP much attention is focused on a project design methodology that simplifies monitoring of project implementation and allows for adjustment of project parameters over time if and when required. The UNDP has developed and used suitable techniques for this purpose, e.g. a modified matrix (to take account also of the impact of factors external to the project) to facilitate project design, a tripartite review system involving Governments, executing agencies and UNDP for more efficient monitoring and shaping of project implementation. Monitoring during the life of the project is aimed at ensuring that the project is on the right track and that its immediate objectives are met efficiently.

30. In recent years, evaluation designed to assess the quality of outputs or results has also received increasing attention. In addition to an evaluation midway through the life of the project and/or on termination of UNDP assistance, some efforts have been made to undertake post-project reviews to see how project outputs continue to be used to meet longer-term objectives. Furthermore, thematic evaluations have been done covering such programme fields as development planning, rural development, textile industries, agricultural training, industrial research and service institutes, women in development, rural co-operation and educational innovation and reform.

31. Steps have been and are still being taken to improve programme and project information bases, including information from evaluation work, as well as to develop more efficient methods of retrieval, analysis and feed-back into current operations. These steps would provide a better handle on the qualitative aspects of UNDP activities.

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