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SUPPORT

PROGRAMME IMPLEMENTATION

IMPLEMENTATION OF DECISIONS ADOPTED BY THE GOVERNING COUNCIL
AT PREVIOUS SESSIONS

PROMOTION OF NATIONAL CAPACITY: HIGHLY QUALIFIED STAFF

Incentives and other supplementary payments to government staff

Report of the Administrator

SUMMARY

The present report responds to Governing Council decision 89/22 of 30 June 1989, which requests the Administrator to outline possible options based on UNDP experience which would enable recipient Governments to respond better to the various difficulties they were facing in attracting and retaining highly qualified staff in government administration.

The report analyses the difficulties which many poorer countries are facing in providing adequate civil service salaries. This has led to the practice of donors paying salary supplements or incentive to government staff employed on projects. The report concludes that, in the longer run, this is detrimental to the Governments' own development efforts.

As requested by the Council, the report presents three options for dealing with this difficult problem. The first is to maintain and strengthen the existing UNDP policy of payments to project counterparts - an option which appears restrictive in relation to the known practice of some donors. The second option presents a somewhat liberalized version of the first approach. The third is a

completely different approach which could be applied concomitantly, and which seeks to centralize any external payments to government staff through a government programme as part of administrative reform. This alternative is based on the involvement of other donors in its financing.

Incentives and other supplementary payments
to government staff

I. INTRODUCTION

1. The Governing Council, in decision 89/22 of 30 June 1989, requested the Administrator to outline possible options based on United Nations Development Programme (UNDP) experience which would enable recipient countries to respond better to the serious difficulties they were facing in attracting and retaining highly qualified staff in government administration.
2. This decision is based on a suggestion made during the discussion of the Administrator's proposal to introduce a Development Support Service. At the time, a modification of that proposal was suggested, which would allow UNDP funds to be used to provide incentives by way of salary supplements in kind or in cash for key government personnel engaged in the formulation and implementation of policy reforms and programmes. It was furthermore suggested that such a scheme could be introduced as a pilot programme in the first instance, to be extended only after its usefulness had been demonstrated.
3. The Administrator has reviewed the experience within UNDP and other United Nations and multilateral organizations concerning the payment of incentives and salary supplements to national staff on development projects. This subject was also discussed with both donor and recipients countries to benefit from their experience and views.
4. The results of this review are presented in chapter III, where three methods of making payments to government staff are presented for the Council's review. The first approach is currently in use by UNDP while the other two are being actively considered.

II. THE PROBLEM

5. In poorer developing countries that are experiencing economic austerity, one effect of budgetary constraints is that it is becoming increasingly difficult to provide the essential support to development projects. This has led to a situation where, in countries seen as needing foreign assistance the most, externally funded development projects often cannot be implemented with the necessary involvement of the Government through counterpart support.
6. As a result, there has been considerable discussion among donors and recipients on how to find satisfactory solutions. A view often expressed in these discussions is that the inability of some recipient countries to provide support to externally funded development projects is not the issue to be tackled since it is but a symptom of a more deep-rooted imbalance. The real problem is the donor-driven proliferation of projects competing for scarce indigenous material and human resources. This opens up a broad range of issues that the international community, particularly the Governing Council, has on its agenda, such as the co-ordination of external aid; the premise that donor-driven technical co-operation

should give way to recipient-led programming; and the wider debate of the usefulness of the project approach in foreign aid.

7. This report concentrates on the more immediate problem of finding ways to assist host Governments in meeting the essential costs necessary to implement development projects while minimizing the dependence associated with payment of government salaries by foreign aid donors.

8. When the host Government is unable to provide sufficient local support to projects, the viability and sustainability of these projects is brought into question. From this point of view, it is useful to distinguish between recurring and non-recurring local costs. UNDP has found it easier to find solutions in meeting non-recurring local costs of projects, such as premises, office and transportation equipment, which, although they are funded from external sources, do not necessarily bring into question the sustainability of the projects involved.

9. When, on the other hand, the question of recurring costs is addressed, it is difficult to find acceptable solutions. If an external donor finances operating costs such as petrol and utilities, these can only be short-term, stop-gap arrangements to bolster the activities of projects only for the duration of external assistance.

10. Moreover, if the external financing of another category of recurring costs are considered, i.e., salaries of government employees, the impact of support can often become self-defeating as it does not promote sustainable development nor self-reliance. The issue, however, is not always so straightforward. While many donors and recipients have firmly argued against such payments for the reasons that they create distortions in the national payment schemes, make for disincentive effects and lead to increased dependency, some have felt that they are unavoidable in certain exceptional circumstances.

11. A number of developing countries are facing serious crises in that they are unable to maintain adequate salaries for their civil servants. Over the last 10 years, the average salaries for government employees have seen considerable declines in countries in Africa and in Latin America and the Caribbean. This trend has led to a large exodus of qualified nationals from the civil service either to the private sector or through emigration. The resulting crisis has led to widespread inefficiency, incompetence and corruption, which now threaten the basic functions of Governments in many countries.

12. Donors and host Governments in such situations are faced with a dilemma. While the refusal of donors to meet the costs of counterparts where government salaries are below subsistence is detrimental to the development effort, at least in the short run, the payment of salary supplements to government employees introduces a dependence on foreign aid which is detrimental to sustainability and institution-building. Donors, while realizing the pitfalls, are increasingly paying incentives or salary supplements to government employees on an ad hoc basis as part of specific arrangements for project implementation. There is increasing pressure for UNDP to do the same and, although policy in this regard is restrictive, exceptions are being made.

13. In such situations where government services and administration are breaking down, technical co-operation takes on a different role by, in effect, substituting for the Government's operational budget. This it does in one of two ways:

(a) Indirectly by providing experts who in fact carry out operational tasks normally the responsibility of government employees rather than provide on-the-job training (studies have been carried out that indicate that this has been taking place. From experience on individual UNDP projects this seems to be happening with international experts, but especially with the rapidly growing category of national experts. In practically all cases, they are not recruited as operational assistance OPAS experts.);

(b) Directly, by payments to government staff on projects.

In both cases, this support to the government budget remains hidden because it is not explicitly acknowledged as being a real component of the technical co-operation being provided.

14. By having this de facto budgetary support to Governments remain obfuscated in technical co-operation activities, a disservice is done to the governments' development efforts in two ways. First, by lowering the effectiveness of technical co-operation as a medium for technology transfer and training, and secondly, perhaps more importantly, by making this budgetary support extremely costly. A lot of the jobs being done by experts could be done by qualified nationals at a fraction of the cost, were the Government able to attract them and pay them.

15. The more direct approach of paying salary supplements to government staff on projects is seen as a lesser evil by donors since it at least provides viability to priority development projects that could otherwise not be undertaken in the circumstances. Nevertheless, such arrangements have serious disadvantages that cannot be ignored. Some of these have already been mentioned: weakened sustainability and the impossibility of building or strengthening institutions.

16. A serious drawback of this approach is the resulting dependence of government project staff on external donors. Often, the salary supplements are administered by the foreign experts on the project. Under such circumstances, these experts become in effect employers of the counterparts. This makes for a different relationship between government officials and their foreign advisors than was originally intended and further weakens technical co-operation. In a sense, this turns technical co-operation on its head.

17. Many other difficulties with this approach have been noted. To mention a few:

(a) A competition among donors for scarce competent personnel available locally, in some cases leading to veritable bidding wars;

(b) The creation of an environment where vested interests by local staff emerge which tend to prolong the time-span of projects as much as possible;

(c) The difficulty in establishing criteria for incentive payments with the resulting disillusionment and alienation of government staff who do not receive payments.

III. ALTERNATIVE APPROACHES

18. A number of countries have initiated civil service reform. However, in the short term there does not seem to be a satisfactory solution to this problem. Salary supplements to government staff distorts technical co-operation; on the other hand, if nothing is done to provide adequate remuneration to government staff on projects in countries where the Government is unable to pay sufficient salaries, project implementation is severely hampered to the point of making projects not viable.

19. This dilemma was very much kept in mind when possible approaches to this issue were considered. Three alternative approaches are presented below, with a short analysis of the advantages and drawbacks of each. The first approach, which represents the current policy of UNDP, allows for payments to government staff at the project level only in very limited circumstances; the second relaxes some of the constraints of existing policy and is more systematic in that it differentiates between different ways of providing payments at project level; the third alternative provides for a transparent programme-level approach involving central government authorities and the wider donor community.

A. Alternative 1: Maintain and enforce existing UNDP policy

20. Existing policy (contained in section 3040 of the Programme and Project Manual) provides for a special compensation to be paid to government project personnel for a period not exceeding six months. The Administrator may approve special compensation to government project personnel for periods exceeding six months if the Government provides an explicit agreement to take over this payment at a definite date. Such arrangements favour least developed countries (LDCs) and "as if" LDCs.

Advantages

21. This rather restrictive policy of paying special compensation to government project personnel was arrived at after UNDP experience of abuse of a more liberal system of payments to counterpart staff on projects. Although the policy is restrictive in relation to what some of the other donors are practicing, it does take into consideration hardships that may be faced by recipient countries, especially LDCs and "as if" LDCs and allows for special compensation arrangements to exist for periods exceeding six months. The main condition is a firm undertaking by a Government to take over such payments and the clear understanding that UNDP payments are an interim measure.

Drawbacks

22. The experience of the resident representatives in a number of countries shows that the existing policy does not allow UNDP to provide special compensation to government project personnel in many of the most difficult cases. The main reason for this is that, given the extreme budgetary stringency that these countries face, it is not realistic to expect to obtain a firm commitment from the Government to increase the salaries of government staff in the short to medium term.

23. In such circumstances, UNDP is left with the option of either not undertaking projects where government staff cannot be provided to work full-time or find other ad hoc solutions which would circumvent the existing restrictive policy. This could be by having the experts act de facto, if not in name, as OPAS experts. There are instances where the national expert modality has been used to hire nationals to function as de facto counterparts. The growth of this modality world wide could at least partially be explained by this (see para. 13 (a)).

24. A further serious drawback of this alternative is that there is no transparency for these payments. Each donor makes similar arrangements, all at the project level. It is difficult to monitor the extent and the duration of these arrangements. To that extent they remain hidden, projects tend to get extended and new projects get approved with the same arrangements. Thus, these arrangements gradually become institutionalized, and dampen the urgency of searching for more permanent solutions.

B. Alternative 2: Liberalize the existing policy on special compensation to government project personnel

25. The basic policy should remain that salary supplements and incentives are the obligation of the host Government or institution and may be charged to the UNDP budget only in exceptional cases. In the exceptional cases where UNDP could provide such payments, the payments would be provided for the duration of the project rather than for the six months of the present arrangement.

26. These more liberal rules would apply only to poorer countries where it could be shown that failure to provide supplementary payments to government staff would seriously hamper the start up or effective operation of projects in the country concerned. In addition, it should be shown that there is an acute lack of government resources to provide for such payments either from the normal administrative or development budget, from commodity aid or from other sources available to the Government. Furthermore, it should be shown that alternative project implementation strategies which reduce or eliminate reliance on government inputs and/or counterparts, such as the use of local non-governmental organizations (NGOs) as host country implementing agencies, have been fully considered and are not available.

27. If the above pre-conditions exist, then UNDP project resources could be considered for payments to local project personnel in accordance with the following guidelines:

(a) Incentives should preferably be in the form of in-kind benefits such as housing, training, travel and transport. Cash payments would require specific justification, including showing why in-kind benefits alone would not work;

(b) In cases where cash payments are approved, a distinction needs to be made between direct support projects (such as surveys and exploration projects) and institution-building projects. For institution-building projects, Governments would have to undertake an obligation progressively to take over the payments of benefits during the life of the project. This obligation should in turn be reflected as a specific prerequisite in the project document;

(c) In all cases, a definite schedule of benefits agreed to by the Government must be established and attached as an annex to the project document. This schedule should reflect the additional government obligation in cases where cash payments are being made on institution-building projects mentioned in (b) above;

(d) Such a schedule would be reviewed and adjusted every 12 months as part of the tripartite review;

(e) Under no circumstances should incentives continue to be paid by UNDP beyond the end of the project.

28. It is suggested as a matter of procedure that once the pre-conditions suggested in paragraph 26 are satisfied, the further consideration of the design and content of incentive arrangements to be paid from UNDP project budgets be considered as part and parcel of the normal appraisal of the project, using the guidelines suggested in paragraph 27.

Advantages

29. The advantage of this proposal is that it clarifies the existing policy by setting out criteria and conditions in more specific terms. It also liberalizes the procedure by making supplements available over the life of the project. The adoption of this approach would make it easier to negotiate with the Governments the provision of remuneration to government staff on projects and could provide a basis for a more co-ordinated approach by all aid donors working in the same environment.

Drawbacks

30. This proposal, by liberalizing existing UNDP procedure, would be more open to abuse than the present policy. It would also mean that UNDP would be more actively entering into competition with other donors for scarce counterpart staff on projects, with all that this entails (see paras. 16 and 17 above).

31. The lack of transparency mentioned as a drawback in Alternative 1 (para. 24 above) applies to a somewhat lesser degree to this proposal.

C. Alternative 3: Extrabudgetary resources for development activities

32. UNDP is also considering a completely different approach to the whole question, by tackling it at a country or programme level rather than at the project level. The approach is based on the following broad principles.

1. Applicability

33. The scheme would be applicable only to poorer countries that are unable to provide adequate civil service salaries, to the point where development programmes are brought into question. Furthermore, the scheme could be applied only in conjunction with longer-term measures to reform public administration, especially civil service reform. It would provide more immediate, stop-gap, measures intended to strengthen the reform process.

2. Centralization

34. Payment of local costs, including salary supplements to government employees, should be removed from the project level. Funds provided for this purpose from various donors would be pooled and the terms and conditions under which they would be provided would be negotiated centrally with the Government.

3. Modality

35. The modality for providing this pool of external resources for government extrabudgetary expenditure on development projects could be under a UNDP programme. UNDP would assist the Government in administering these funds through a programme financed under a multiple third-party cost-sharing arrangement. The extent to which indicative planning figure (IPF) funds could be used for such activities must be decided.

4. Approval and co-ordination

36. The programme of extrabudgetary resources for development activities should be agreed upon by Consultative Group meetings and in round-table conferences in countries where they exist or in other aid co-ordination meetings at which the recipient Government participates. The approval would be based on a specific proposal, presented by the Government, for incentive payments to selected government staff as part of its administrative reform programme. The proposal should be shown as having a direct impact on the countries development programmes and projects and should be for a limited duration.

5. Methodology

37. The proposal for a programme of extrabudgetary resources for development activities can be contained in the paper on technical co-operation that UNDP presents to the Consultative Group meetings and round-table conferences or other aid co-ordination forums. It is initiated by the recipient country which requests UNDP to pay salary supplements to government employees. UNDP explores with the Government and the donors the acceptability of a scheme under the broad approach described above, especially as relates to the existence of a viable programme of reform. If the approach is found to be acceptable to all concerned, arrangements are worked out and a detailed and specific proposal is put forth. The programme should contain provisions for regular monitoring and periodic review by the recipient Government and by donors.

Advantages

38. By taking this initiative, UNDP hopes to resolve a formidable obstacle to foreign aid - one of which both recipient and donor Governments are very much aware. In that respect, it is hoped that the initiative will receive wide support, allowing UNDP to play a more pronounced co-ordinating role, already advocated by both recipients and donors.

39. By removing payments to government project personnel from the level of the project and centralizing them with the Government and making the Government ultimately responsible for such payments, a number of associated problems would be resolved. First, the whole issue of donor payments of government salaries and their extent and duration would become more transparent. These would be an object of scrutiny both by the government authorities and the Consultative Group meetings on round-table conferences. Since such arrangements would be temporary and contingent on civil service reform, they would, it was hoped, lead to more concerted efforts to find longer-term, more acceptable solutions. Second, the linkages of external assistance with supplementary payments of government project personnel would be less direct and thus the perceived dependency of government officials for their livelihood on external experts would diminish.

40. Another advantage of this approach is that it can be limited to individual, carefully selected poorer countries, where such solutions will be of benefit in the long run by encouraging and supporting reform.

Drawbacks

41. Vigilance must be exercised to ensure that these pooled external extrabudgetary resources are used to solve problems directly related to identified high-priority development programmes. Strict scrutiny on the use of these funds and even control over expenditure would therefore have to be maintained by the Government, assisted by UNDP and a management or steering committee set up for that purpose.

42. Another difficulty may be that Governments, because of their administrative procedure, would not find it possible to pay salary supplements to some of its

staff on a selective basis. To overcome this difficulty, arrangements could be made for UNDP to pay on behalf of the Government, as it already does on some government-executed projects. Again, this would not be a completely satisfactory solution, but would none the less be an improvement on the present arrangement of payments made at the project level.

IV. CONCLUSION

43. Alternative 1 would maintain the existing policy under which UNDP provides payments to government staff on projects. Alternative 2 is a proposal to liberalize the criteria of the existing policy. Alternative 3, on the other hand, proposes a complete departure from the existing approach. A choice needs to be made between the first two alternatives while the third could exist concomitantly, to be applied very selectively in a limited number of poorer countries undertaking administrative reform. As is evident, wherever the third alternative is applied, payments at the project level would no longer be allowed. Also, this scheme presupposes that resources from other donors can be mobilized for its financing.

44. The Administrator considers that the third alternative approach to incentive payments deserves attention and support.

45. A programme of extrabudgetary resources for developmental activities would be closely associated with the national technical co-operation assessment and programmes (NaTCAP) exercises and would form part of the round-table process and the consultative group meetings. Financing would be provided by the donors participating in the round tables or consultative group meetings through a multi third-party cost-sharing arrangement with some commitment of IPF funds.

46. The scheme described above presents but a general framework within which recipient Governments could negotiate with donors a more equitable and effective system that would assist them in overcoming some of the immediate difficulties in carrying forward their administrative reforms. In this sense, it represents a financing modality for an incentive scheme that would be elaborated by and negotiated with individual recipient countries. UNDP has initiated such discussions in two countries, Ghana and Uganda, which have shown considerable interest in this approach. The results of these discussions will be reported to the Council.

