EVALUATION OF NON-CORE RESOURCES

EVALUATION OFFICE

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One United Nations Plaza
New York, NY 10017, USA

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FOREWORD

UNDP has evolved significantly since the Executive Board requested the evaluation of UNDP's non-core resources in its decision 98/2. To acknowledge this evolution and anticipate its continuation, the evaluation was conducted in a prospective manner, taking into account how UNDP and the environment in which it operates are changing. Since the early 1990s, the international development aid environment has shifted away from aid as entitlement towards an emphasis on results and performance. This shift is affecting both the core and the non-core segments of UNDP funding, putting pressure on the organization to show its effectiveness and results.

Most significant among these changes is the transformation undergone by UNDP with the introduction of results-based management (RBM), the multi-year funding framework (MYFF), the strategic results framework (SRF) and the Administrator's new vision for the organization. This vision, expressed in the Adminisrator's Business Plans 2000-2003, redefines the organization as an upstream policy advisor and called for a series of internal reforms to increase its capacity to meet the challenges of a changing aid environment.

Against this backdrop, the evaluation of UNDP's non-core resources is anticipating emerging issues for the organization and lays the basis for future dialogue with its Executive Board. Central to these issues is the link between core and non-core funding and the integrated approach to core and non-core funding developed in the MYFF and the SRF which is proving to be the right approach, at the right time, particulary given the realities of the aid environment. This approach reinforces the need for substantive alignment of core and non-core resources in support of development results. Beyond the complementarity of core and non-core resources, the evaluation addresses the specific role of core funding in furthering the organization's ability to deliver on its global development mandate and highlights the essential features of the organization that require an appropriate level of core resources. Last, the subject of both national and UNDP's internal capacity is examined as an essential component for the organization to operate efficiently in an increasingly competitive environment.

The recommendations made in the report are grounded in the empirical evidence gathered by the evaluation team and, as such, provide useful insights for UNDP as it defines its strategy and policy for non-core funds.

The evaluation benefited from valuable inputs from the Executive Board at the design stage of the terms of reference, and from UNDP's managers at Headquarters and in the Country Offices. This report is the product of an exceptionally close collaboration between the evaluation team comprised of Fuat Andic, Jean Ruffat and Eduardo Wiesner, the task manager Christine Roth and the evaluation specialist Linda Maguire. The assistance of the research analysts Marina Gueddes and Rosern Rwampororo is gratefully acknowledged, as are the inputs provided by Evaluation Office staff, Anish Pradhan and Bibi Amina Khan. The expertise of the editor and the graphic designer likewise deserve recognition.

Khalid Malik
Director
UNDP Evaluation Office

EXECUTIVE SUMMARY

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 UNDP's mandate, particularly in those 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:

1) Analyze the trends in the various non-core modalities applied by UNDP and review the key issues involved;
2) Highlight the lessons learned from the above analysis;
3) Identify successful experiences and their potential for replication; and
4) 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 [LDC], 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.

FIGURE 1: CORE EXPENDITURE BY REGION, 2000 (MILLIONS OF US$)

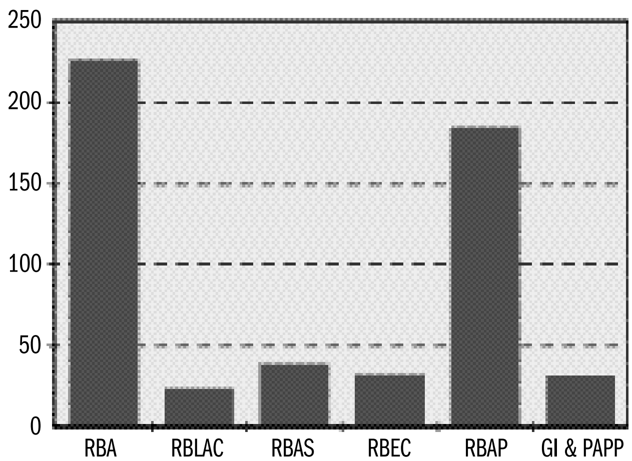
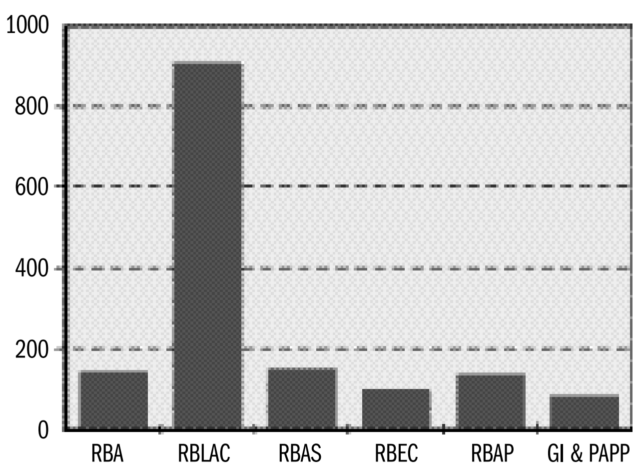


FIGURE 2: NON-CORE EXPENDITURE BY REGION, 2000 (MILLIONS OF US$)



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 totaled more than $1.6 billion in 2000, representing 75 per cent of UNDP total expenditures for the year.

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 Finance 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), Iraq Oil for Food Programme and those for special development situations (e.g. in Cambodia, Mozambique and Rwanda) and for unexploded ordnance (UXO) in the

[1] *The source for all figures, unless otherwise noted, is the Office of the Comptroller, Bureau of Management, UNDP. In these and subsequent tables, all non-core figures exclude management service agreements (MSAs).*

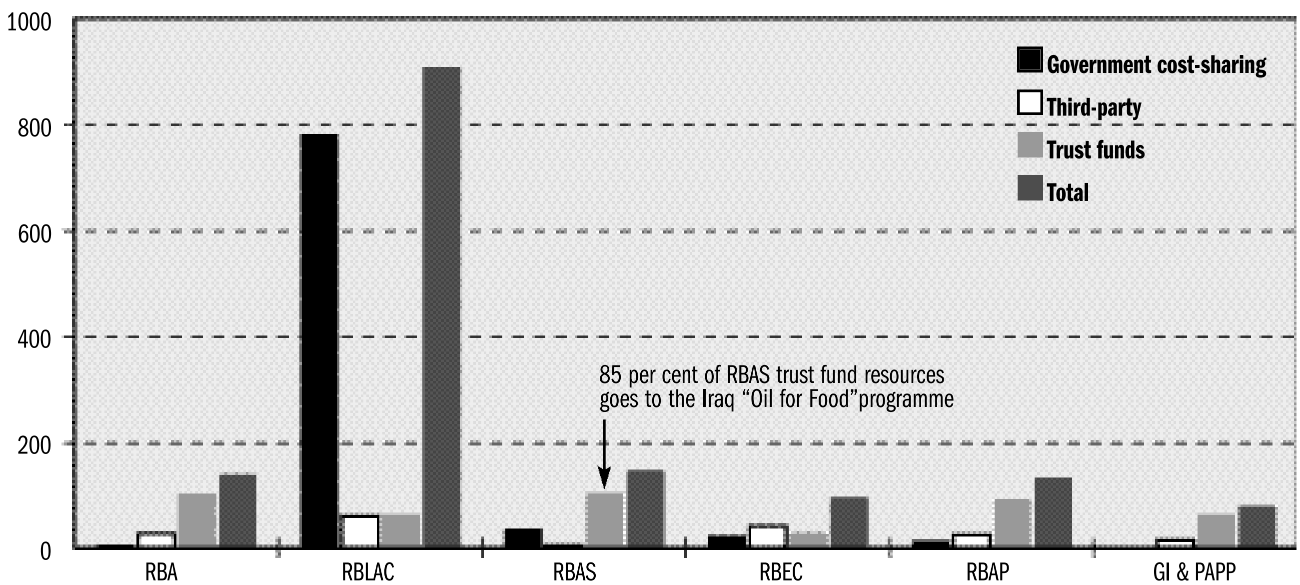
Lao People's Democratic Republic — represented 28 per cent of non-core expenditures in 2000 or $461million and management service agreements (MSAs) 7 per cent with $111 million.

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 delivery in 2000. Core funds in Latin 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, Asia and the Pacific and Africa, with $98 million, $135 million and $140 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"), where countries rely on UNDP to conceptualize, formulate and execute their projects and programmes and to act as the vehicle for governments to turn international financial institutions (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 two 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.

FIGURE 3: NON-CORE EXPENDITURE TYPES BY REGION, 2000 (MILLIONS OF US$)



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 criteria 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 multi-laterals, 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 of 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 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 UNDP's mandate, mode of operation and 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 multi-lateral 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 results-oriented annual report (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 to 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 others.

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 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, 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 on its mandate, as a knowledge-driven, trusted policy advisor to programme countries and 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 factors.** Regional bureau commitment to resource mobilization and strong leadership/ management at the country office level has played a decisive role. The introduction of modern management techniques and client-responsive approaches has 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 for 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 Venezuela 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 that 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 to 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 as 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's 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 three 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 out detailed studies on this issue.

The policy in UNDP, in the spirit of Executive Board decision 98/2, is to charge a suggested three to five 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 three per cent to which it is entitled. 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.

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

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 environment. 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/MYFF, 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 fulfill its development mandate in general and specific commitments such as the Millennium Declaration goals, is likely to be seriously jeopardized. The comparative advantage of UNDP in responding to 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 fulfill 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 and 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 learned, 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; and (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.

LIST OF ACRONYMS

ADB	Asian Development Bank
AfDB	African Development Bank
BDP	Bureau for Development Policy (UNDP)
BOM	Bureau of Management (UNDP)
BRSP	Bureau for Resources and Strategic Partnerships (UNDP)
CCF	Country Cooperation Framework
CO	Country Office (UNDP)
COMP	Country Office Management Plan
CSO	Civil Society Organization
DEX	Direct Execution
DFID	Department for International Development (UK)
EB	Executive Board (of UNDP)
EBRD	European Bank for Reconstruction and Development
EO	Evaluation Office (UNDP)
ERD	Emergency Response Division (UNDP)
EU	European Union
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GEF	Global Environment Facility
GLOC	Government Contribution to Local Office Costs
HDI	Human Development Index
HQ	Headquarters (UNDP)
IDT	International Development Target
IADB	Inter-American Development Bank
IFI	International Financial Institution
LDC	Least Developed Country
MSA	Management Service Agreement
MYFF	Multi-Year Funding Framework
NCC	Net Contributor Country
NEX	National Execution
NGO	Non-governmental Organization
OAPR	Office of Audit and Performance Review (UNDP)
ODA	Official Development Assistance
OG	Operations Group and Oversight Group
OSG	Operations Support Group (UNDP)
PAPP	Programme of Assistance to the Palestinian People

PFMS	Project Financial Management System
RBAP	Regional Bureau for Asia and the Pacific
RBA	Regional Bureau for Africa
RBAS	Regional Bureau for Arab States
RBEC	Regional Bureau for Europe and the Commonwealth of Independent States
RBLAC	Regional Bureau for Latin America and the Caribbean
RBM	Results-Based Management
RBMS	Results-Based Management System
ROAR	Results-Oriented Annual Report
RR	Resident Representative (Res Rep)
SHD	Sustainable Human Development
SRF	Strategic Results Framework
SURF	Sub-Regional Resource Facility (UNDP)
TOR	Terms of Reference
TPR	Tri-Partite Review
UNCDF	United Nations Capital Development Fund
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNIFEM	United Nations Development Fund for Women
UNOPS	United Nations Office for Project Services
UNV	United Nations Volunteers
UXO	Unexploded Ordnance
WFP	World Food Programme
WHO	World Health Organization

INTRODUCTION 1

1.1 PURPOSE AND SCOPE

Over the past decade, non-core resources have emerged as a substantial funding source for UNDP's 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 UNDP's mandate and its relationship with the development of national capacities, particularly in countries with large amounts of non-core funds.

The issues examined present themselves within the context of a rapidly transforming UNDP. Over the past few years, UNDP has undergone a major transformation with the introduction of results-based management (RBM), the strategic results framework (SRF) and the multi-year funding framework (MYFF). The Administrator also presented his new vision for the organization in his "Business Plans 2000-2003: The Way Forward." These new tools and strategies both are influenced by, and need to take account of, the rise in non-core funding.

To explore and address these issues, the Executive Board of UNDP in its decision 98/2 requested the Administrator to submit at the annual session 2001 "an evaluation, in consultation with programme countries, relevant

BOX 1: EXECUTIVE BOARD DECISION 98/2

"[The Board] expresses deep concern on the decline in core resources and the negative impact of this decline on the future work of the United Nations Development Programme and...requests that, when the United Nations Development Programme develops,implements and manages activities funded by non-core resources,in an integrated, transparent, flexible and accountable manner, the additional costs resulting from non-core funded activities be fully recovered and requests also that these activities and their support costs be systematically identified in the cooperation frameworks...

...[the Board] requests the Administrator to submit to the Executive Board at its 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 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; [and] decides to keep the trends and impact of non-core resources under close review and to this end requests the Administrator, in the context of his annual report to provide comprehensive information thereon, including on their amount,origin, destination and influence on programming."*

** The full text of Decision 98/2 is attached in Annex A* 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."

The Terms of Reference (TOR) for the evaluation are contained in Annex B. The main purposes of the evaluation are: (1) to better understand the attributes of non-core and to analyse UNDP's experience in relation to these attributes; and (2) to identify some key consequences for the organization. Some of the consequences touch upon the relationship between core and non-core funding and bring to the fore issues germane to UNDP's internal organization, such as its capacity to mobilize effectively non-core resources, to function and deliver efficiently in a competitive environment, to coordinate with third parties and to align its micro-level activities with its macro mandate.

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:

1) Analyse the trends in the various non-core modalities applied by UNDP and review the key issues involved;
2) Highlight the lessons learned from the above analysis;
3) Identify successful experiences and their potential for replication; and
4) 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.

TABLE 1.1: CHARACTERISTICS OF COUNTRIES VISITED

Country	GDP per capita ($)	HDI	Year 2000 (millions US$)	
			Core	Non-core
Brazil	4,500	0.75	0.24	194.79
Bulgaria	1,872	0.77	0.91	13.72
Honduras	722	0.65	3.25	41.79
Lao PDR	421	0.48	4.10	9.55
Niger	285	0.29	5.23	0.56
Pakistan	511	0.52	7.12	2.88
Saudi Arabia	6,516	0.75	0.00	2.74
Zimbabwe	703	0.56	4.22	2.39

Source: *UNDP*, Human Development Report 2000
Comptroller's Office, Bureau of Management

1.2 OVERALL METHODOLOGY

The team began its work in New York in January 2001 with initial briefings with the UNDP Evaluation Office (EO). Next, and in order to acquire an understanding of the issues surrounding the non-core funds, the team conducted in-depth interviews with the Administrator, the Associate Administrator, senior UNDP managers and representatives of the concerned bureaux and units, and the United Nations Office for Project Services (UNOPS). In addition, the team attended an informal meeting of the Executive Board on the subject in January 2001. The team also met with members of the DEX (Direct Execution) evaluation to ensure coordination and incorporate as appropriate the findings and conclusions of that evaluation, as required by the TORs of the two evaluations. Annex C contains a list of those consulted during the evaluation.

During its time in New York, the team conducted 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 non-core and core funding. A dedicated web site was set up by EO for the team to exchange documents and communicate, particularly during the country visits.

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 PDR, Niger, Pakistan, Saudi Arabia and Zimbabwe.

1.3 DATA COLLECTION AND ANALYSIS

COUNTRY VISITS

The team spent a substantial amount of time on country visits. These visits were critical for the team to obtain information and insights from an operational perspective. As mentioned above, the countries visited represented an appropriate mix of country typology.

In each country, members of the team held extensive meetings with the country office management and staff. They also met with representatives of national governments, NGOs, donor agencies, International Financial Institutions (IFIs) including the World Bank, and United Nations (UN) Agencies.

Subsequent to each country visit, an informal country report was prepared. These reports constituted the main source of information and analysis for the preparation of this main evaluation report.

DESK REVIEW

During the period February to April 2001, a research assistant was assigned to: (1) gather financial information on core and non-core resources for the period 1996-2000; (2) develop databases to store and analyse the information collected; and (3) carry out a series of descriptive analyses of the data provided and generate appropriate charts and graphs to feed into the evaluators' work.

The major sources of data to support the descriptive analysis included the Project Financial Management System (PFMS) reporting database, the Integrated Management Information System (IMIS), the EM1 reporting database and the SRF/ROAR database (Results-Based Management System [RBMS]). The primary tool of analysis was the use of Microsoft Excel spreadsheets. The results of the analysis are attached in Annex D.

It should be noted that the gathering of adequate financial data has been a particularly challenging exercise, as UNDP's financial corporate systems are not geared towards easy analysis. The subject is further addressed in the appropriate section of this report.

ANALYTICAL FRAMEWORK 2

The evaluation was conducted in a prospective manner, taking into account: (1) the ongoing transformation effort underway within UNDP as it relates to the subject; (2) the effect of a changing development aid environment on UNDP; and (3) the role and the importance of non-core resources for the organization.

The findings and recommendations of the evaluation are intended to provide useful inputs to the organization as it defines its strategy and policy for non-core funds.

2.1 UNDP'S TRANSFORMATION

Over the past several years, UNDP has instituted a series of change processes designed to help it become a more focused and results-based organization. A guiding principle of these processes has been to retain a country-driven focus that responds to the needs and priorities identified at the country level. UNDP is changing in large part in response to the pressure it feels from the development aid market, which has become more and more competitive, results oriented and demand driven. Concomitant with this evolving market, and a contributing factor for change, is the profound alteration in UNDP's own funding situation.

Central to the transformation of UNDP is the introduction of a multi-year funding framework (MYFF), intended to serve as a building block in the application of results-based management in UNDP. The first MYFF, for 2000-2003, was presented to the UNDP Executive Board in 1998, setting a four-year frame for the intended work of the organization. It consists of a strategic results framework (SRF) and an integrated resource framework (IRF). The SRF provides a broad frame of reference for UNDP's strategic development goals. It is designed to be the primary planning instrument to capture UNDP's major areas of intervention and the broad development outcomes to which the organization is contributing at the country, regional and global levels. The IRF establishes a coherent framework for the allocation of financial resources, both core and non-core, including programme, programme support, and administrative costs in support of the intended outcomes.

The MYFF was designed to provide a more predictable core-funding framework for UNDP and a coherent framework for linking core and non-core resources with planned development outcomes. It also presents a framework for resource mobilization.

The Administrator's Business Plans 2000-2003 reaffirm the principles of RBM and the need for UNDP to meet the new array of challenges faced by governments, particularly in the area of new policy frameworks and institutional development. They set out specific goals for the organization and a strategy to achieve them. At the heart of the Business Plans is the emerging vision of a more upstream UNDP, responding to the needs of programme countries and helping them "overcome their development challenges through swift, high quality support in proven areas." The strategy behind the vision of the Business Plans is now being implemented in the organization through: development of strategic partnerships to create new development opportunities; internal restructuring and decentralization to align staff profiles and capacities with the evolving organizational needs; building of internal communication and knowledge-based systems and networks; embedding a culture of accountability for results; and alignment of resources behind the targets established in the MYFF.

2.2 THE CHANGING INTERNATIONAL DEVELOPMENT AID MARKET

UNDP's transition is taking place within the context of an evolving international development aid environment. Since the early 1990s, this environment has been characterized by a sharp shift away from aid as entitlement towards an emphasis on results and performance. This shift is affecting both the core and the non-core segments of UNDP funding, putting pressure on the organization to emphasize effectiveness and results. Within this context, the non-core segment can be viewed as a special category regulated by its own institutional frameworks and motivations. Underlying the growth of non-core are supply and demand factors: on the supply side are the 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.

Programme countries are enjoying a greater choice in terms of organizations that can help them manage and implement development initiatives. In turn, donors have a greater choice when it comes to channelling their development resources. Choice requires agencies such as UNDP to become more competitive. In the development aid business, the elements that make an agency more attractive or competitive are responsiveness to clients' needs, technical ability, speed of delivery, cost-effectiveness, transparency and accountability.

From all evidence, non-core funding will continue to grow and will continue to put pressure on the traditional institutional aid environment. For UNDP, that will mean change and adaptation to a situation that is competitive and focused on performance, results and effectiveness. An important element of this change is the need for the organization to position itself accordingly and establish strategic partnerships for common development outcomes in order to attract funding that may otherwise go elsewhere.

The ability of 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.

2.3 CHALLENGES OF NON-CORE GROWTH FOR UNDP

Over the past several years, UNDP's core funding has declined in absolute and relative terms as compared to non-core financing, which in turn has been growing very rapidly in real terms. While this trend has affected regions differently — for example, non-core has grown substantially in Latin America while its growth in Africa has been more modest — it holds true across them all. The global picture is that core funds are declining in real and nominal terms while non-core funds are on the rise. In other words, UNDP, while focusing on its role as upstream policy advisor and provider of development services, has been decreasing its reliance on its own funds while increasing its reliance on funds generated by non-core resources.

It is critical to note, however, that core funding, though declining, still plays a major role in many countries and regions by acting as a catalytic multiplier of non-core funds and as a source of thematic focus. The critical role of core funding has two other important policy functions. The first is to respond to the needs of a wide typology of programme countries and to address global issues that markets may neglect. The second is to maintain institutional leadership and to provide coordinating strength to UNDP in the countries it serves.

While the growth of non-core resources is welcomed by UNDP, the organization is concerned about the trend, since core and non-core resources are not easily interchangeable and the sharp decline of one and rise of the other has serious implications for UNDP's ability to carry out its mandate. To fulfil the vision articulated in the Administrator's Business Plans, UNDP is under pressure to transform itself into a knowledge-driven catalyst and advisor that delivers on its mandate for sustainable human development. UNDP feels, and the evaluation team concurs, that in order to do this, it must retain the leverage afforded by core funds to act as a global advocate for human development issues, while participating in the demand- and opportunity-driven market of non-core resources.

For UNDP, the challenge is to better understand the attributes of non-core before establishing its relationship with core funding. The purpose of the evaluation is to analyse UNDP's experience in relation to these attributes and to identify some key consequences for the organization. In this context a certain number of issues will be examined.

- First and foremost, there is the challenge of integrating UNDP's core and non-core resources within a coherent framework to a greater extent than has been achieved thus far through the MYFF. Further, UNDP needs to keep an eye on the alignment of its core and non-core resources to ensure that they fulfil the organization's mandate in complementary ways and do not leave any critical human development goal behind in the interest of responding to demand or of capturing "market share."

- UNDP should not lose sight of the fundamental role and importance of core resources. Non-core funding, through its main components, reflects the thematic preferences of third parties and reveals the priority vectors of an evolving environment. The importance of this preference is that it sheds light on a competitive market in which funds vie for projects on the one hand and projects compete for funds on the other. This emerging process is part of the global context in which UNDP needs to continue to evolve, and to increase its base of core resources so as to enhance its effective leadership.

- UNDP's varied experiences (and levels of success) in mobilizing non-core resources imply the need to take note of lessons learned in more successful regions and evaluate them for possible replicability in other regions. It is imperative to understand the paradigm that facilitates or impedes the flow of non-core funds to UNDP programmes and projects. The varied experiences also imply the need for resource mobilization strategies that take into account the trends facing UNDP and the respective attributes of the core and non-core markets.

- Also crucial for UNDP is the issue of retaining or building its competitive capacity—both to continue attracting and administering non-core funds and to fulfil its new role as an upstream policy advisor and advocate. Similarly, UNDP needs to ensure that somehow the growth of national capacities and the growth of non-core funding are synergistic.

CORE AND NON-CORE FUNDS: Basic Facts and Trends

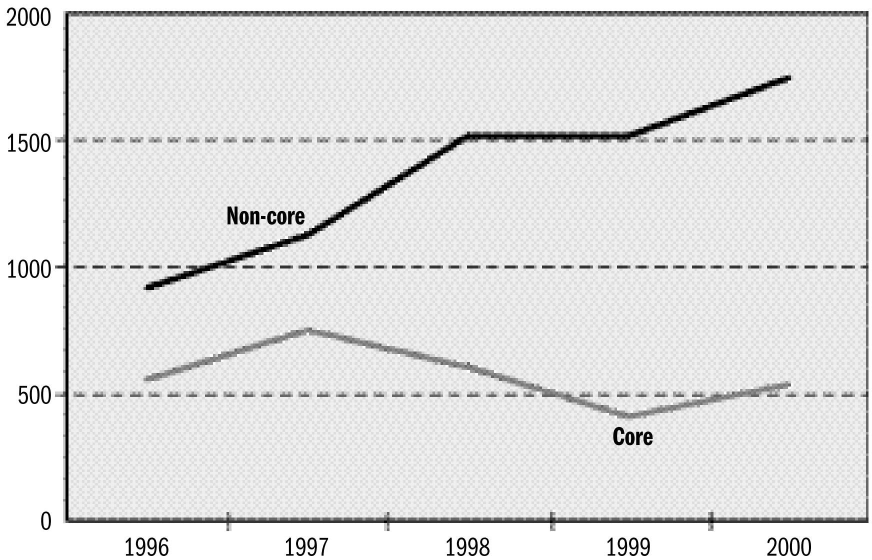
3

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. 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.[2]

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. Government cost sharing represents a host government's contributions from its own resources or from loans given to that government by International Financial Institutions (IFIs). Third party cost sharing comes from grants from donors — bilateral or multilateral — or IFIs. Government cost sharing and third party cost

FIGURE 3.1: CORE VS. NON-CORE EXPENDITURE, 1996-2000 (MILLIONS OF US$)



[2] *Source of all figures, unless otherwise noted, is the Comptroller's Office, Bureau of Management, UNDP*

sharing mostly complement core funds for specific projects or programmes. Trust funds are also provided by donors to support specific thematic areas or initiatives. In 2000, out of the $1.6 billion of non-core expenditures, 54 per cent or $866 million, came from government cost sharing. Third party cost sharing 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 five per cent.) Trust funds — the major examples of which can be found in the environment (Global Environment Facility [GEF] and Montreal Protocol), the Programme of Assistance to the Palestinian People (PAPP), humanitarian assistance in Iraq and in special development situations (Cambodia, Mozambique, Rwanda), and in UXO in Lao PDR — represented 28 per cent of non-core expenditures in 2000 or $461 million, and MSAs, seven per cent with $111 million.[3]

FIGURE 3.2: EXPENDITURE TREND BY TYPE OF FUND, 1996-2000 (MILLIONS OF US$)

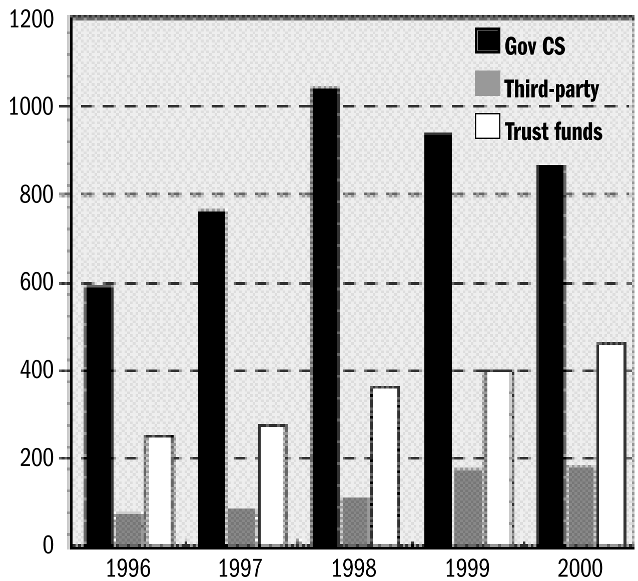
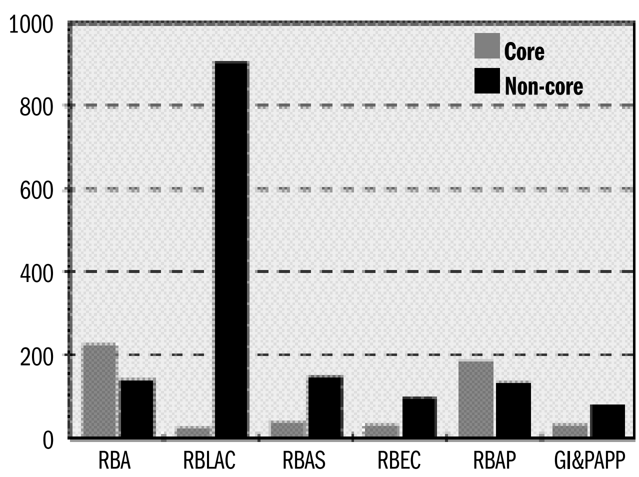


FIGURE 3.3: CORE VS. NON-CORE EXPENDITURE PER REGION, 2000 (MILLIONS OF US$)



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's 2000 expenditures. 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 a billion dollars delivery in 2000. Core funds in Latin 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 ascending order, Europe and the CIS, Asia and the Pacific, and Africa with $98 million, $135 million and $140 million, respectively, in non-core delivery in 2000. This ranking represents a change from 1999, when the positions of Africa and Asia and Pacific were reversed, with Africa showing non-core expenditures of $143 million, and Asia and Pacific of $169 million. It should be noted, also, that even though the non-core-funding figure in the Europe and CIS 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 of core 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.

The uneven distribution of non-core funds among regions, particularly with the low levels registered in Africa, is an indication that this category of funds is not necessarily driven by a needs criteria. The geographically concentrated development of non-core funds in UNDP poses a real challenge to an organization whose mandate is to alleviate poverty and to respond to the needs of the most vulnerable. This problem is often compounded by the fact that

[3] *MSAs or Management Service Agreements are agreements entered into by UNDP and a Government, bilateral or multilateral donor, or international financial institution, in which a United Nations Agency provides managerial and administrative support to a donor's or programme country's programme or project, for which UNDP charges a fee. MSAs are not reflected in Figure 3.2.*

donors themselves admit that they do not really know how to "kick start" the reaction of development because of the very large number of variables at play.

- **Regions attract different sources of non-core funding.** In Latin America and the Caribbean, the major source of non-core funding is 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"), where countries rely on UNDP to conceptualize, formulate and execute their projects and programmes and to act as the vehicle for governments to turn IFI 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 NCCs, is the region with the second-highest level of government cost sharing, albeit with levels significantly lower than those in the Latin American region. Even so, in 2000 government cost sharing expenditures alone virtually equalled core expenditures in the region. In other regions, government cost sharing is minimal; for example, it is at its lowest in Africa where it represented only two 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 due to the Iraq Oil for Food trust fund.

FIGURE 3.4: PERCENT NON-CORE EXPENDITURES BY REGION, 2000

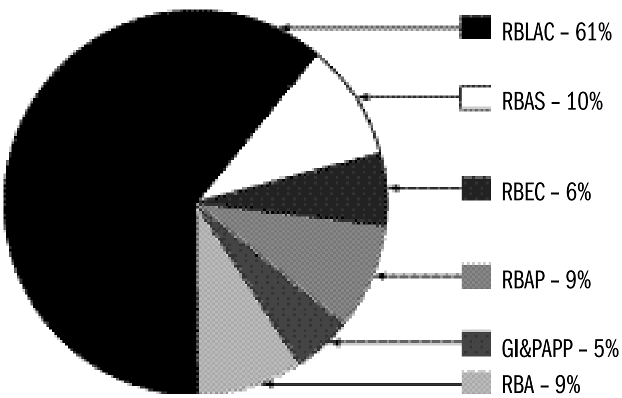


FIGURE 3.5: PERCENT CORE EXPENDITURES BY REGION, 2000

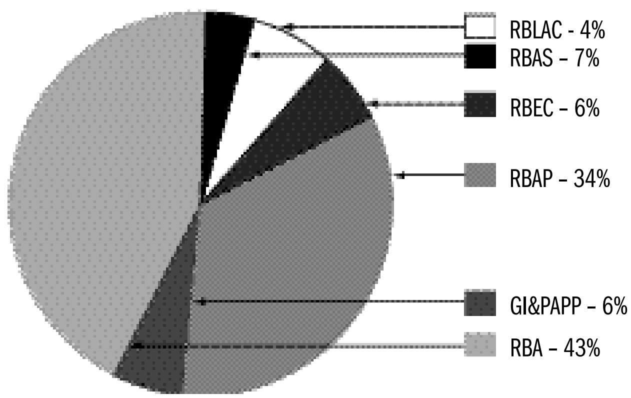
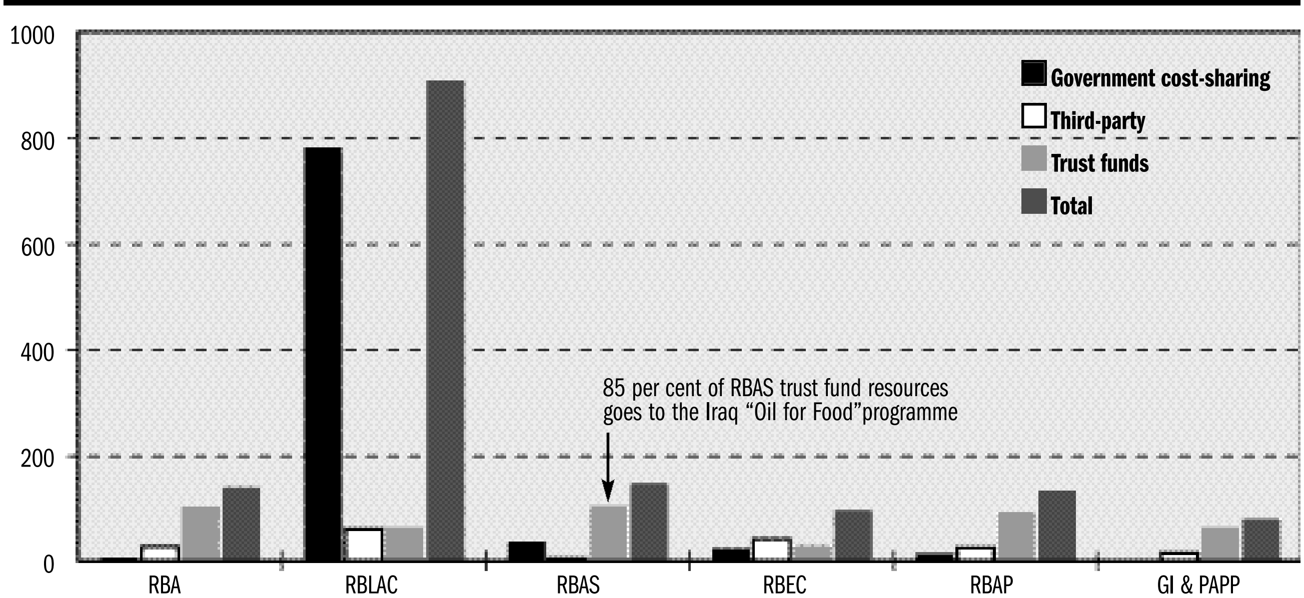


FIGURE 3.6: NON-CORE EXPENDITURE TYPES BY REGION, 2000 (MILLIONS OF US$)



4 ALIGNMENT OF NON-CORE RESOURCES WITH THE ORGANIZATION'S MANDATE

Within the system, UNDP has the overall global mandate to promote human development. As such, it is the UN's principal provider of development advice and advocacy. UNDP's strategic results framework (SRF) — one of the two components of the MYFF — lays out UNDP's specific strategic development goals along six categories. These are: 1) creating an enabling environment for sustainable human development (i.e., governance); 2) poverty reduction; 3) environment; 4) gender; 5) special development situations; and 6) UNDP support to the United Nations. Of these, the first five are programme/thematic areas, whereas the sixth is supportive. Within each broad SRF category are goals, sub-goals and strategic areas of UNDP support. The goals for each of the categories are to bring about: an enabling environment for Sustainable Human Development (SHD) (category 1); economic and social policies and strategies focused on the reduction of poverty (category 2); environmentally sustainable development to reduce human poverty (category 3); advancement in the status of women and gender equality (category 4); reduced incidence of and sustainable recovery and transition from complex emergencies and natural disasters (category 5); a coherent and effective UN system (category 6). The Results-Oriented Annual Report (ROAR) provides information on the use of resources at the level of each of the six categories (or broad goals) used in the SRF/MYFF, as well as at the level of sub-goals.

Because functioning in the non-core market implies the development of partnerships and specific arrangements between UNDP and a broad range of partners (including host governments, bilateral and multilateral donors, and IFIs), one could conceivably think that the rise in non-core resources might translate into thematic misalignments at the macro level. Based on the analysis of the two ROARs completed to date (1999 and 2000) however, such thematic misalignments appear not to have occurred at the macro level.

In UNDP's 1999 ROAR, the ranking of the seven most important sub-goals does not vary when comparing core resources with non-core resources. This highlights empirically the relative success of UNDP in maintaining its core priorities regardless of funding source. The 2000 ROAR 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),

TABLE 4.1: THEMATIC DISTRIBUTION OF NON-CORE RESOURCES BY REGIONS – BUDGET ESTIMATES (%)

REGION Area of focus		1996	1998	2000
OTHER	SUBTOTAL	**1.00**	**1.00**	**1.00**
Environment		0.31	0.41	0.23
Gender		0.01	0.07	0.07
Poverty reduction		0.22	0.18	0.11
Governance		0.36	0.17	0.21
Other UNDP development priorities		0.09	0.14	0.30
Unknown		0.00	0.02	0.08
RBA	SUBTOTAL	**1.00**	**1.00**	**1.00**
Environment		0.29	0.21	0.19
Gender		0.04	0.03	0.02
Poverty reduction		0.17	0.13	0.21
Governance		0.41	0.40	0.32
Other UNDP development priorities		0.07	0.23	0.27
Unknown		0.02	0.00	0.00
RBAP	SUBTOTAL	**1.00**	**1.00**	**1.00**
Environment		0.43	0.34	0.34
Gender		0.03	0.02	0.02
Poverty reduction		0.19	0.26	0.19
Governance		0.12	0.24	0.33
Other UNDP development priorities		0.23	0.14	0.09
Unknown		0.00	0.00	0.03
RBAS	SUBTOTAL	**1.00**	**1.00**	**1.00**
Environment		0.32	0.29	0.08
Gender		0.01	0.01	0.00
Poverty reduction		0.20	0.22	0.07
Governance		0.37	0.31	0.80
Other UNDP development priorities		0.09	0.16	0.04
Unknown		0.00	0.00	0.00
RBEC	SUBTOTAL	**1.00**	**1.00**	**1.00**
Environment		0.27	0.28	0.22
Gender		0.01	0.01	0.02
Poverty reduction		0.12	0.37	0.34
Governance		0.27	0.17	0.15
Other UNDP development priorities		0.32	0.17	0.27
Unknown		0.00	0.00	0.00
RBLAC	SUBTOTAL	**1.00**	**1.00**	**1.00**
Environment		0.12	0.10	0.11
Gender		0.01	0.02	0.01
Poverty reduction		0.23	0.39	0.32
Governance		0.26	0.25	0.32
Other UNDP development priorities		0.38	0.24	0.24
Unknown		0.00	0.00	0.00

Source: PFMS - BRIO

respectively. 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, and consultations with donors and recipients, 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 thematic priority areas.

The trend in the countries visited, while confirming the global statistics, shows that in some countries fast-growing non-core financing may have "induced" projects in specific areas. However, this has not created significant policy divergence between the countries'

FIGURE 4.1: PERCENT THEMATIC DISTRIBUTION FOR CORE EXPENDITURE, 2000

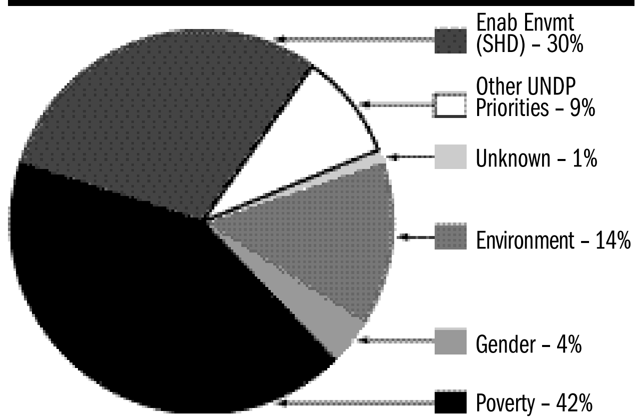


FIGURE 4.2: PERCENT THEMATIC DISTRIBUTION FOR NON-CORE EXPENDITURE, 2000

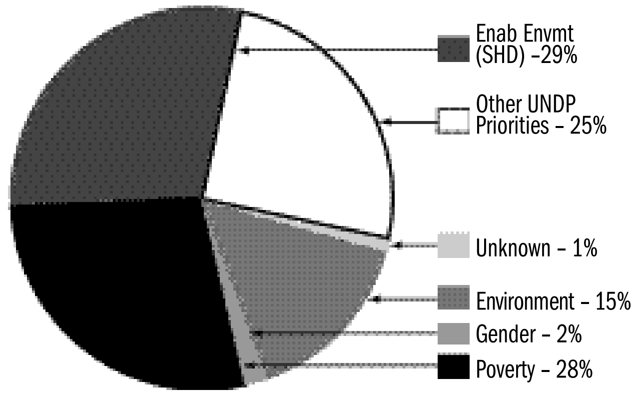


TABLE 4.2: BRAZIL – DELIVERY FOR 1998–2000, DISTRIBUTION BY PROGRAMME UNITS							
SOURCE Thematic areas		1998		1999		2000	
		US$	%	US$	%	US$	%
CORE	SUBTOTAL	**407.000**	**100.00**	**236.000**	**100.00**	**-193.000**	**100.00**
Human Development		-16.331	-4.00	544.948	231.00	93.165	-48.00
Education		188.487	46.00	-395.162	-168.00	-244.333	127.00
Environment		120.157	30.00	-140.592	-60.00	-118.894	62.00
Governance		96.853	24.00	204.753	87.00	16.415	-9.00
Social Development		17.834	4.00	22.053	9.00	60.647	-31.00
NON-CORE	SUBTOTAL	**261.643.000**	**100.00**	**150.181.000**	**100.00**	**190.704.000**	**100.00**
Human Development		5.257.331	2.00	2.869.518	2.00	3.717.055	2.00
Education		70.565.013	27.00	43.805.509	29.00	53.587.413	28.00
Environment		49.669.343	19.00	33.924.250	23.00	43.936.424	23.00
Governance		78.518.147	30.00	44.935.388	30.00	62.852.215	33.00
Social Development		57.633.166	22.00	24.646.335	16.00	26.610.893	14.00
CORE + NON-CORE	SUBTOTAL	**262.050.000**	**100.00**	**150.417.000**	**100.00**	**190.511.000**	**100.00**
Human Development		5.241.000	2.00	3.414.466	2.00	3.810.220	2.00
Education		70.753.500	27.00	43.410.347	29.00	53.343.080	28.00
Environment		49.789.500	19.00	33.783.658	22.00	43.817.530	23.00
Governance		78.615.000	30.00	45.140.141	30.00	62.868.630	33.00
Social Development		57.651.000	22.00	24.668.388	16.00	26.671.540	14.00

Source: UNDP Office at Brasilia. *Note: 1998-1999: Actual delivery; 2000: Estimated delivery*

priorities and the UNDP global mandate or specific country policy framework. The main difference appears to be in the level of funding rather than in the areas of priority chosen.

In Brazil, while originally large transfers of government resources were channelled through UNDP for specific administrative services (i.e., procurement), since the mid-1990s the government of Brazil has financed UNDP programmes in strategic areas. This transformation was a gradual process. During the Fifth Country Programme cycle (1992-1997), cost sharing became responsible for about 90 per cent of UNDP's programme. This shift occurred at a time when the government began a large state reform programme that required swift and rapid interventions in terms of support services, the major obstacles to which were obsolete legislation and outdated bureaucratic procedures.

UNDP provided assistance not just in the form of procurement but also in terms of needed technical expertise and opportunities for capacity development. UNDP's credibility and value added were further bolstered by work on human development, a concept that has been absorbed by the government as a major policy planning and budget allocation tool in its anti-poverty programme. The country office has been increasingly asked to set up monitoring systems for major government social projects; start innovative pilot projects on local development and micro-credit for scaling up in the future; and help in the design of major projects for submission to international financial institutions.

In Brazil, such arrangements involve UNDP in contributing conceptual and technical inputs but basically in providing management services and in ensuring transparency, timely delivery and effectiveness. These partnerships have allowed the country office to become very competent in these activities and did not cause any macro misalignment.

In Pakistan, while fast-growing non-core financing — particularly third party cost sharing — has to some extent induced projects in areas like environment, gender and governance, this has not created significant policy divergence between the country's priorities and UNDP's global mandate or specific Country Cooperation Framework (CCF). Third party financing has become an incentive to develop programmes and projects of special interest to bilaterals, IFIs and NGOs. However this has not detracted from the UNDP priority areas or from the Government of Pakistan's priorities, which are poverty reduction and social development.

In Zimbabwe, all of the non-core funding fits into the CCF, including those non-core funds generated for

TABLE 4.3: PAKISTAN – THEMATIC AREAS FOR CORE AND NON-CORE RESOURCE ALLOCATIONS, 1998–2003 (SIXTH CYCLE) (MILLIONS OF US$)

SOURCE Thematic areas		US$	%
CORE	SUBTOTAL	**34,009**	**100**
A.Governance		7,046	21
B.Gender		3,611	11
C.SL (Environment)		3,607	11
D. SL (Area Development) poverty reduction		17,242	50
E.Other		2,503	7
NON-CORE	SUBTOTAL	**32,224**	**100**
A.Governance		3,933	12
B.Gender		2,239	7
C.SL (Environment)		17,433	54
D. SL (Area Development) poverty reduction		8,519	27
E.Other		100	0
CORE + NON-CORE	SUBTOTAL	**66,233**	**100**
A.Governance		10,979	17
B.Gender		5,850	9
C.SL (Environment)		21,040	31
D. SL (Area Development) poverty reduction		25,761	39
E.Other		2,603	4

Source: UNDP, Pakistan *Note: Approved budgets, as of 31.1.2001*

TABLE 4.4: ZIMBABWE – THEMATIC AREAS FOR CORE AND NON-CORE ESTIMATED EXPENDITURES 2000 (MILLIONS OF US$)

SOURCE Thematic areas		US$	%
CORE	SUBTOTAL	**2.549**	**100**
A.Governance		0.578	23
B.Gender		0.052	2
C.Environment		0.207	8
D. Poverty reduction		1.454	57
E.Special development situations		0.154	6
F. UNDP support to the UN System		0.104	4
NON-CORE	SUBTOTAL	**2.883**	**100**
A.Governance		1.775	62
B.Environment		1.032	35
C.Poverty reduction		0.076	3
CORE + NON-CORE	SUBTOTAL	**5.432**	**100**
A.Governance		2.353	43.1
B.Gender		0.052	0.9
C.Environment		1.239	22.9
D. Poverty reduction		1.530	28.3
E.Special development situations		0.154	2.9
F. UNDP support to the UN System		0.104	1.9

Source: Results-Based Management System

complex issues such as land reform. The country office has closed some of its projects that were non-aligned at the micro level (e.g., on flight safety) and has reorganized itself along three substantive areas: poverty, HIV-AIDS and governance. It was noted by the evaluation team that in this country UNDP had to make a special advocacy effort vis-à-vis the government in order to bring the poverty issue to the fore, as for some time this was not recognized as a national priority.

Likewise, in Niger all the non-core-funded projects are within the core UNDP mandate areas of poverty, governance and the environment. These priority areas are funded from core resources, given the low level of non-core funds. As an important aside, it should be noted that in countries like Niger, where there is no problem of macro alignment with the mandate, non-core funds, available in very low amounts, are inadequate, in view of the magnitude of the challenges for economic and human development.

Notwithstanding the general macro thematic alignment observed, the evaluation found that there are some alignment issues at the micro level. Specifically:

1. Certain projects may not appear to align fully with the goals and mandate of UNDP. In Lao PDR for example, the majority of non-core projects and programmes conform to UNDP's mandate and the three areas delineated in the CCF — rural community development, management of economic transition/ governance, and environment and natural resource management. Yet, a detailed analysis of all the projects that form the components of the three programmatic areas indicates that a relatively small number of them may have no direct relevance to the priority areas, such as the "civil aviation" and the "third road implementation" projects. The level of development in Lao PDR, and the considerable need for assistance in practically every area, may have forced UNDP to tackle these issues apparently unrelated to the organization's priority areas.

Another example of micro misalignment is the case of Saudi Arabia, where UNDP is involved in telecommunications, an area that falls outside its current focus. Although it can be argued that involvement in telecommunications projects may perpetuate UNDP's image as an overly wide-ranging organization, it is possible that engagement in such infrastructure projects may be necessary to create an enabling environment for a future policy-oriented role.

TABLE 4.5: NIGER – THEMATIC AREAS FOR CORE AND NON-CORE , ESTIMATED EXPENDITURES 2000 (MILLIONS OF US$)

SOURCE Thematic areas		US$	%
CORE	SUBTOTAL	**4.237**	**100**
A.Governance		0.559	13
B.Environment		1.858	44
C.Poverty reduction		1.750	41
D. UNDP support to the UN System		0.07	2
NON-CORE	SUBTOTAL	**0.872**	**100**
A.Governance		0.425	49
B.Environment		0.076	9
C.Poverty reduction		0.371	42
CORE + NON-CORE	SUBTOTAL	**5.109**	**100**
A.Governance		0.984	19
B.Environment		1.934	38
C.Poverty reduction		2.121	42
D. UNDP support to the UN System		0.07	1

Source: Results-Based Management System

In the final analysis, it is likely that one has to rely on the country office management to judge what pre-conditions are required for UNDP's country programme to take root. In other words, in some countries short-term micro misalignment prompted by non-core priorities may be a necessary and calculated trade-off for better macro alignment and increased UNDP leverage over the long term. Such considerations have to be factored into UNDP's overall strategy to move increasingly towards upstream interventions. While this has been recognized at the senior management level, and areas where UNDP should no longer be involved articulated, the question becomes broader, given the diversity of country needs. The organization's imperative to be sensitive to country demands presents a case for UNDP to take a pragmatic policy position and not push for too strict an alignment as long as the bulk of interventions falls within the SRF/MYFF framework.

2. Another example of a micro misalignment issue is the opposite extreme—a situation where there is an excessively narrow focus on one or just a few functional activities. In Brazil, the UNDP country office has been involved predominantly in the management of programmes and projects and has performed that function (in the right thematic areas) in a highly professional way. At the same time, Brazil's own capacity development is evolving well and is focusing on the critical areas of regional and municipal entities. These developments lead to the question of where the UNDP country office is headed over the long term. The question does not cast doubt on the importance of managing programmes well, but on the long-term capacity development of the local office. Measures to accelerate UNDP's own process of technical and institutional strengthening will be needed if the organization is to continue making a significant contribution to Brazil. The issue of UNDP's capacity is taken up in more depth in the second half of Chapter Seven, on Capacity Development.

Key findings:

- The alignment of both core and non-core funds to UNDP's mandate does not appear to be a critical issue at the macro level, although some micro-level misalignments were observed.

- The imperative for the organization to be sensitive to country demands presents a case for UNDP not to push for too strict an alignment so long as the bulk of interventions falls within the defined priority areas.

5 ROLE OF CORE FUNDING AND ITS RELATIONSHIP WITH NON-CORE

The MYFF was developed as both a "strategic results" and an "integrated resource" framework. Yet the evaluation team found that the MYFF has not yet fully taken root at the country level. Currently UNDP is facing the challenge of integrated resource mobilization at the country level through mechanisms such as the Country Cooperation Frameworks (CCFs). The challenge is to push incorporation of the MYFF further at the country level through "country-level policy frameworks."

The integration issue notwithstanding, the evaluation team also noted that the domination of non-core funding and the pressures of an "imperfect market" might adversely affect some aspects of UNDP's role and mandate. UNDP's comparative advantage — 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 public goods or broad development outcomes within the context of the millennium and international development goals and targets.

The erosion of core funding can seriously jeopardize the organization's role as a trusted partner and its ability to pursue its SHD mandate in programme countries. While the evidence examined by the team in the countries visited supports this assertion, it is particularly critical in the least developed countries (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 advocate for issues with which it wants to be associated, the organization needs to maintain an adequate amount of core resources. 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 likewise helped programmes and projects raise non-core resources (e.g., in the cases of Bulgaria and Lao PDR core monies catalysed a significant amount of non-core funding).

BOX 2: DEMONSTRATION EFFECT

One characteristic distinguishing the case of Bulgaria is the strategic emphasis placed, *ab initio,* on starting with a pilot project or small experiment as part of a larger, far-reaching policy. The initial experience, if proven successful or seemingly replicable,would be followed by a larger project,and by the search for overall policy changes to give sustainability to the project on a wider scale. At this juncture,donors, including bilaterals and multilaterals,would be invited to participate, bringing their own expertise and perspective. Through this strategy, in the period 1997-2002,core funding of $5.4 million is projected to generate $55.9 million in non-core funding.

Core funding also impacts on coordination. Coordination is meant in the broad sense, where the role of UNDP is to coordinate all parties — governments, donors and United Nations agencies — around the collective agenda of development. In some countries, it was found that heavy reliance on non-core funding severely limits the possibilities for effective and broad coordination at country level. A good case can be made for a "mutually reinforcing" synergy between core and non-core 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 "infrastructure" for UNDP. 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 cases of Bosnia and East Timor, can have serious consequences for UNDP's responsiveness and, ultimately, its effectiveness.

BOX 3: COORDINATION

The local office of UNDP in **Brazil** has done an excellent job in coordinating activities with the Government of Brazil, and with multilateral and bilateral institutions. Coordination with other United Nations agencies has been satisfactory but limited. Possibilities for broader and deeper coordination in the context of the Resident Coordinator function were limited by the reliance of a number of United Nations actors on non-core funding. In **Saudi Arabia,** UNDP's coordinating role is severely hampered by the heavy reliance on non-core funding. Although there is a perceived need for greater coordination, UNDP's interventions, driven by the government's priorities, go to very specific areas, sometimes of a highly specialized and technical nature. In **Niger,** where core funding represents the majority of UNDP resources,the country office role in coordination is considered a success by all parties involved. The **Zimbabwe** experience has brought to the fore the importance of good coordination to mobilize non-core resources. The coordinating role of the country office has provided a platform for UNDP to forge broad strategic partnerships that resulted in increased mobilization of non-core resources. The case of **Pakistan** reveals that the growth of non-core funding is pushing both the government and UNDP to intensify coordination efforts in order to avoid an unwieldy proliferation of non-core-funded programmes and projects.

A comment can also be made on the thematic trust funds, which arguably can be treated "as if core." Apart from voluntary 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 may be found with regard to HIV-AIDS, for which funds are managed centrally, like core resources. 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 market, there is a definite opportunity here for UNDP to benefit from market niches linked to global community issues. However this 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 resources causes a serious risk for the organization's ability to deliver in accordance with its mandate as a knowledge-driven, trusted policy advisor to programme countries and a strong advocate for human development.

Key findings:

- A single coherent framework for core and non-core resources needs to be used to greater effect at the country level.
- A single coherent framework for core and non-core resources should not obscure the need for an adequate level of core funds.
- Core funding is playing a critical role in furthering the mandate of the organization and in responding to the needs of a wide typology of programme countries that are not necessarily covered by more "targeted" non-core resources.

RESOURCE MOBILIZATION: Replication of Successful Experiences

6

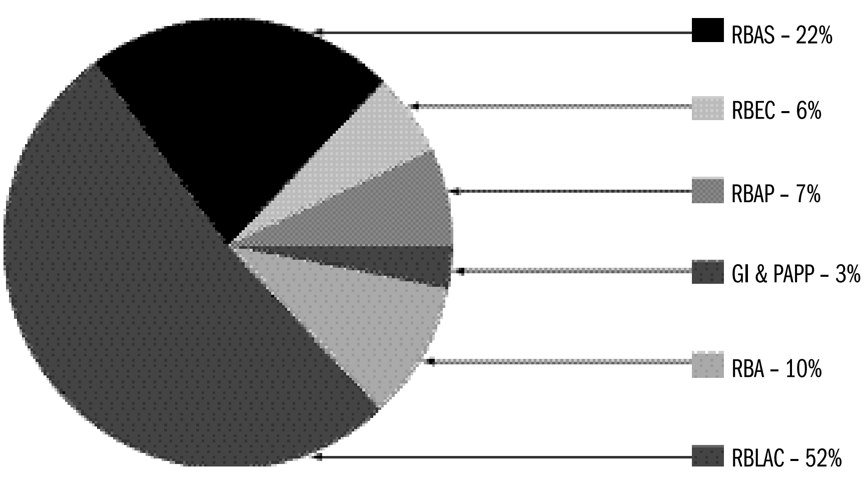
The analysis of trends in core and non-core funding shows that the distribution among regions is very skewed, and further analysis demonstrates that different regions attract different types of cost sharing. This section examines the conditions for success in attracting non-core funding and their potential for replication.

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 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 lower national capacity.

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

FIGURE 6.1: PERCENT DISTRIBUTION OF NON-CORE EXPENDITURE, 2000



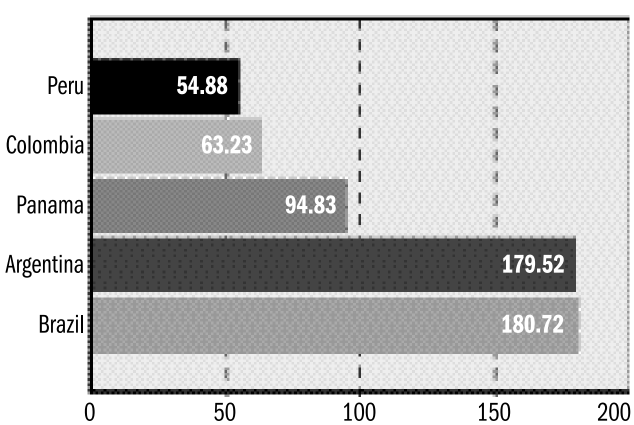
- **Political factors.** When civilian governments replaced military regimes in the seventies and early eighties, the emergence of pluralistic democracies made it imperative to identify development priorities with the participation of vocal civil society. Long-neglected goals such as public sector reform, 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. The importance of the desire of the governments for change and reform cannot be over-emphasized in relation to resource mobilization efforts.

- **Economic factors.** The "democratization of Latin America" led the IFIs to substantially increase loans and technical assistance funds to many of the countries. However, the level of their presence in those countries was not conducive to carrying out very many technical assistance projects. Hence, for both governments and IFIs, UNDP was considered a good conduit.

- **Trust factor.** The new democratic governments inherited weak institutions. Although the degree of weakness varied from country to country, the common denominator was that many countries' bureaucratic systems, laws and regulations were so cumbersome that executing certain projects and programmes at the speed required could be better achieved through UNDP. Also, the public sectors did not have adequate human resources and UNDP was viewed as a neutral, transparent and corruption-free organization for conceptualizing, formulating and executing projects and programmes.

- **Management factors.** Two other factors have also played decisive roles in the surge in government cost sharing: the commitment of the regional bureaux to resource mobilization; and strong leadership and management in the country offices. In the case of the Regional Bureau for Europe and the Commonwealth of Independent States (RBEC), the Bureau established clear criteria to improve performance in resource mobilization. In the Regional Bureau for Latin America and the Caribbean (RBLAC), resource mobilization is connected to the budget strategy. In that region, the extremely low levels of core funding would have seriously jeopardized the role of UNDP should the Bureau not have designed such a strategy. Overall, the introduction of modern management techniques and client responsive approaches have also been key to fostering strong partnerships and broad alliances.

FIGURE 6.2: RBLAC – BIG FIVE IN GOVERNMENT COST SHARING, 2000 (MILLIONS OF US$)



BOX 4: THE ROLE OF IFIs

The role of IFIs, particularly the World Bank, and the Inter-American Development Bank (IADB) in Latin America, cannot be over-emphasized. Experiences vary across regions, however. In Latin America such UNDP/IFI collaboration is long-standing. In Africa, however, such partnerships with the World Bank and the African Development Bank (AfDB) are only just emerging. Likewise, in the Europe/CIS and Asia/ Pacific regions, the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB), respectively, are beginning to contemplate possible ways and means to provide non-core funds to UNDP.

The experiences in other regions have been quite different when it comes to government cost sharing, raising the question of the 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 played out:

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

When looking at third party cost sharing and trust funds, the successful experiences appear more wide-spread. Over the past two to three years, the countries with important amounts of third party cost sharing were Cambodia and Indonesia in Asia, Mozambique and Rwanda in Africa, and Guatemala, Honduras and

Venezuela in Latin America. In the Arab States region, Iraq received 90 per cent of the total share of cost sharing in the region. In Europe and the CIS, Bosnia, Tajikistan and Ukraine received 50 per cent of the region's share.

By nature, third party cost sharing is not easily predictable and the distribution evolves over the years as circumstances change. Highlights of the 2000 distribution by major recipient per region are found in Annex D.

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

The growth of third party financing can be explained by a number of global factors as well as by specific country and institutional factors at play for each source of funding. Generally speaking, all of the factors reflect a dynamic aid market, which seeks to become specialized, and to adapt to changing circumstances in thematic areas, in country priorities and in regional conditions. These factors also reflect the dynamics of relative comparative advantages amongst 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 the question would be "yes," but only if the conditions that prevailed can also be duplicated or constraints 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.

The experience of the countries visited shows that several factors have played out in various combinations in UNDP's success to mobilize resources.

Brazil: The factors that contributed to the success of the UNDP Brazil country office in attracting government cost sharing have been examined in the section above. A question related to the replicability of the Brazilian experience addresses its sustainability over the medium term. The experience is based on government cost sharing and is targeted mainly to the management of programmes and projects agreed upon within the CCF. Two questions arise: is the modality of arrangement sustainable; and should explicit policy efforts be made to support it.

BOX 5: THE GLOBAL ENVIRONMENT FACILITY (GEF)

The Global Environment Facility is a financial mechanism providing grant and concessional funds to developing countries for projects and activities to protect the world's environment.Responsibility for implementing the GEF is shared by UNDP, the United Nations Environment Programme (UNEP) and the World Bank.UNDP is broadly responsible for capacity building and technical assistance activities,and for managing the Small Grants Programme (SGP) on behalf of the GEF.

GEF resources are available for projects and other activities that address climate change,biological diversity, international waters, depletion of the ozone layer and land degradation – primarily desertification and deforestation. From 1991 to 1999,the GEF allocated: $991 million in grants and mobilized an additional $1.5 billion in co-financing (from recipient countries,bilateral agencies, other development institutions, the private sector and non-governmental organizations) for **biological diversity** projects; $884 million to 227 **climate change** projects, matched by $4.7 billion in co-financing; $360 million to **international waters** initiatives; $155 million to phase out **ozone depleting substances;** and $350 million for **deforestation and desertification.**

As of June 2000,the UNDP-GEF portfolio totalled $1.045 billion (not including $963.35 in co-financing). Over 580 projects – not including Small Grants Programmes – in the current portfolio range in size from $10,000 to $15 million. Some of the largest country recipients of GEF funds are Brazil, China,India,Indonesia,Madagascar, Mexico,Pakistan, the Philippines and the Russian Federation. In general, **Asia and the Pacific, Latin America and the Caribbean** and **Africa** tend to be the three regions that receive the majority of GEF funds. GEF is built on the premise of "thinking globally"and "acting locally." In this, it appears to be a good example of global arrangements facilitating country-level initiatives.

Source: UNDP-GEF and GEF Secretariat.

Given the fact that Brazil has achieved a high degree of sophistication in building its capacity, and given the narrow focus of the UNDP local office on management, it appears that the very conditions that have fostered the success of the current arrangement are likely to disappear. Over the medium term, or even more rapidly, in two to three years, these conditions will be different and less auspicious for UNDP. From this perspective, the current arrangement, with its existing characteristics, does not appear to be easily sustainable.

Rather than try to prolong or sustain the arrangement, policy efforts should be targeted at enhancing the capacity of the UNDP local office, as well as that of the UNDP system as a whole, to meet the new conditions — and opportunities — that will result from the reforms the government of Brazil is implementing. The sustainability of the "Brazilian experience" depends largely on the effectiveness of such "upstreaming" of the current institutional and technical capacity.

TABLE 6.1: NON-CORE EXPENDITURES BY SOURCE FOR COUNTRIES VISITED, YEAR 2000 (MILLIONS OF US$)

Region	Country	Govt CS	Third-party	Trust funds
RBLAC	Brazil	180.72	5.91	8.16
	Honduras	32.85	1.08	7.86
RBA	Zimbabwe	0.83	0.97	0.59
	Niger	–	0.43	0.13
RBAP	Pakistan	0.26	0.93	1.69
	Lao People's Dem.Republic	0.75	2.89	5.91
RBAS	Saudi Arabia	2.99	0.07	(0.32)
RBEC	Bulgaria	11.03	2.32	0.37

Honduras: Shortly after the devastation of Hurricane Mitch in October 1998, which attracted emergency assistance funds to Honduras in substantial amounts, the UNDP country office reorganized the CCF around three priority areas: (1) environment and development; (2) governance; and (3) poverty reduction. Within these three areas, the country office successfully combined the programmes/projects with emergency assistance.

Through this reorganization, the country office was able to attract bilateral and multilateral cost sharing. Among the multilaterals, the World Bank is the greatest contributor, with $45 million, followed by IADB with $21.8 million, for the period 1998-2001. During the same period, the Government of Honduras is to contribute $19.8 million through direct budgetary allocations or through loans from IFIs. The blend of capacity building components, upstream policy advice and elements to mitigate the effects of Hurricane Mitch in the UNDP-designed programmes is an attractive one and has enticed government and donors to co-finance with UNDP. In all of the programmes, core funds were almost equally distributed and used as leverage for attracting cost sharing. A particularly successful example is the Democracy Trust Fund set up by UNDP, which succeeded in attracting 25 different donors with a minimal initial core investment. This showed that donors trust UNDP to handle sensitive programmes such as those for good governance.

Another important element of the Honduras country office's resource mobilization strategy is its aggressive client-oriented approach. In September 2000, a survey of UNDP's performance was conducted among the donor agencies. Many of the recommendations for improvement have been taken into consideration by management and corrective action is now being implemented.

Zimbabwe: The increase in non-core funds in Zimbabwe is attributable to three main factors. First, in the mid 1990s, under new leadership, the office underwent a re-engineering geared towards enhancing substantive capacity of the staff and reducing transaction costs of doing business. The result was an increase in the office's capacity to generate and implement programmes quickly and effectively, as well as in its ability to identify and respond efficiently to "opportunities" within its priority areas. Secondly, the coordination role of the office has provided a platform upon which UNDP has forged broad strategic partnerships with the World Bank and bilateral donors, and within the UN system. These have resulted in relatively high third party and trust fund contributions.

Last, but certainly not least, at the policy level UNDP has developed a strong relationship with the government and civil society, inspiring a great deal of trust and mutual respect. Through the country office's leadership, UNDP has been directly involved in many issues of national importance, most recently the land reform issue. This special relationship was manifested by the government's contributing $800,000 of its own funds to UNDP in 2000 through government cost sharing, a major accomplishment given the deterioration of Zimbabwe's economic and social conditions.

With the current crisis, UNDP is faced with the challenge of maintaining its edge at a time when the government is focusing more on "crisis management" and less on socio-economic development, and at a time, too, when donors are shifting their resources towards NGOs in an attempt to have a more direct impact on civil society, particularly in relation to dealing with the AIDS crisis and its social consequences. This situation highlights the fact that the organization needs to adapt when conditions evolve.

Niger: Resource mobilization in Niger is done mainly by submitting programme and project proposals to donors. It appears that UNDP is becoming increasingly aggressive in this domain and is conscious of the need for an integrated approach to resource mobilization. One factor considered as positive in the resource mobilization effort is the coordination role of the country office, recognized by both government and donors, and the level of trust UNDP has generated amongst its partners.

However, a number of challenges are still facing the country office. Several donors had withdrawn from Niger because of instability in the political climate, which partly explains the low levels of funding. The situation is now improving, although traditional donors still tend to prefer bilateral aid. NGOs with direct access to beneficiaries present stiff competition for non-core funding. Lastly, there is a need to re-establish a climate of confidence between the government and donors.

Pakistan: The Government of Pakistan recognizes that a favorable macroeconomic framework is necessary for sustainable improvements in social conditions. For this reason, it is working to reduce internal and external imbalances. However, in the face of low economic growth rates, the immediate priorities are poverty reduction, particularly amongst rural women and children, and social development. Within this context, the challenge in attracting non-core funding for national policy changes lies with the weak linkages between numerous, often scattered projects and aggregate results. The UNDP country office is starting to focus on these "strategic linkages" and on partnerships. As an example, it has currently in its pipeline, the "National Sustainable Development Programme," or NSDP, which among other things will address the poverty-environment nexus within a holistic framework.

From 1998 to 2001, non-core funding has risen from $2.0 million to over $11.3 million. The fast growth of non-core commitments in Pakistan is explained in particular by financing from the GEF and from third party cost sharing in the areas of poverty reduction, governance and gender. Fast growth in non-core resources is beginning to create tensions for the UNDP local office, for the government itself, and within the institutional interactions amongst bilaterals, other donors, IFIs and other specialized UN agencies. At the level of UNDP, these tensions have to do with the organization's convening powers, its coordinating functions and its expected role in coordinating and promoting strategic partnerships. The growth in non-core funding, with the use of new methodologies and dynamic management systems, is also putting pressure on both the country office and the government to enhance their technical and human resource bases. It also brings to the fore the necessity for UNDP to intensify its support to the government's efforts to manage a consistent policy framework in the face of rapidly expanding non-core initiatives.

Lao PDR: The change in government policy since 1986 as a result of which Lao PDR is undergoing transition from a closed society with a command economy to a more open society with a market economy—though still ongoing—has attracted the attention of many bilateral donors, specially the Nordic countries. Assisting the government in its reform process has become a priority for these countries. Since many donors eager to assist the country had no established infrastructure for designing and implementing their own programmes, UNDP became the only viable vehicle for channelling technical assistance funds. At the same time, the government had, and still has, high regard for UNDP as a neutral and transparent agency, and the UNDP office's role in assisting the government in the formulations of strategic plans, policies and programmes is a strong factor in attracting non-core funds.

The combination of the above factors, coupled with strong incentives from the UNDP Regional Bureau and the active engagement of the country office's management has allowed UNDP to mobilize significant amounts of government cost sharing and bilateral contributions. The government contributions have represented about 12 per cent of the non-core funds with the balance coming from third party cost sharing, mainly from Norway, the Netherlands, Denmark, Australia and Sweden. Contributions from IFIs have been negligible, as they pursue their interests directly through loans and technical assistance agreements with the government.

It should be noted that humanitarian issues have also attracted donors to contribute in a significant way to a trust fund — UXO — to address the social and economic constraints caused by unexploded ordnance (e.g., land mines).

Bulgaria: Two elements have been critical to successful experience in Bulgaria: the "strategy" followed to enhance development effectiveness; and the "Beautiful Bulgaria" project, which was able to galvanize Bulgarian society as a whole as well as the donor community. In the first case, the country office conceived a strategy through which, with core resources, it would support pilot projects in some of the most critical areas, like poverty reduction, employment generation and decentralization. The idea is to replicate a project on a larger scale once its fundamentals are learned and developed. Other donors would be invited to participate at that point and, eventually, the government would change national or local policies to enhance sustainability of the new projects. The parallel initiative of inducing policy changes at a higher level of the public sector is equally important, as in the case of the "Beautiful Bulgaria" project, which has led to policy changes in labor legislation and on decentralization and local governance.

Through this strategy and initiative, estimates for the period 1997-2002 show that core funding of $5.4 million will have generated $55.9 million in non-core funding.[4] Of this amount, the government will co-finance $26 million, and nine bilateral donors as well as the European Union (EU) are making substantial contributions through third party cost sharing. For Bulgaria this is a critical link expressing, *inter alia*, capacity development, coordinating

[4] *Figures provided by the Bulgaria country office.*

effectiveness and ownership by the key players. It was observed that the existence of clear global agreements between UNDP and donors greatly facilitates local agreements in the country, as exemplified by the cases of the EU and the Netherlands.

Saudi Arabia: With its NCC status, Saudi Arabia has made a transition from recipient to donor. The government pays for the UNDP office costs and the programme cost sharing. Contributions to UNDP go to very specific areas in accordance with government priorities. UNDP's challenge in Saudi Arabia relates to its technical ability to meet the government's needs and demands in sometimes very specialized areas such as environment or information technology. In this situation, which is also germane to other NCCs, UNDP's value added is seen as its ability to bring global knowledge and expertise to specific development needs. Where there is no UNDP value added, however, the country office sees the resources reserved for development assistance go to private firms that are better positioned and capable.

Key findings:

- There are wide variations amongst the countries and regions in terms of 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.

- The replication of successful experiences is contingent on the understanding of prevailing policy and institutional conditions that have been conducive to success, as well as an analysis of the contributing factors.

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

CAPACITY DEVELOPMENT 7

7.1 NATIONAL CAPACITY

Building national capacity is at the core of UNDP's interventions. According to the MYFF, 70 per cent of UNDP's outcomes fall into the capacity building category. Yet it is not always easy to define and measure capacity development, ascertain that it is taking place or determine the factors that influence it.

In general terms, the interplay of factors affecting capacity development at the host-country level and, to some extent, at the UNDP level, depends largely on whether the respective markets are "core-" or "non-core-driven." When markets are largely "non-core-driven" by government cost sharing, it would seem that the host country establishes the path of its own capacity development. This path may or may not coincide with that of UNDP, though policy makers on both sides would find it to their advantage to see alignments in that respect. In any case, however, to stay relevant, UNDP would have to define its own policy framework for assuring its technical and institutional growth. One such example is the case of Brazil today. The country is accelerating reforms to modernize its cumbersome public sector management procedures and legal environment. During the evaluation mission, authorities stated that very substantive national capacity development has taken place on this front. The second observation is that from a technical and scientific perspective, the country has already achieved a high level of sophistication, particularly at the national level (in contrast to the regional and municipal areas). In brief, Brazil's own capacity development is evolving well and the focus is now on the critical areas of regional and municipal entities. What deserves special attention is the question of what capacity development programmes should be strengthened over the short term to assure a significant contribution by UNDP in Brazil.

When markets are largely "non-core-driven" by bilaterals, multilaterals or by an entity like the EU, as in the case of Bulgaria, the capacity development of the host country is going to be strongly influenced by the long-term interests of "third parties." These interests, of course, have to be fully consistent with those of the host country as well as with UNDP's mandate and priorities. The challenge for UNDP is to ensure that such consistency is maintained.

Another dimension is brought out when specifically looking at third party financing (third party cost sharing and trust funds). The rapid growth of third party financing has significant implications for capacity development requirements, both at the national level and for UNDP local offices. As highlighted in countries like 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. These new methods have a bearing on activities financed by core funds, as well as non-core funds, and this poses a capacity development challenge for both governments and UNDP country offices. Looking specifically at the case of Bulgaria, if institutional capacity development is associated with: (1) replicability and sustainability of projects; (2) government ownership; and (3) impact on overall aggregate policies, then there is a strong case to suggest that the recent non-core expansion has enhanced capacity development at all levels.

The respective attributes of core and non-core resources affect national capacity development in different ways. A schematic way of approaching the issue is to look at both the strengths and the weaknesses of each category in influencing capacity development. In a "core-dominated" environment, UNDP has more leverage to influence the nature of and means to capacity development. One of the weaknesses of this scenario is that the degree of ownership by national entities may be limited. In this case, there is added pressure on UNDP to ensure that the capacity building component of its intervention truly reflects the needs and demands of its national partners. On the other hand, in a non-core-driven environment, capacity development tends to follow donor preferences (in the case of third party cost sharing and trust funds), or be dictated by the host government (in the case of government cost sharing, where there is full ownership from national entities). This, in turn forces UNDP to examine the nature of its own capacity and to align it to an externally driven environment, be it from a donor or a government standpoint.

However, in "real life" situations, as can be seen from the above examples, there are multiple possible combinations of processes and outcomes, depending on the environment in which UNDP performs. The correlation between source of fund and capacity development is thus somewhat blurred.

In countries like Lao PDR, capacity building is a complicated issue. With extremely low capacity in the government and a shortage of qualified people in all sectors of the economy, all projects, both core and non-core, contain significant capacity building components. In fact, non-core providers insist on capacity building in the projects to which they contribute. Programmes financed with core and non-core funds enhance capacity in the public sector first. At the same time, the expanding private sector lures qualified government personnel with higher salaries, making capacity building an unending task.

In Pakistan, it was observed that the fast growth of "third party" financing has significant implications for capacity development both at the country level and for "in-house" development of the UNDP local office. The key issue, though, is the sustainability of new projects and programmes through the enhancement of the respective technical institutional capabilities, regardless of the source of funding.

Despite indications of a correlation between non-core funding and capacity development in some countries — Brazil, Bulgaria and to a certain extent Honduras — the team noted that there is a convergence of views amongst national entities, the donor community and UNDP country offices (in the countries visited) 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.

Key findings:

- 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 or has not been significantly improved at the national level by the expansion of non-core funding.

- In theory, the respective attributes of core and non-core funding do seem to have specific influence on the nature of capacity development. However, due to the multiplicity of factors present in the development process, it is impossible to establish a direct correlation between source of funds and capacity development. National ownership appears to be more of a determining factor.

7.2 UNDP CAPACITY

The new UNDP, as envisaged in the Administrator's Business Plans and other documents, calls for a more substantive and flexible organization, capable of seizing opportunities where they arise. UNDP is to be a "trusted and leading partner of programme countries in overcoming their development challenges through swift, high-quality support in proven areas." To effect this transformation within the context of mobilizing and managing resources (particularly non-core resources), UNDP needs a specific set of skills to better respond to the emerging challenges.

The evaluation team has found that UNDP's capacities — particularly its coordinating abilities and leadership qualities — are critical to development effectiveness in general and to successful resource mobilization in particular. The evaluation team noted that the capacity of country offices to mobilize resources in support of country-level priorities varies greatly from country to country. 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 also found that overall, UNDP needs to become a better partner locally for the donors by making its overall experience more readily available and by tightening its modes of operation. It must be able to help develop the "right (or one of the best) solution(s)" to fit local circumstances. This calls for drawing much more on UNDP's accumulated experience, both within countries and worldwide. But UNDP is clearly poor on the memory/learning side of its capacities, largely because it lacks continuity and does not manage its institutional memory efficiently.

UNDP CAPACITY AND ALIGNMENT

As touched upon earlier, the evaluation team found that in general there is "macro" mandate alignment of resources at the country office level, in the sense that resources raised are allocated to programmes whose intended results are to improve policies, develop capacities and assure results in terms of UNDP's overall development objectives.

In Honduras, for example, the UNDP country office consolidated many projects and redefined its priority areas as: (1) environment and development; (2) governance; and (3) poverty. Within these three areas the country office not only expanded the programmes and combined them successfully with emergency assistance, but also succeeded in mobilizing funds well beyond the vision of the original CCF. The new configuration of the programme coincided almost fully with the priorities of both multi-lateral and bilateral donors. The non-core funds flowing to UNDP for the implementation of the projects also fully coincided with UNDP's mandate. In fact, these funds were used for governance, eradication of poverty and mitigation of environmental degradation, all of which were expected to lead to sustainable human development.

The general macro mandate alignment notwithstanding, there is still a question of the emphasis and intrinsic nature of most of the activities conducted by the staff of UNDP's local office. This question has important implications for UNDP's country-level capacity because if country office activities end up focused predominantly on the management of programmes or projects, there is the risk of micro misalignment. As discussed in greater detail above, micro-misalignment would reflect an excessively narrow focus of attention to one or just a few functional activities, or to extraneous activities that do not align to UNDP's mandate. This is not to say that management is not a critical factor in the success or failure of any programme or project. As the case of Brazil illustrates, management is critical and the UNDP office has performed this function (in the "right" thematic areas) in a highly professional way. The question is therefore on the long-term capacity development of the local office — i.e., how it is developed and in what specific areas. In general, in today's environment and given the move "upstream," UNDP will be under pressure to develop new capacities and skill sets to respond competitively. As seen in a number of the country visits, UNDP lacks sufficient expertise, specialized skills and knowledge in highly focused areas.

BOX 6: UPSTREAMING CAPACITY DEVELOPMENT BEYOND PROJECT MANAGEMENT

While indeed there have been many cases where the conceptual and technical contribution of the UNDP country office was very substantial, the predominant modality in many a country seems to have been the management of projects. In such a case,questions could arise as to whether the "micro"thematic alignment is skewing the direction of UNDP country office capacity development. The question is not meant to cast doubt on the importance of managing programmes well. Rather, it is meant to focus on the long-term capacity development of the local office and,therefore, on UNDP's sustainability as an active and valued partner of host countries.

INTER-PLAY BETWEEN UNDP AND NATIONAL CAPACITY

Some might argue that it is the host country's capacity that should be UNDP's priority, or that UNDP can always resort to "outsourcing" for very specialized support. Others might argue that developments like the Sub-Regional Resource Facilities (SURFs) will bolster UNDP country-level capacity over time.

Overall, however, the evaluation team 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. In Brazil, as mentioned above, it is the current policy of the government to correct the conditions that provide the "market" for UNDP. The Brazilian government is reforming — actually trying to eliminate — the propitious conditions under which the current success of the arrangement with UNDP has evolved. Over the medium term, or even more rapidly (perhaps within two or three years), those conditions will be different and less auspicious for

UNDP. From this perspective, the current arrangement, with its existing characteristics, does not appear to be easily sustainable.

This begs the question as to whether special policy efforts should be made to preserve or prolong the current arrangement. The best answer is that policy efforts should rather be targeted at enhancing the capacity of the UNDP local office, as well as that of the UNDP system as a whole, to meet the new conditions — and opportunities — that will result from the reforms that the Government of Brazil is implementing. The sustainability of the "Brazilian case" depends largely on the effectiveness of such upstreaming of the current institutional and technical capacity.

It may even be posited that the effective sustainability of the UNDP system as a whole depends, to a large extent, on its capacity to upstream itself technically, institutionally and politically. In a changing and increasingly competitive development market this appears to be the adequate policy response.

In brief, Brazil's own capacity development is evolving well. What deserves special consideration is the question of what capacity development programmes should be strengthened over the short term to assure a significant contribution by UNDP in Brazil. The concern is more related to the medium-term in-house capacity development of the UNDP local office. Measures to accelerate UNDP's own process of technical and institutional strengthening will be needed. (UNDP could, for example, consider developing a comparative advantage in the environment or in decentralization, given the worldwide interest and third party focus in the former, and the Brazilian concentration in the latter.)

Perhaps a country-level "financial reserve" could be established from net proceeds of non-core related activities and from the interest yield of deposits of UNDP and Government of Brazil "monies." Such a reserve could provide the means to cover the higher costs of attracting very senior levels of professionals in the technical niches that could be developed. Special incentives will also be needed to reward particularly excellent performances at the local level. A similar system could likewise be considered for Saudi Arabia, where UNDP is being asked more and more to concentrate on "soft issues", but where few understand what policy work is all about. As was suggested during one of the country visits, a portion of the repayments could go towards the establishment of a fund for granting advisory services.

In the case of Bulgaria, it would be difficult not to conclude that capacity development, at the government level and at the level of the UNDP office, has been strengthened in the last few years, the period during which non-core financing has expanded so substantially. In Bulgaria, the local UNDP office conceived a strategy through which, with core resources, it would support pilot projects in some of the most critical areas, like poverty reduction, employment generation and decentralization. The idea is that once the fundamentals of the project were learned and developed it could be replicated on a larger scale. Other donors would be invited to participate and eventually the government would change national or local policies to give further sustainability to the new projects.

The lesson learned from the Bulgarian experience is that policy advice, in particular that aimed at upstreaming policy changes, needs an empirical basis. Beyond what good economic theory has to offer, there is the fundamental need to learn about the specifics, and about institutional frameworks conditioning such theory. Another lesson learned is that policy initiatives can work quite well using such a dynamic piloting approach.

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 Lao PDR, the low level of qualified technical capacity at the national level is prompting UNDP to enhance its own capacity at both the managerial and the technical levels. The same incentive factor should be present in regions such as sub-Saharan Africa. Here, however, it appears that UNDP has not adequately responded to the challenge by providing the needed well-organized country offices and strong capacities that could help recipient governments in mobilizing and delivering on key development outcomes. There are some qualified exceptions to this trend, though, including the exemplary brokerage role the Zimbabwe country office played, and the progress the country office in Niger has been able to make in encouraging government confidence in UNDP as a development partner and coordinator.

UNDP CAPACITY IN COORDINATION AND ADVOCACY

The relationship between the coordinating role of the UNDP local office, on the one hand, and the expansion of non-core resources on the other, is an interdependent and dynamic one. The direction or sequencing of the relative causalities would in most cases show that non-core growth is largely a consequence of a good coordinating role. While there are some instances where substantive growth of non-core funding can take place with little relation to the coordinating activity, these cases would tend to be exceptional.

In Bulgaria, the coordinating activities of the UNDP local office contributed decisively to increasing, in net terms, the non-core funding and enhanced the overall effectiveness of the development efforts of the government, bilateral, multilateral and other donors, NGOs and the EU. In Honduras, where UNDP is recognized as having superior capacity to conceptualize, formulate and execute technical assistance projects, UNDP is partially used as a conduit for governments and bilateral agencies with little delivery capacity. The World Bank does not have human resources in country to implement its own technical assistance and UNDP is a convenient and efficient conduit for the Bank. In Niger, UNDP reorganized its office and put in place a unit to coordinate programmes and to mobilize resources to help fill the void between the suspension and the resumption of donor activity.

As noted above, the local UNDP office in Brazil has done an excellent job of coordinating activities with the Government of Brazil, with many of its agencies at all levels, and with multilateral and bilateral institutions. This is recognized by all "third parties" and by the government itself. While relations with the World Bank and with the IADB are friendly, highly professional and based on specific partnerships to develop specific task and functions, coordination with other UN agencies has been satisfactory but limited. When these agencies are also facing difficult financial situations and "competing" for non-core resources, such coordination becomes a challenging task. The Executive Board Mission to Brazil put it well when it observed that:

> "Overall coordination in the resident coordinator system was limited. United Nations country team officials believed that the United Nations Development Assistance Framework (UNDAF) might reveal new areas of cooperation but doubted that an UNDAF would significantly improve operational effectiveness in Brazil. Possibilities for broader and deeper coordination were limited by the reliance of a number of United Nations actors on non-core funding."[5]

This is particularly true in Zimbabwe too, where UNDP has an important coordinating role to play in areas where there is no clear lead agency, but where the World Bank often also wants to be a coordinator agency. In Pakistan, while UNDP/Islamabad is still able to play a significant coordinating role with bilaterals and other donors, other UN agencies, NGOs and the government itself, the stagnant level of core resources limits its reach and influence. While the local office's UN identity and impartiality give it considerable convening power, it needs a strong combination of core resources and an enhanced human resource base to maintain its real and effective status. When the largest share of financing comes from third party initiatives, which is the case in Pakistan, the real reach of the coordinating powers of UNDP becomes somewhat compromised. Even under an overall policy framework shared by all parties, the sources of financing may end up also being the predominant sources of coordination. There is thus the risk of UNDP becoming a lender of last resort,[6] or of the overall aggregate effort of all parties becoming less effective than under an integrated and well-coordinated agenda. This need not be so. A modern and efficient management system, with the right explicit incentives, can yield the desired coordinating results, even in an environment in which bilaterals and other donors, NGOs and IFIs all want to show, and legitimately so, their respective contributions in the areas of their particular preference.

In meetings with representatives of UN agencies (FAO, WHO, WFP and others) in Pakistan what emerged was not only the issue of UNDP's coordinating role but also the more general problem of the UN system as a whole. Non-core funding was not seen as a unique UNDP issue. The declining UNDP "core" funding was a problem for the UN agencies, some of which now see that they conduct very little business with UNDP when just a few years ago they were its preferred implementing agents.

In brief, it would seem that the reduction of core funding and the expansion of non-core financing has wide systemic effects on other UN agencies and puts the UNDP coordinating role and effective convening capacity in a different and probably more difficult context than a few years ago. Bilaterals, other donors, IFIs and NGOs continue to feel that there is an important role for UNDP and for core resources to finance development programmes and projects in Pakistan. This view goes beyond the interest in having access to more funds and recognizes the key importance of "international public

5 *See Report of the Executive Board Mission to Brazil, (20-28 February 1999), page 6.*

6 *DFID, one of the biggest donors in Pakistan, has stated in its "Institutional Strategy Paper" (2000) that on the whole UNDP "has some weaknesses." The paper goes on to say that UNDP's "wide-ranging mandate and its responsive nature to requests from programme countries and donors means that it has spread itself too thinly over a wide range of issues. It is sometimes seen as a donor of last resort if other agencies cannot finance particular activities. UNDP's programmes are not always well focused, well designed or effective. The broad range of activities undertaken creates the risk of friction with other agencies. UNDP should continue the ongoing process of redefining its areas of operation, ceasing activity in those where it does not have a clear comparative advantage."*

goods" and of a neutral institution like UNDP to lead a consistent development effort.

A similar situation prevails in Lao PDR, where a lack of supply in core funds will potentially have serious consequences on the capacity of the UNDP country office to handle non-core funds. The UNDP Lao PDR country office expects that there will be cuts in its core funding and anticipates that this will affect its capacity to handle non-core funds as well. Therefore, while to date the country office has not suffered from a shortage of manpower to handle the influx of non-core funds, it is nonetheless preparing to streamline its activities.

An important aspect of the coordinating capacity of UNDP's local offices that may be adversely affected by the domination of non-core financing is the advocacy role. As non-core funding tends to establish the agenda, UNDP's advocacy role in new areas or in areas that may have been "benignly neglected" becomes more and more difficult to assume.

In Zimbabwe, UNDP has had an opportunity to play many roles, including an advocacy role during the constitutional reform process. This was a process in which many donors did not want to get involved, and in which many national actors did not want outside involvement. UNDP played an important brokerage role in getting the various sides to understand each other's viewpoints and the human development implications of policy decisions (particularly vis-à-vis highly sensitive issues such as land reform). In an increasingly non-core, donor-driven market, such an advocacy role might become more and more rare for UNDP.

UNDP CAPACITY AND LEADERSHIP/MANAGEMENT

The evaluation team has found that perhaps the most critical capacity for UNDP as it transforms itself into a more substantive and flexible organization is one of leadership within the UNDP local office. Such leadership can be replicated elsewhere, but only if certain conditions are met. Chief among these is the adoption of a corporate UNDP policy and structural change to seek, reward and maintain senior staff who would have a high probability of delivering exceptional leadership qualities. Also critical for UNDP staff are entrepreneurial skills, a risk-taking mentality and the ability to promote broad-based alliances and partnerships.

Strong leadership and management capacities positively impact on country office capacity to mobilize and manage resources. In Lao PDR, the success of UNDP in mobilizing funds certainly depended upon the power of persuasion of the country office's management team and the interest of the donors in third party cost sharing and trust funds, as well as the particular circumstances of the country. A positive combination of these three elements in Lao PDR resulted in a powerful attracting factor.

The in-flow of non-core funds can also help to build capacity within UNDP country offices. In Honduras, for example, the UNDP office enhanced the managerial capabilities of its personnel to manage non-core funding. The office staff, which already showed a good deal of capacity, was assigned high levels of responsibility. Staff members' performance and initiatives were also measured. This undoubtedly motivated staff members to enhance their own capacities. As a result, UNDP in Honduras has demonstrated high capacity to handle the increased volume of non-core resources.

In Pakistan, on the other hand, it is difficult to arrive at one single overall conclusion as to whether UNDP local capacity has been significantly improved by the expansion of non-core funding given the varied mix of project-specific circumstances. The UNDP country office staff feels that it is adjusting to the challenge and, in all likelihood, the global effect of non-core growth on UNDP capacity has been positive. But it is difficult to ascertain the specifics of this process.

Lao PDR presents yet another nuance in the relationship between source of funds and UNDP local office capacity development. In Lao PDR it has emerged that, irrespective of the source of funds, there is no doubt that the vision and dexterity of the personnel are enhanced by their involvement in diverse projects. Staff capacity development appears more a function of responsibility assigned than of source of funds.

Aside from UNDP leadership and management capacities, there are several factors that also play a preponderant role in channelling non-core funds towards UNDP. These factors have less to do with UNDP leadership and management and more to do with national capacities. In some countries, donors — especially bilateral ones — view the government bureaucracy as essentially devoid of technical capabilities to design and execute projects. Hence, they enter into agreements with UNDP to provide technical assistance by making use of the organization's capacity in the areas where UNDP and donor priorities coincide.

RESOURCE MOBILIZATION CAPACITY AND CORPORATE SYSTEMS

It would appear that the specific characteristics of the core or non-core markets have more influence on capacity development than the modality of execution.

That said, the evaluation team 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. Current execution modalities do not appear to offer UNDP enough flexibility in choosing the most appropriate mode 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.

While some authority has been decentralized to the country level, systems for agreements, reporting and accounting could be further improved. Indeed, in order to remedy the deficiency of corporate systems, several country offices are already designing their own. 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.

Key Findings:

- UNDP country office capacity and pro-active leadership are key to successful resource mobilization. Particularly important are entrepreneurial skills, technical substantive expertise, a risk-taking mentality, existence of broad-based alliances and partnerships, and appropriate management and incentive systems.

- UNDP is facing the challenge of developing a more technical substantive ability — beyond project management — to remain relevant and respond to the emerging challenges. This is particularly true at the country office level, where the challenge exists beyond the capacities already contemplated with the establishment of the SURFs.

- A growth in non-core resources can impact positively on UNDP country office capacity. The issue of country office capacity is even more critical when national circumstances are difficult and local capacities constrained.

- The growth in non-core funding implies a more difficult coordination environment for UNDP and a weakening of its ability to play an advocacy role in new areas or in otherwise "neglected" sectors.

- 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. Existing corporate systems are cumbersome when it comes to accounting for and reporting on the various types of non-core funding.

7.3 COST RECOVERY CAPACITY

COST RECOVERY SYSTEM

Recovery of the costs associated with delivering programmes and services is emerging as an important issue for UNDP. At times, donors have been reluctant to pay for the cost of administering non-core projects because their governments have contributed to the structural costs of UNDP through core funding. They therefore expect their supplementary contributions (non-core allocations) to go towards actual programmes rather than the overhead expenses of the organization and are sensitive to the issue of "cross subsidizing" — that is, core and non-core resources subsidizing each other's activities.

First of all, it is important to distinguish between the roles of core and non-core resources. Core money is intended to support the UNDP network throughout the world and to provide "seed money" for programmes that cannot find ready funding and whose development may take years. It is not meant for running non-core projects, which should be fully funded with all costs covered, including the running costs of the services and oversight delivered by UNDP, provided these costs are kept under control. There is a definite need, therefore, first to change donors' perception of the role of core and non-core resources, and second to clarify whether cross subsidizing occurs and, if it does, whether this is an issue for concern.

MARGINAL COSTING/PRICING

Marginal costing/pricing is the standard operating procedure of UNDP when it comes to non-core financing. Pursuant to the UNDP Executive Board decision 98/2, UNDP customarily charges three to five 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 three per cent to which it is entitled — a probable result of the need to secure market share. 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 the development of new activities. UNDP headquarters is increasingly concerned about this and is systematically insisting on recovering administrative costs in all trust funds and cost sharing projects.

In its decision 98/2, the Executive Board asked that UNDP, when developing, implementing and managing activities funded by non-core resources, fully recover "the additional costs resulting from non-core-funded activities."[7] Although cost recovery is not well documented in the country offices due to a lack of cost-accounting systems, it appears that the figure of three to five per cent costing/pricing is not sufficient. The issue is a pressing one and a number of countries are in the process of carrying out detailed studies on it.

In Honduras, when non-core funds are coupled with core funds and the budgets grow in complexity, it is legitimate to be concerned about management costs. Such costs may tax the limited core funds directly or indirectly. In Honduras non-core components are several multiples of the core components, hence the issue becomes even more acute. Since 1999, non-core funds have grown almost exponentially. Therefore, the modest management fee that varies between three per cent and three and one half per cent is a serious concern and, *prima facie*, raises the question of a subsidy that may be extended from UNDP's proper budget in order to carry out the projects.

In the mid-1990s this issue came to the surface in Honduras and an internal study was carried out in order to rethink the issue of cost recovery. The study revealed that a fee of three per cent did in fact cover the administrative costs; however, in cases that involved the country office in implementation, the cost exceeded the customary three to three and one half per cent charge. The office is now in negotiations with non-core providers to separate the administrative cost from the implementation cost. On a project-by-project basis an additional fee will be charged whenever implementation expenditures are involved in addition to administrative costs. It is worth noting that the donors view this stand of the country office quite positively. In short, conscious of the fact that costs can vary and given the very limited core funds, the country office has taken the necessary measures for full cost recovery.[8]

In "Net Contributor Countries" (NCCs) things are relatively straightforward inasmuch as the governments pick up the whole bill for the in-country presence and activities of UNDP (and other UN agencies, including the World Bank). However, this limits the level of initiative that UNDP can take in fostering programmes. At the same time, NCCs appear to be more and more sensitive to the cost of the UN presence (e.g., 200 staff members in Saudi Arabia), and they have started scrutinizing the contribution of each agency to their development processes. Here also, "value for money" will become a critical funding criterion and there is no room for complacency on the part of the UN agencies and other players. In countries with more modest means, the situation is much more complex. In the poorer countries UNDP often does not get much more than premises for the government contributions to local office costs (GLOC).

Other UNDP country offices faced with similar circumstances should consider the approach adopted by Honduras. This innovation — one of the first of its kind — in developing "cost/activity-based accounting" is an attempt to overcome the pitfalls of "marginal pricing" of non-core projects by creating a better understanding of the "real economics" of a country office. Such a system gives a much better picture of actual expenses at the various stages of project development. It also provides a better assessment of overhead or, rather, operations costs. And when there is technical input, it would appear that the recovery rate should be at least five per cent and possibly higher.

CROSS SUBSIDIZING

At times the question is raised about whether core funds may be subsidizing non-core-intensive projects or programmes. It is alleged that core resources and even the overhead costs at UNDP headquarters may end up financing, and hence subsidizing, at least a portion of a non-core project. At other times, observers argue that it is the other way around — that non-core resources, through net proceeds from cost-recovery or other financial arrangements derived from non-core partnerships, are subsidizing core programmes.

This is indeed an interesting discussion as it suggests that somehow one source of financing is "better" than the other at contributing to development effectiveness. Many outside observers would ask how much the source of funding and the shares of blending or cross subsidizing can matter if the programme has been judged *(ex ante* and *ex post)* to have been effective for the purposes for which it was designed.

Without pretending to offer the last word on this controversy, in the case of Brazil it has to be remembered that non-core resources constitute 98 per cent of total resources and are really government cost sharing. These non-core funds are core funds from Brazil's own

[7] *Executive Board decision 98/2, paragraph 9, attached in Annex A.*

[8] *The assistance of the Japanese Government has its own* sui generis *modality and is implemented by UNDP/UNOPS; it is likely to remain within the established rate of cost recovery. Since UNOPS is not represented in Honduras, UNDP acts on its behalf.*

TABLE 7.1: BRAZIL – COST RECOVERY ESTIMATE 1997–2002 (US $)

Year	Non-core Delivery (Gross) (a)	Gross Cost Recovery (3% of a) (b)	Reimbursement to UNDP HQ (20% of b) (c)	Net Cost Recovery for UNDP Brasilia (b – c) (d)
1997	194.202.531	5.675.125	1.135.025	4.540.100
1998	255.211.521	6.704.776	1.340.955	5.363.821
1999	143.098.348	4.228.671	845.734	3.382.937
2000	190.511.111	5.585.486	1.117.097	4.468.389
2001	213.372.444	6.187.880	1.237.576	4.950.304
2002	238.977.138	6.930.350	1.386.070	5.544.280
Total	**1.235.373.093**	**35.312.289**	**7.062.458**	**28.249.831**

Source: Estimate by UNDP/Brazil Country Office

budget. Could this be a situation in which "non-core" resources are subsidizing minuscule UNDP core funds? Would not Brazil then be subsidizing core projects?

The table below shows an estimate of cost recovery for Brazil for the period 1997-2002. Reimbursements to UNDP headquarters are US$7 million and proceeds to finance emerging new and marginal costs of non-core projects amount to US$28.2 million. The question is, what "net-net" proceeds are really (or potentially) able to finance core projects?

Another source of an "arguable" subsidy of core by non-core is the yield on interest earned by UNDP and the country in question on "monies" deposited in commercial banks while projects are executed. To whom do these resources belong?

To decipher these circular arguments it may help to remember that what is supposed to matter is the effectiveness of projects in terms of the priorities of the countries. In the Brazilian case at least, it is the country that is the beneficiary of the projects. Is it not to be expected then that, by and large, Brazil should have a major voice in how its own non-core resources are used, as well as on matters affecting the core projects it finances from the financial proceeds of those non-core resources?

In a country like Lao PDR, where the hefty non-core funds are coupled with ever-decreasing core funds, management cost is a serious concern. In Lao PDR non-core components are several multiples of core components and the management fee on the average is three per cent. Discussions with the management of the country office indicate that it is a real possibility that core funds subsidize those projects with heavy non-core components. At present, however, this feeling is based mainly on intuition and impression. Management proposes to carry out an in-depth study soon in order to corroborate perceptions and take the appropriate measures necessary to assure that limited core funds do not subsidize non-core-financed projects.

In Niger, the average cost recovery is also three per cent, which is likely to be too modest an amount. Given that the sub-Saharan Africa region does not attract large supplies of non-core funding, and that economies of scale are not produced, inadequate non-core cost recovery will eventually reduce the availability of funds for the development of new activities. At the same time, however, non-core funds, no matter how modest, do help to sustain a critical mass (and the visibility and impact) of UNDP activity in countries such as Niger and are therefore always welcome. What should be kept in mind is whether the shares of the actual costs recovered are too small to make these operations worthwhile economically.

There is some evidence that, given the limited cost recovery of programme management by UNDP, there has been some subsidy of non-core funding by core funding to the extent that there is marginal pricing of non-core. At the same time, given the distribution pattern of non-core funding (with the bulk of it in Latin America, a region with very limited core funds), the issue of "cross subsidies" applies mostly to the countries and regions (such as sub-Saharan Africa) that get significant core funds and relatively little non-core funds. In such cases, those non-core funds have contributed to maintaining a critical mass of projects and disbursements from those country offices.

In conclusion, it seems clear at this point that marginal costing of non-core resources by UNDP is unsustainable over the long-term and could potentially jeopardize UNDP's development effectiveness. This issue should be adequately addressed by bringing core and non-core resources into greater coherence with each other. Similarly, while cross subsidizing — of core by non-core and of non-core by core — happens in some cases, it does not appear to be a critical issue. What is critical, however, is UNDP's ability to know the cost of doing business and to reflect this cost realistically. Cost/activity-based accounting systems should therefore be developed that track the actual costs of operations and technical assistance.

Key Findings:

- Marginal costing/pricing of non-core services often leads to inadequate cost recovery, thereby reducing the availability of funds for the development of new activities.

- The three to five per cent generally charged by UNDP for handling non-core money in the context of NEX does not appear sufficient.

- Cross subsidizing does occasionally occur — in some regions core funding subsidizes non-core programmes and in others (e.g., Latin America) non-core funding can subsidize core programmes.

- The issue of cross subsidies does not appear to be critical, since it is most significant in those regions that receive modest non-core resources and significant core resources. In such cases, the non-core resources that are received have helped to maintain a critical mass of UNDP projects and programmes.

- Cost/activity-based accounting systems give a better picture of actual expenses — and a better assessment of overhead or operations costs — at various stages of project development.

EMERGING ISSUES FOR UNDP 8

The preceding sections have highlighted a number of non-core-related issues for UNDP that emerged over the course of the evaluation. A brief synthesis of the "Key Findings" captures these issues below and informs the recommendations made in the next section.

- **Alignment:** The alignment of both core and non-core funds to UNDP's mandate does not appear to be a critical issue at the macro level, although some micro-level misalignments were observed. Even given these micro misalignments, the need for the organization to be sensitive to country demands argues against too strict an alignment, so long as the bulk of UNDP's interventions falls within the defined priority areas.

- **Role of Core and Relationship to Non-Core:** A single coherent framework for core and non-core resources needs to be used to greater effect at the country level but should not obscure the need for an adequate level of core. Core funding plays a critical role in furthering the mandate of the organization and in responding to the needs of a wide typology of programme countries, which are not necessarily covered by more "targeted" non-core resources.

- **Resource Mobilization — Replication of Successful Experiences:** There are wide variations among countries and regions in terms of 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. Replication of successful experiences is contingent upon the understanding of these prevailing policy and institutional conditions that have been conducive to success, as well as on analysis of the contributing factors.

- **National Capacity:** 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.

- **UNDP Capacity:** UNDP country office capacity and pro-active leadership are key to successful resource mobilization. A growth in non-core resources can impact positively on UNDP country office capacity but also implies a more difficult coordination environment for UNDP and a weakening of its ability to play an advocacy role in new areas or in otherwise "neglected" sectors.

- **Cost Recovery:** Marginal costing/pricing of non-core services often leads to inadequate cost recovery, thereby reducing the availability of funds for the development of new activities. The modest management fee, which varies between three and three and one half per cent, is a serious concern and, *prima facie*, raises the question of a subsidy that may be extended from UNDP's proper budget in order to carry out the projects. Cost/activity-based accounting systems give a better picture of actual expenses — and a better assessment of overhead or operations costs — at various stages of project development. Cross subsidizing does occasionally occur but does not appear to be a critical issue.

RECOMMENDATIONS 9

The present evaluation was conducted in a prospective manner to take into account the environment in which UNDP is currently operating — that is, its transformation into an organization that primarily provides upstream policy advice, coupled with internal downsizing and decentralization; a changing, more competitive aid environment; and the increasing importance of non-core resources.

The recommendations of the evaluation are grounded in the empirical evidence gathered by the evaluation team and are intended to provide useful insights to the organization as it defines its strategy and policy for non-core funds.

9.1 STRENGTHEN THE LINKS BETWEEN CORE AND NON-CORE

Non-core funding obeys a different dynamic than core funding, particularly because it is more competitive and somewhat tilted to donor preferences. For UNDP, however, the ultimate purpose of better understanding the attributes of non-core is to ensure a greater coherence with core funding, so as to further the organization's mandate in response to the needs of its programme countries.

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. It also offers a rational and consistent instrument to mobilize resources in support of countries' needs within set priorities.

At the country level, however, the MYFF process has not properly taken hold and the process of putting core and non-core resources into a coherent framework could be driven more forcefully and more consistently. This will require a push for tighter coherence between core and non-core funds in the country-level programming processes, as well as in the SRF/MYFF so that they become true country-level policy frameworks that allow resource mobilization to be handled in a coherent, integrated and dynamic fashion. This may in part mitigate some of the complaints regarding the lack of predictability of non-core funding. It will also be of particular support to governments in assuring the consistency, continuity and effectiveness of their overall economic policy frameworks in support of their resource mobilization efforts.

At the same time, the uneven distribution of non-core funds among regions and countries highlights for UNDP the need to increase its ability to attract this type of funding more evenly, particularly in countries or regions with the highest needs such as sub-Saharan Africa and South Asia.

9.2 ADRESS THE CORE/ NON-CORE FUNDING IMBALANCE

The team has little doubt that unless core levels are increased, UNDP's ability to deliver on its general development mandate, and on its specific commitments such as the International Development Targets (IDTs) and the Millennium goals, are likely to be seriously jeopardized. UNDP's comparative advantage in responding to the demands of programme countries 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 to 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 the re-examination of current practices and the intensification of the debate with the Executive Board 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 deliver on its mandate. The success of the MYFF/ROAR notwithstanding, there is little evidence that levels of core funding are being substantially increased in the short term.

9.3 RE-EXAMINE THE RELATIONSHIP BETWEEN CORE AND NON-CORE

UNDP needs to re-examine the link between core and non-core resources and devise a more balanced and responsive approach to their use. Non-core categories need to be more tightly aligned to the "imperfect market" for aid and the specific 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 UNDP's overall strategy.

At the same time, a case could also 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 non-core resource mobilization strategies in terms of speed, responsiveness and substance orientation. However, care has to be exercised to ensure that these funds do not compete with core funds in terms of the activities covered. Lastly, the positioning strategy should also address criteria for using thematic trust funds, including how best to factor in the issue of need versus performance.

9.4 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. In order to account for the different patterns emerging in resource mobilization and the lessons learned, among other things, 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, UNDP's resource mobilization strategy will be driven by clearly articulated principles, at the field level the specifics of the strategy 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 upon lessons learned and an assessment of how the key factors come together in a specific context. Special efforts should be made to better understand the obstacles to mobilizing non-core resources in regions/countries with the highest needs, and to develop appropriate strategies.

Traditionally, UNDP has been repeatedly relying on the same cadre of donors. As part of the overall strategy, identification of emerging sources of financing (private sector, foundations) is as essential as the strengthening of UNDP partnerships with key bilateral and multilateral agencies (especially IFIs). In that context the establishment of clear global agreements between UNDP and donors should greatly facilitate similar agreements at the country level.

A common and 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 that, given country diversity, should be individually negotiated.

To meet the challenge of raising resources, the competencies and skills of UNDP's country office teams need to be substantially upgraded focusing on:

- Results orientation, with special attention to the shift of emphasis from inputs to outputs and outcomes and the consequences of UNDP's interventions in the larger development context, beyond the immediate achievements of its programmes and projects. This requires a broader understanding of the strategic partnerships necessary to influence development outcomes in a given situation and a solid grasp of the techniques needed to adequately plan for, measure and assess organizational performance.

- Substantive and technical competencies in the thematic areas of priority for UNDP. Non-core resources emphasize competitiveness and responsiveness. In an environment where donors have a choice as to where to channel their development funds, and where governments are upgrading their own capacities and at the same time can select from a wide array of service providers, there is no choice for UNDP but to develop an edge in its substantive capacity to provide high-level policy advice. As it relates to UNDP country offices, this capacity goes beyond what is envisaged with the establishment of the SURFs; there is a critical need to develop strong substantive networks and alliances to access state-of-the-art knowledge and expertise in the priority areas.

- Leadership and entrepreneurship with emphasis on communication (internal and external), interpersonal skills and client orientation. These are the ingredients of the new management culture the organization must acquire to position itself in a competitive, performance-oriented, "opportunity-driven" environment.

9.5 ADAPT SYSTEMS TO INCREASE UNDP'S EFFICIENCY AND ACCOUNTABILITY

An increasingly competitive aid environment presses UNDP to acquire those attributes that will make it an attractive organization with which to "do business," 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 considered, offering UNDP more flexibility in choosing the most appropriate modes of service delivery. Specifically, a broader range of options from full direct management and implementation at one end of the spectrum to full national management and implementation at the other should be considered. As noted in the DEX evaluation, in some cases a direct delivery approach may be the most cost-effective, considering speed of delivery, national capacities and all other issues. In other cases, more structured partnerships and delivery methods may make the most sense. Country offices or Headquarters could then determine and select the most cost-effective delivery method, based on established criteria (e.g., business case or cost-benefit analysis). Special attention should be given to the use of sector-based development partnerships, and to ongoing operational services partnerships (along models of public-private sector partnerships, as discussed in the report).

Financial systems, particularly as they relate to non-core, need to be upgraded. The upgrading of these systems should incorporate: (1) a simplified system to account for and report on various types of non-core resources, thereby enhancing transparency and accountability for these funds; (2) a facility to analyse non-core data with a regional cut and country typology, in order to provide for a differentiated approach to analysis and resource mobilization; (3) a reliable system to account for expenditures (particularly non-core) by thematic areas of priority — goals and sub-goals of the SRF; and (4) a cost/activity-based accounting system to enable the organization to put a more realistic "price tag" on the cost of doing business, as opposed to the current three to five per cent currently charged, and allow for the design of a market-oriented approach to cost recovery.

Specifically, UNDP should consider adopting a formal cost accounting policy, and also supporting procedures and systems to measure and report on full costs of delivery. Costs would include the full range of services provided by UNDP, from management and human resource costs to the implementation of specific initiatives.

UNDP should redefine its policy on charging fees, particularly for non-core-related operations. Fee schedules should reflect full costing but be flexible enough to take into account country-level variances in costs and country-specific market conditions.

UNDP should enhance its corporate memory on the experience of various regions/countries on non-core resource mobilization, as well as 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. This would include developing user-friendly databases to access and analyse country-level information, as well as creating web-based platforms to share lessons and best practices.

ANNEX A

Executive Board Decision 98/2

The Executive Board

1. **Recalls** General Assembly resolutions 47/199, 50/120, 50/227 and 52/203, Economic and Social Council resolution 97/59, and its decision 90/14, 95/23 and its decision 97/15 on change management, particularly paragraphs 9 and 10 thereof;

2. **Welcomes** the report of the Administrator (DP/1999/3) and takes note of the comments made thereon by delegations;

3. **Reaffirms** that the fundamental characteristics of the operational activities of the United Nations Development Programme should be, *inter alia*, their universal, voluntary and grant nature, their neutrality and their multilateralism;

4. **Emphasizes** the role of the United Nations Development Programme as a development partner and facilitator in responding to development needs, including the assistance in mobilizing funds in support of programme country development priorities from all available sources;

5. **Recalls** that core resources are the bedrock of the United Nations Development Programme and that they ensure universality, predictability, neutrality and multilateralism at the United Nations Development Programme as well as the ability to respond in a flexible way to the needs of programme countries, in particular those of least developed countries and low-income countries;

6. **Expresses** deep concern on the decline in core resources and the negative impact of this decline on the future work of the United Nations Development Programme and requests that the respective proportions of core and non-core resources be kept under review;

7. **Recognizes** the importance of non-core resources, including cost sharing and non-traditional sources of financing, as a mechanism to enhance the capacity and supplement the means of the United Nations Development Programme to achieve the goals and priorities specified in decision 94/14;

8. **Reaffirms** the role of the United Nations Development Programme at the country level in providing a range of support services for national execution and the implementation of the projects of the United Nations Development Programme, including those funded by non-core resources, within the parameters below:

(a) Support will be provided only at the request of programme country governments;
(b) Support will be provided only for activities within the country cooperation framework and the sustainable human development framework;
(c) Support will be provided based on a thorough capacity assessment of the executing agent, particularly with regard to administrative and operational management capacity and with regard to full accountability for funds managed by the United Nations Development Programme;
(d) Support will be accompanied by appropriate capacity-building measures, including clear exit strategies *to ensure* that long-term capacity-building objectives are achieved;
(e) As part of the revision of the national execution procedures, appropriate instruments will be put in place to improve the monitoring and the evaluation of such services, including obligatory annexes to all project documents stating the nature and scope of such support as well as the functions and responsibilities of the parties involved;
(f) At the request of the Government of the programme country, the United Nations Development Programme will take systematically into account services that can be provided by United Nations specialized agencies or other relevant execution, implementing and procurement agents;
(g) In accordance with Executive Board decision 94/28, the role of the United Nations Development Programme as executing agent shall remain limited to countries in special circumstances and apply only when it can be demonstrated that it is essential to safeguard the full responsibility and accountability of the Administrator for effective programme and project delivery;

9. **Requests** that, when the United Nations Development Programme develops, implements and manages activities funded by non-core resources, in an integrated, transparent, flexible and accountable manner, the additional costs resulting from non-core-funded activities be fully recovered and requests also that these activities and their support costs be systematically identified in the cooperation frameworks;

10. **Requests** the Administrator to submit to the Executive Board at its 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 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;

11. **Decides** to keep the trends and impact of non-core resources under close review and to this end requests the Administrator, in the context of his annual report, to provide comprehensive information thereon, including on their amount, origin, destination and influence on programming.

ANNEX B
Evaluation of UNDP Non-Core Resources Terms of Reference

I. CONTEXT

The UNDP Executive Board in decision 98/2 requested the Administrator to submit at its 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 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 Development Programme."

Non-core resources have emerged as a substantive source of funding for UNDP-assisted activities in the last decade. The overall contribution to non-core resources in 1999 totalled $1.69 billion, of which 58 per cent or $989 million accounts for government cost sharing (from the host governments' own resources or loans from International Finance Institutions [IFI]). Third party cost sharing (grants to the host governments from donors or international finance institutions) accounted for $192 million or 12 per cent; and trust funds and Management Service Agreements (MSAs) represented 20 per cent and 8 per cent with $329 million and $132 million respectively. Between 1998 and 1999, third party cost sharing contributions emerged as a growing source of non-core, with an increase of 43.3 per cent.[9]

In 1996, a first evaluation of UNDP's non-core resources and co-financing modalities was carried out at the request of UNDP's Administrator. According to its Terms of Reference, the purpose of the evaluation was to "mount a formative (forward-looking) exercise that will review the strengths and weaknesses of the use of these [co-financing] modalities." The results of the evaluation were presented to the Executive Board, which felt at the time that some areas covered were in need of more in-depth analysis.

Since then, and since the 1998 Board decision, UNDP has undergone a major transformation with the introduction of Results-Based Management (RBM), the Multi-Year Funding Framework (MYFF), the Strategic Results Framework (SRF) and the Administrator's new vision for the organization. This vision, expressed in the Administrator's Business Plans 2000-2003, redefines UNDP as a "trusted and leading partner of programme countries in overcoming their development challenges through swift, high quality support in proven areas." It re-focuses the agency as a strong advocate

[9] *Source: Annual Review of the Financial Situation, 1999 – Report of the Administrator – DP/2000/29*

for human development, working as an advisor and co-coordinator of development activities and resources, serving the least developed, moving upstream, and addressing emerging development needs.

The issue of funding remains key to this transformation. However, the old paradigm that governed the way core and non-core funding was considered is giving way to a more dynamic one where both sources of funds are now considered together as an integral package to further UNDP's renewed mission, in the framework of the MYFF. In his statement to the Executive Board on funding commitments (4 April 2000), the Administrator emphasized "the need to overcome the Board's ambivalence about non-core through looking specifically at a transparent, dynamic strategy that clearly aligns non-core behind the same goals as the core."

The implementation of the new vision for UNDP also entails a substantial shift in the profile of country offices and their capacity to respond to the demands placed on them. Equally important is the realization that some of the existing modalities and procedures may no longer be suited to promote the new directions of the organization.

All of these issues are now at the center of extensive discussions between UNDP and its Executive Board, in the broader context of follow-up to the Ministerial Meeting on UNDP, and the need to mobilize additional resources behind the MYFF.

The evaluation will provide substantive inputs into the debate. Its findings and recommendations will elicit a management response that, in turn, will be used as a platform to highlight policy issues germane to non-core resources.

II. PURPOSE

The objective of the evaluation is to provide UNDP and the Executive Board with a clear analysis of UNDP non-core activities and their value-added to the developmental mandate of the organization.

In order to fulfil this objective, the evaluators will be requested:

1. To analyse the trends in the various non-core modalities applied by UNDP and review the key issues involved;
2. To highlight the lessons learned from the above analysis;
3. To identify successful experiences and their potential for replication; and
4. To 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 advisory role.

The analysis, data and operational recommendations presented by the evaluation will provide a basis for UNDP's strategy and policy on the organization's approach to non-core funding.

III. ISSUES TO BE ADDRESSED BY THE EVALUATION

In order to determine issues of particular relevance for the evaluation, the Evaluation Office has conducted informal interviews with selected members of the Executive Board and UNDP's managers. These issues fall into the following categories:

1. **Alignment of non-core with the organization's mandate.** This issue has been a recurring concern of the Executive Board. UNDP's first Results-Oriented Annual Report (ROAR) reveals that non-core expenditures appear to fall within the same priority areas as the core — "the ranking of the seven most important sub-goals is not dramatically affected when comparing core with non-core expenditures, perhaps indicating growing success by UNDP in maintaining its core priorities, even if there are substantial differences in the overall share in total expenditures at the goal level." Further analysis showed that a growing amount of the non-core resources are being used in the area of governance, underlining the trusted role UNDP is being called upon to play in this area. Evaluators will be required to:
   - provide evidence on the use of non-core funds and their role in the pursuit of the organization's objectives; and
   - highlight the areas where non-core funds are utilized in cases of non-alignment with the organization's mandate. In such cases, it will be important for the evaluators to demonstrate whether or not these areas offer new opportunities for the organization and add value to its role in programme countries.

2. **Non-core funding and national capacity building.** Capacity building is an area where UNDP is concentrating the bulk of its efforts. As evidenced in the MYFF, 70 per cent of UNDP generic outcomes fall in that category — core and non-core resources combined. The evaluation will examine the relationship between non-core funding and national capacity building, particularly:

- the impact of non-core on the development of national capacity; and
- the extent to which non-core modalities foster or hinder national capacity building.

3. **Resource mobilization.** Statistics show that there are large variations in the use of the non-core modality worldwide. The evaluators will analyse:
   - the trends in the use of the various modalities and the relationship between countries' political and socio-economic context and the use of specific modalities; and
   - the potential for replicating successful experiences;

4. **UNDP's capacity.** The issue of resource mobilization is closely linked to UNDP's capacity to provide quality services in an efficient manner and to seize opportunities as they arise. The organization's shift towards provision of advisory services and the renewed accent on speed and flexibility requires a fresh look at the capacity of country offices to mobilize these resources and at the existing systems of implementation/ execution. The evaluation will:
   - look at the capacity of UNDP country offices to mobilize non-core resources and highlight the performance-related elements needed to better respond to emerging challenges;
   - compare UNDP's systems of implementation with those of other relevant UN agencies;
   - assess the strengths and weaknesses of UNDP's current system (National Execution, Agency Execution including UNOPS, Direct Execution [DEX]; this assessment should focus on the merits of the system as a whole and not become a comparative study of each modality).

(Note: when looking at DEX, the evaluators will base their analysis on the conclusions of the DEX evaluation currently under way. The Evaluation Office will ensure that DEX findings are appropriately fed into the non-core evaluation.)

5. **Cost-recovery system.** On this operational issue, the question relates to the most appropriate implementation methods and the associated costs to be supported by UNDP. Given the fact that UNDP is competing in new "markets," operational aspects need to adapt and the evaluation team will be requested to make recommendations on the most appropriate "market-oriented" approach to cost recovery.

In accordance with the Executive Board decision 98/2, the above issues will be addressed in the context of the following modalities used by UNDP:

- *Cost Sharing* where contributions are incorporated into UNDP's accounts.
  – Host government cost sharing from the host governments' own resources or from International Finance Institutions (IFI) loans.
  – Third party cost sharing, from grants to the host government, from International Finance Institutions and/or donors.
- *Trust Funds* that are established for particular purposes and donors' contributions maintained separately in UNDP's accounts, such as Capacity 21 and GEF.
- *Parallel Financing* where UNDP agrees with one or more donors to finance an activity but each party administers its own funds.
- *Government Contribution to Local Office Costs (GLOC),* which are contributions of the host governments to the cost of the Country Offices in either local currency or US dollars.
- *Non-core contributions to UNDP-administered trust funds:* UNCDF, UNV, UNIFEM;
- *Management Service Agreements.*

IV. METHODOLOGY

The evaluation will be carried out in several phases:

- Desk review of relevant documentation.
- Informal sessions with the Executive Board.
- Consultation with Regional Bureaux and other relevant UNDP Bureaux/Offices.
- Preparation of a framework for the evaluation.
- Country visits. Criteria for selecting countries to visit are:
  – adequate geographical representation;
  – appropriate mix of country typology (LDC, middle income, NCC); and
  – countries with large cost sharing and countries with low cost sharing.
  Proposed countries:
  Latin America and the Caribbean: Brazil, Honduras
  Africa: Niger, Zimbabwe
  Asia and the Pacific: Pakistan, Lao PDR
  Arab States: Saudi Arabia
  Europe and the CIS: Bulgaria
- Presentation of preliminary findings to the EO and relevant UNDP managers.
- Final draft report and debriefing of relevant stakeholders in New York.

V. COMPOSITION OF THE TEAM

The evaluation team will comprise three external consultants including a team leader. Their combined backgrounds will be in public and private sector finance and development economics. Given the diversity of countries to be visited, the team members will have command of a mix of languages, including English, French and Spanish.

An analyst will be hired to support the team with compilation and interpretation of material and financial data.

VI. TIMETABLE

The evaluation will start in January 2001. A first draft report is expected in early April 2001 and the final report by end-April 2001. The evaluation report will be presented to the Executive Board at its June 2001 session.

VII. MAMAGEMENT

The UNDP Evaluation Office will finance and manage the evaluation.

ANNEX C

List of Individuals Consulted

OFFICE OF THE ADMINISTRATOR

Mark Malloch Brown	Administrator
Zéphirin Diabré	Associate Administrator
Bruno Pouezat	Special Assistant to the Associate Administrator

OPERATIONS SUPPORT GROUP (OSG)

Herbert M'Cleod	Director

BUREAU FOR DEVELOPMENT POLICY (BDP)

Christopher Ronald	Acting Group Leader, Operations and Applied Research Group

BUREAU OF MANAGEMENT (BOM)

Jan Mattsson	Assistant Administrator and Director
Gilbert Houngbo	Director Office Finance and Administration
Romesh Muttukumaru	Director Budget
Johannes Swietering	Director Division for Resource Planning and Coordination
Mitsuhiko Inaba	Policy Specialist/Special Assistant
Julie Anne Mejia	Deputy Treasurer

BUREAU FOR RESOURCES AND STRATEGIC PARTNERSHIPS (BRSP)

Bruce Jenks	Director
John Hendra	Deputy Director and Director of Division for Resource Mobilization (DRM)
Nicola Harrington	Deputy Director, DRM

EMERGENCY RESPONSE DIVISION (ERD)

Omar Bakhet	Director

EVALUATION OFFICE (EO)

Khalid Malik	Director
Nurul Alam	Deputy Director
Christine Roth	Senior Evaluation Adviser

OFFICE OF AUDIT AND PERFORMANCE REVIEW (OAPR)

James Currie	Director

UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF)

Albéric Kacou	Deputy Executive Secretary

GLOBAL ENVIRONMENT FACILITY (GEF)

Emma Torres	Deputy Executive Coordinator
Martin Krause	Monitoring & Evaluation Specialist

UNITED NATIONS DEVELOPMENT FUND FOR WOMEN (UNIFEM)

Flavia Pansieri	Deputy Director

UNITED NATONS OFFICE FOR PROJECT SERVICES (UNOPS)

Reinhart Helmke	Executive Director
Bisrat Aklilu	Deputy Executive Coordinator

REGIONAL BUREAU FOR ARAB STATES (RBAS)

Michael Smith	Chief, Country Operations Division
Mona Hider	Programme Advisor

REGIONAL BUREAU FOR AFRICA (RBA)

Abdoulaye Mar Dieye	Country Director, Cluster I
Frederick Lyons	Deputy Director, Operations
Michele Flavigna	Country Programme Advisor, Cluster III

REGIONAL BUREAU FOR ASIA AND THE PACIFIC (RBAP)

Maxine Olson	Chief, South and West Asia Division
Larry Maramis	Programme Advisor, South-East Asia and Pacific Division
Christine Spoerel	Programme Advisor, South and West Asia Division

REGIONAL BUREAU FOR EUROPE AND THE COMMONWEALTH OF INDEPENDENT STATES (RBEC)

Jakob Simonsen	Deputy Assistant Administrator and Deputy Regional Director
Josyane Chapelier	Senior Advisor
Soknan Han Jung	Senior Programme Manager, Cluster IV

REGIONAL BUREAU FOR LATIN AMERICA AND THE CARIBBEAN (RBLAC)

Gilberto Flores	Acting Deputy Director
Andrew Russell	Policy Advisor
Alfredo Jefferson	Programme Manager
Luca Renda	Programme Specialist

SECRETARIAT OF THE EXECUTIVE BOARD OF UNDP AND UNFPA

Soheyla Chahkar-Farhang	Director and Secretary of the Executive Board

BRAZIL COUNTRY OFFICE

UNDP

Walter Franco	Resident Coordinator/ Resident Representative
Henry Jackelen	Deputy Resident Representative
Maria Ligaya Fujita	Programme Coordinator
Wilson Soares	Associate Officer
Jose Carlos Libanio	Special Advisor
Gianna Sagzaio	Programme Officer
Jose Luiz Lima	Special Advisor
Adelina Paiva	Programme Officer
Oswaldo Castillo	Programme Officer
Carla Di Lauro Rigueira	Finance Unit
Janete Carneiro Ferreria	Assistant

NATIONAL COUNTERPARTS, CLIENTS AND DONORS

Marcio Lopes Correa	Coordinator/Brazilian Cooperation Agency, Multilateral Technical Cooperation, Ministerio das Relacoes Exteriores

Sandra M. Itoh Viergever	Gerente/Ministerio das Relacoes Exteriores-MRE Agencia Brasilera de Cooperacao-ABC Cooperacao Técnica Recebida Multilateral-CTRM
Marcelo M. Soares	Coordenator UAP/ABC, Agencia Brasilera de Cooperacao Ministerio das Replacoes Exteriores
Ernesto Vega Senise	Secretario Adjunto/Ministerio do Planejamento, Orcamento e Secretaria de Gestao
Joao Marcelo Borges	Gerente de Cooperacao International Ministerio do Planejamento, Orcamento e Gestao, Secretaria de Gestao
Jose Cechin	Executive-Secretary/ Ministry of Social Security
Darci Bertholdo	Secretario de Estado-Adjunto dos Direitos Humanos, Ministerio da Justicia, Secretaria de Estado dos Dereitos Humanos
Carmelina Santos Rosa	Project Director BRA/961013 – Secretariat Human Rights, Ministerio da Justicia
Gilberto Leonel de Almeida Valloso	Coordenador General – Ministerio da Previdencia e Assistencia Social-MPAS-Secretaria-Executiva-SE Unidade de Coordenacao de Projectos-UCP
Fernanda Oliveira	Subgerente-Ministerio das Replacoes Exteriores-MRE, Agencia Brasilera de Cooperacao-ABC Cooperacao Técnica Recebida Multilerateral-CTRM
Robson de Araujo Sorge	Coordenador Administrativo Financiero, Ministerio da Fazenda/UCP
Joao Dias Neto	Sub-Coordenador Técnica, Ministerio da Fazenda/UCP
Stewart Mills	Head, Technical Co-operation, Brazil Department For International Development DFID
Robert Borges Martins	Presidente, Instituto de Pesquisa Economica Aplicada IPEA
Marcel Viergever	DIFD/PPG-7 Coordinator Department of International Development
Viktor U. Dohms	Agencia da GTZ no Brazil Cooperacao Técnica Alema GTZ
Waldemar W. Wirsig	Representative, Interamerican Development Bank BID
Antonio Rocha Magalhaes	Principal Country Officer, World Bank
Jorge Werthein	Representate da UNESCO no Brazil, Coordenador do Programa UNESCO/ MERCOSUL, Organizacao das Nacoes Unidas para a Educacao, a Ciencia e a Cultura

BULGARIA COUNTRY OFFICE

UNDP

Antonio Vigilante	Resident Coordinator / Resident Representative
Trine Lund Jensen	Deputy Resident Representative
Sasha Traicheva	Project Assistant
Ogniana Glavoussanova	Programme Assistant
Dafina Gercheva	Sustainable Development Advisor
Desislava Boyadjieva	Translator
Hachemi Bahloul	Programme Officer
Emilia Lissichkova	Project Manager
Constantino Longares	Programme Officer
Anna Atanassova	Programme Officer
Christopher Louise	Reporting Officer
Mirella Mladenova	Programme Assistant

NATIONAL COUNTERPARTS, CLIENTS AND DONORS

Katia Todorova	Director International Organizations and Human Rights Directorate
Ilia Krastelnikov	Head of International Organizations Department Human Rights Directorate Ministry of Foreign Affairs
Ivan Neykov	Minister of Labour and Social Policy Government of the Republic of Bulgaria
Mira Radkova	Deputy Minister Ministry of Labour and Social Policy, Republic of Bulgaria
Yaroslav Golev	Chief Protocol to the President of the Republic of Bulgaria
Plamen Evrev	Mayor, Municipality Lovech
Luben Tartarski	Mayor of Razlog
Rayna Gavrilova	Deputy Minister of Culture Republic of Bulgaria

Elena Panova	Project Manager/Project Job Opportunities Through Business Support, Ministry of Labour and Social Policy, Republic of Bulgaria Ministry of Foreign Affairs
Ivan Stancioff	Advisor to the Government
Nelly Prangova	Expert "Investment projects" Municipality of Razlog
Debra D. McFarland	Mission Director, USAID
Ivanka Tzankova	Program Officer, USAID
Nikolay Yarmov	Senior Advisor, Enterprise Development, USAID
Eduard L. Lafarge	Senior Private Sector Officer, Private Enterprise Office,USAID
Bert van-der Lingen	Deputy Head of Mission Embassy of the Kingdom of the Netherlands
Carlos Murillo Gómez	Secretario de Embajada, Cónsul Embajada de España
Ognian Shentov	President, Center for the Study of Democracy
Giovanni Di Girolamo	First Secretary European Union Delegation of the European Commission to Bulgaria
Tomas S. O'Brien	Resident Representative, World Bank
Luise Druke	Representative United Nations High Commissioner for Refugees

HONDURAS COUNTRY OFFICE

UNDP

Jeffrey Avina	Resident Coordinator/ Resident Representative
Richard Barathe	Assistant Resident Representative
Margarita Bueso	Assistant Resident Representative
Miguel Lopez	Assistant Resident Representative
Naoto Yamamoto	Deputy Resident Representative
Gisella Camoriano	Officer
Santiago Castillo	Officer
Jose Cuestas	Officer
Luis Gradiz	Officer
Patrick Haverman	Officer /JPO
Marla Zapach	Officer /JPO

NATIONAL COUNTERPARTS, CLIENTS AND DONORS

Marcos Carias Chaverri	Ministry of Finance
Plutarco Castellanos	Minister, Ministry of Health
Xiomara Gomez de Caballero	Minister of National Resource & Env.
Sylvia de Izaguirre	Technical Secretariat of Cooperation
Casta Alicia Mejia	Technical Secretariat of Cooperation
Amalia G. de Pineda	Ministry of Finance
Cristobal Simon Asfura	CABEI
Oscar Borjas	CABEI
Rodrigo Mayen	IADB
Joseph Owen	Resident Representative WB
Ira Ericksson	1st Secretary Emb. Of Sweden
Masateru Ito	Ambassador, Japan
Juan Angel Pena	Ambassador, Argentina
G. Shad Prashad	CIDA, Canada
Jan Roberts	SIDA, Sweden

LAO PDR COUNTRY OFFICE

UNDP

Kari Nordeim-Larsen	Resident Coordinator/ Resident Representative
Gana Fofang	Deputy Resident Representative
Michele Oats	Deputy Resident Representative
Phillip Devaud	Assistant Resident Representative/Programme
Marie-Anne Marx	Programme Officer/ Governance
Seppo Karpinen	Programme Officer/ Environment
Albert Soer	Advisor, Rural Development

NATIONAL COUNTERPARTS, CLIENTS AND DONORS

Bountheuang Mounlasy	Director General, International Coop., Prime Minister's Office
Soukata Vichit	Director General, Department of Environment, Prime Minister's Office/NPD
Sanya Praseuth	Department Director General, Ministry of Finance/ NPD-National Project Director
Michael Hunt	AusAID
Marenne Karlseen	NORAD
Paul Turner	Resident Representative, ADB

NIGER COUNTRY OFFICE

UNDP

Steven Ursino	Resident Coordinator / Resident Representative
René Guiraud	Deputy Resident Representative (P)
Cyriaque Edjo	Deputy Resident Officer Representative (O)
Mamadou Ouattara	Assistant Resident Representative
Aïssa Ouahido	Deputy Resident Representative
Salissou Moussa	Environment Officer
Keita Maria Iboune	PMSU Program Management Support Unit Representative
Solange Degbey	Chargée de Programme FENU

NATIONAL COUNTERPARTS, CLIENTS AND DONORS

Yakoubou Mahaman Sani	Director Ministère du Plan Rabaha Bolho (chargée de programme)
Zaharatou Ataka	(coordinatrice)
Seidou Abderahmane	(coordonnateur)
Songhrai Omar Amadou	DORCI Ministère des Affaires étrangères et de la coopération/IA
Jean-Marie Frentz	Chargé de projet GEF/PM
Hassane Saley	Secrétaire exécutif du CNEDD
Daouda Soumana	Coordonnateur Projet Niger
Aïssa Riba	Chargée de programme pauvreté
Alidou Badjé	Coordonnateur/ Cellule de liaison
Frezon	Chef de la Coopération Belge
Agnès Guillaud	Conseiller Economique, Commission Européenne/FED
Geoffroy Bergen	Resident Representative Banque Mondiale
Benhamrane Djilali	Economiste principal
Christophe Besacier	Developement rural Coopération française
Magagi Amadou	Secrétaire permanent de la Ceni (élections)
Aki Matsunaga	Country officer/ Africa Division Regional Department IV/JICA
Kato Ryuichi	Deputy Director Africa division JICA
Yvette Rainavo	Conseiller en « genre » et Point focal ONUSIDA
Isselmou Ould Boukhary	Chef du Pgme Santé UNICEF
Soga Garba	Organisation Mondiale de la Santé
Gérard Bernard	Représentant de la FAO

PAKISTAN COUNTRY OFFICE

UNDP

Önder Yücer	Resident Coordinator/ Resident Representative
Lena Lindberg	Deputy Resident Representative
Ayesha Iftikhar	Deputy Resident Representative
Mohammad Zafar Iqbal	Assistant Resident Representative
Razina Bilgrami	Assistant Resident Representative
Naeem Ahmad	Programme Management Officer
Ellen Beijers	Programme Officer
M.S. Tinauli	Programme Support Officer
S. Ahmed H. Naqavi	Finance Manager
Mohammad Azam Khan	National Project Director
Muhammad Saleem Chishti	National Project Director
Rehmat Ali Mujahid	National Project Director
Roohi Shoaib	Programme Manager

NATIONAL COUNTERPARTS, CLIENTS AND DONORS

Shaheen Masud	Joint Secretary, Economic Affairs Division
Asad Elahi	Joint Secretary, Economic Affairs Division
Pervez Tahir	Chief Economist, Planning and Development Division
Mahboob Elahi	Director General (Env.) Ministry of Environment Local Government and Rural Development
Jalil Abbas	Additional Secretary, Ministry of Women Development Social Welfare & Special Education
S.M. Hasan Zaidi	Deputy Secretary, Ministry of Finance & Economic Affairs/ Economic Affairs Division
Malik Sher Afzal	Section Officer, Ministry of Finance Economic Affairs Division
Rahmat Ali Mujahid	National Project Director/ UNDP Project Supporting Democratic Electoral Process in Pakistan
Daniyal Aziz	Chief Executive's Secretariat II, National Reconstruction, NRB

Eamoinn Taylor	Head of Development Section, British High Commission Diplomatic Enclave
Shoaib Tayyab	Senior Programme Officer Commonwealth of Australia, Australian High Commission Diplomatic, AusAID
Yasumitsu Kinoshita, MSc.	Deputy Resident Representative, Japan International Cooperation Agency (JICA)
Masakata Nakahara	Resident Representative, Japan International Cooperation Agency (JICA)
Sohail Ahmad	Programme Officer, Japan International Cooperation Agency (JICA)
A.M. Aboul Naga	Representative, Food and Agriculture Organization (FAO)
Rashid Bajwa	General Manager, National Rural Support Programme, NRSP
Jeff Taft-Dick	Director of Programme, United Nations World Food Programme (WFP)
Thomas Zeindl	Project Monitoring Officer, UNDCP
Philip Karani	Assistant Representative, UNHCR
K. Khosh-chashm	Representative, WHO
Hasan Akhtar Rizvi	Project Director, Sustainable Development Networking Programme, The World Conservation Union
Asif Ali Zadi	Head, Islamabad Office, The World Conservation Union
Christopher C., Shank, Ph.D.	Director, Biodiversity Unit, The World Conservation Union
Naghma Imdad	Coordinator, SDEP Project, Savera
Hasan Akhtar Rizvi	Project Director, SDNP
William Byrd	Lead Economist, World Bank

SAUDI ARABIA COUNTRY OFFICE

UNDP

Jose Eguren	Resident Coordinator/ Resident Representative
Khaled Alloush	Deputy Resident Representative
Jamil Sofi	Programme Coordinator

NATIONAL COUNTERPARTS, CLIENTS AND DONORS

Ihab M. Al-Sharkawi	Senior Programme Manager, Japan International Cooperation Agency (JICA)
Steven Toma	Resident Representative
Nicholas Hilgert	3rd Secretary, American Embassy
Mohammed Djerbi	Coordinator and Team Leader, FAO Project
Jebrin A. Al-Jebrin	Director of Projects Department
Zuhayr S. Mihyu	Consultant, Arab Gulf Programme for UNDO (AGFUND) H.E. Engineer
Abdullah Al Mugbel	Deputy Minister for Roads Ministry of Communications
Karl Gustaw	Commercial Counsellor
Patrick el-Sheikh	1st Secretary Commercial Affairs Swedish Embassy
Jamal Abu Issa	Senior Administrative Assistant, World Health Organization
Muslim Dakheel Al-Shaman	Manager of Project SAU-97/007 – Natural Training Conversation Center
Ahmed Hakami	Deputy Minister for Sectoral Planning
H.E. Ehsan Fakih	Assistant Deputy Minister and National Project Manager
Yousef Al Saadoun	Deputy Minister/Economic and Cultural Affairs Ministry of Foreign Affairs
Yousef Al-Bassam	Deputy Managing Director
Walter Fehlinger	Personnel Coordinator Gulf Region, German Technical Cooperation (GTZ)
Abdulaziz Al Khudairy	Assistant Deputy Minister for Town Planning and National Project Manager/ Ministry of Municipal Affairs, Hervé Piquet Economic and Commercial Counsellor, Ambassade de France
Abdul Majeid Haddad	Programme Coordinator GEF (7 Countries)
Hanna Samiha	Programme Advisor
Yassin Yassin	Programme Associate/ Socio-Economic Programmes
Edgar R. Saravia	Representative, World Bank

ZIMBABWE COUNTRY OFFICE

UNDP

Chinwe Dike	Deputy Resident Representative
Nomasomi. N. Mpofu	Social and Gender Analyst
Patrice Chiwota	Programme Coordinator/ Economist, Management Development Unit
Thomas Backlund	Programme Manager
Laetitia Dhliwayo	Programme Manager
Dennis Nkala	Programme Coordinator

NATIONAL COUNTERPARTS, CLIENTS AND DONORS

Mfaro Moyo	ESU/Environment
L. Matsvayi	Deputy Director of Domestic and International Finance, Ministry of Finance
Simbabure	Director for Gender, Ministry of Youth Employment
John Winter	British High Commission, Head of DFID
Lars Kjelberg	Councillor, Danish Embassy
U. Flechsenhar	Director ILO
De Jong	Councillor, Royal Netherlands Embassy
Abdi Foum	1st Secretary (Development), Embassy of Sweden
Engineer Kodzwa	Public Service Commission
Niels Biering	UNIDO Representative
Busi Bango	National Director, Empretec (Small Business Centre)
George Tembo	UNAIDS
Khethiwe K. Moyo-Mhlanga	National Coordinator, Africa 2000 Network GEF-Small grants program
Van den Brink	Deputy Resident Representative, Senior Economist, World Bank

EVALUATION OF DIRECT EXECUTION TEAM

Richard Flaman	Team leader
Elayne Gallagher	Team member
Mary Lisbeth Gonzales	Team member
Mari Matsumoto	Team member

ANNEX D

Financial Attachment

METHOD OF ANALYSIS

The main purpose of this evaluation of UNDP non-core resources was to analyse trends in the application of these resources and their role in shaping UNDP's developmental mandate. The analysis focused on changes in both the magnitude and the direction of not only non-core but also core resources for the period 1996-2000. Comparisons were made across regions and between countries within regions on the use of non-core resources in an effort to identify differences in how these resources are mobilized.

Data for this analysis comprises mainly expenditure data, which was downloaded from the Comptroller's Office, Bureau of Management, UNDP (BOM). The analysis was done using Excel software to generate outcomes presented in the form of line graphs, bar charts and pie charts, depending on the graphic representation determined to be most desirable in each case.

TRENDS IN USE OF NON-CORE RESOURCES

Figures D.1 (below) and D.2 (see following page) represent the change in core versus non-core expenditures over the years 1996-2000. The belief that non-core resources have emerged as a substantial funding source for UNDP programmes is supported by the increasing trend in the provision of these

FIGURE D.1: CORE VS. NON-CORE EXPENDITURES, 1996-2000 (MILLIONS OF US$)

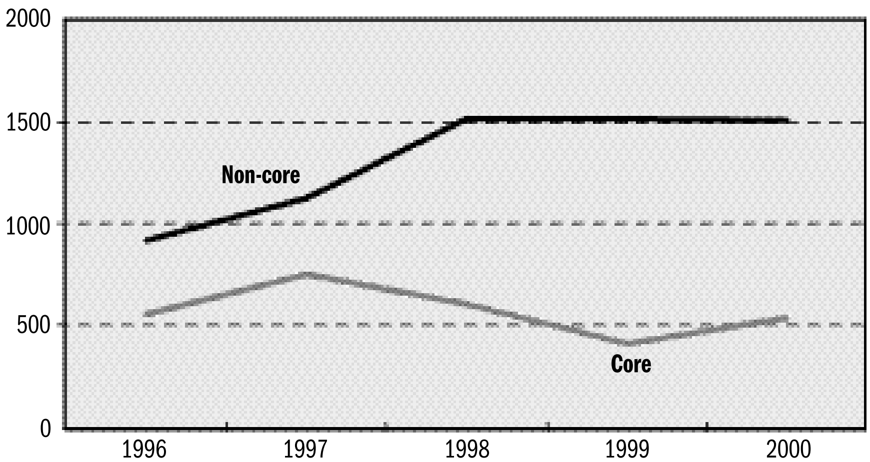


FIGURE D.2: CORE VS. NON-CORE EXPENDITURES, 1996-2000

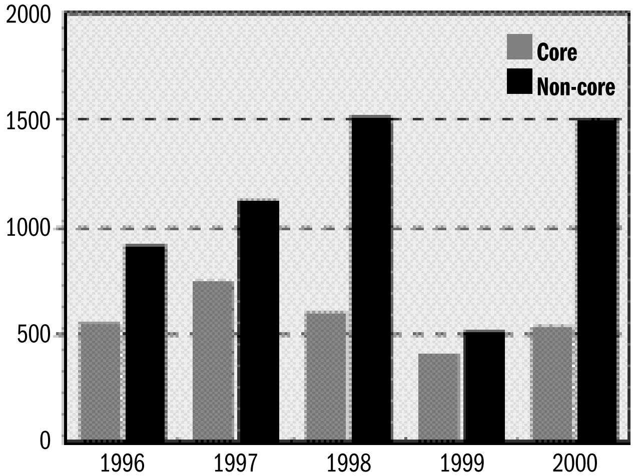
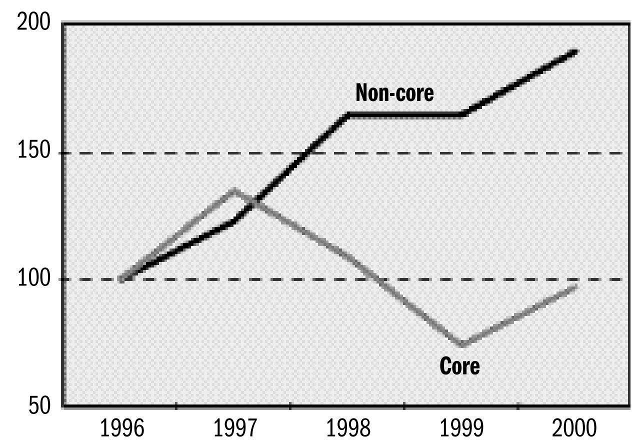


FIGURE D.3: GROWTH INDEX FOR NON-CORE EXPENDITURES, 1996-2000



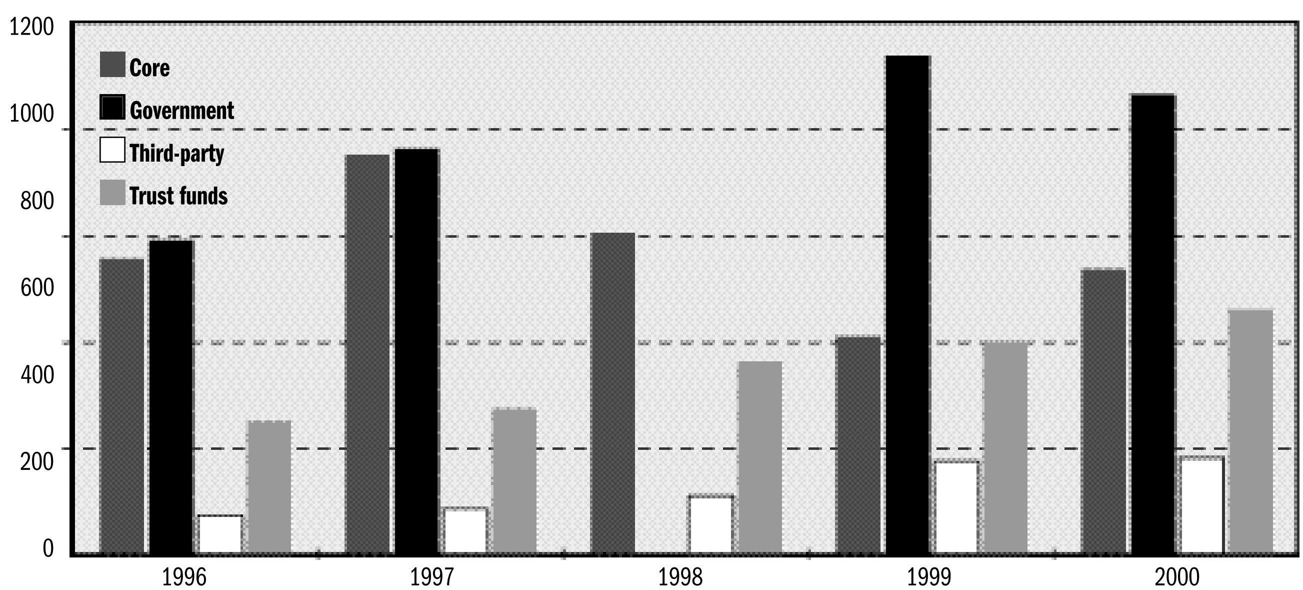
resources compared to core resources over the period. The trend toward increased non-core resources and a decline in core resources confirms the changing nature of development aid over the past five years. The marked increase in non-core expenditures for UNDP, totalling $1.6 billion in 2000, represents 77 per cent of its total expenditure for that year, making non-core resources a major source of funding for UNDP-assisted activities.

Figure D.3 indicates that non-core expenditures have increased by 90 per cent since 1996. Core, on the other hand, has been on the decline since 1996, but shows no change in growth in 2000 compared to 1996 as a base year.

MAJOR SOURCES OF NON-CORE FUNDING AND THEIR TRENDS

There are three major sources of non-core funding: government cost sharing, third party cost sharing and trust funds. Figure D.4 represents the differences in the type of funding over the years. Government cost sharing emerges as the main source of financing, followed by trust funds. Third party funding is also shown to be increasing over the years as a source of non-core funding. Third party together with government cost sharing contributed over $1 billion to non-core resources in 2000, compared to $667 million in 1996. The increase in volume for both government and third party funding as sources for UNDP programmes has implications for resource mobilization, as well as for UNDP country office capacity to mobilize non-core resources.

FIGURE D.4: TREND OF SOURCE OF FUNDS, 1996-2000 EXPENDITURES (MILLIONS OF US$)



REGIONAL DISTRIBUTION AND SOURCES OF NON-CORE FUNDS

Latin America emerges as by far the highest user of non-core resources for funding. For 2000, the regions with the lowest non-core expenditures in terms of actual dollar figures are, in ascending order, Europe and the CIS, Asia and the Pacific and Africa, with $98 million, $135 million and $140 million, respectively (Figure D.5). Africa and the Asia-Pacific region on the other hand emerge as the largest users of core resources.

In 2000, Latin America had the largest concentration of non-core resources, representing 61 per cent (Figure D.6), followed by the Arab States. In terms of core funds, Africa, followed by Asia and the Pacific used core funds to the greatest extent in 2000; core funds represented 43 per cent and 34 per cent of expenditures, respectively (Figure D.7).

FIGURE D.5: CORE VS. NON-CORE EXPENDITURES PER REGION, 2000 (MILLIONS OF US$)

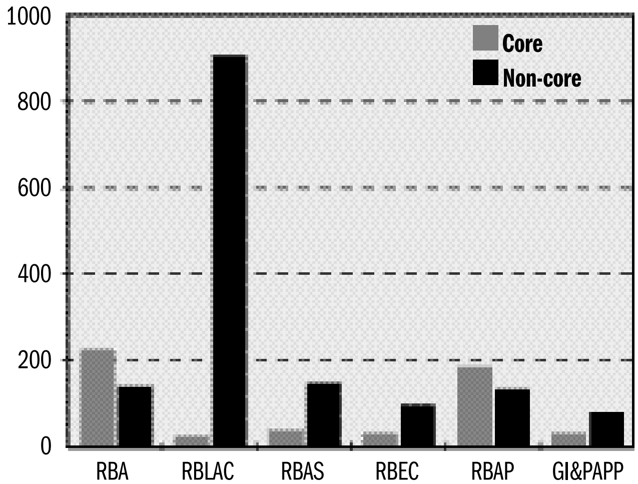


FIGURE D.6: PERCENT NON-CORE EXPENDITURES BY REGION, 2000

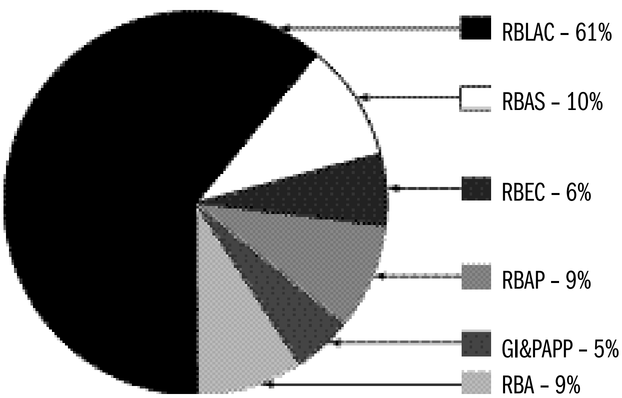


FIGURE D.7: PERCENT CORE EXPENDITURES BY REGION, 2000

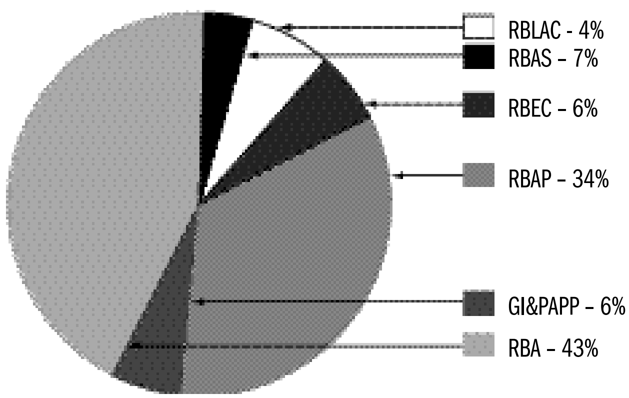


FIGURE D.8: NON-CORE EXPENDITURE TYPES BY REGION, 2000 (MILLIONS OF US$)

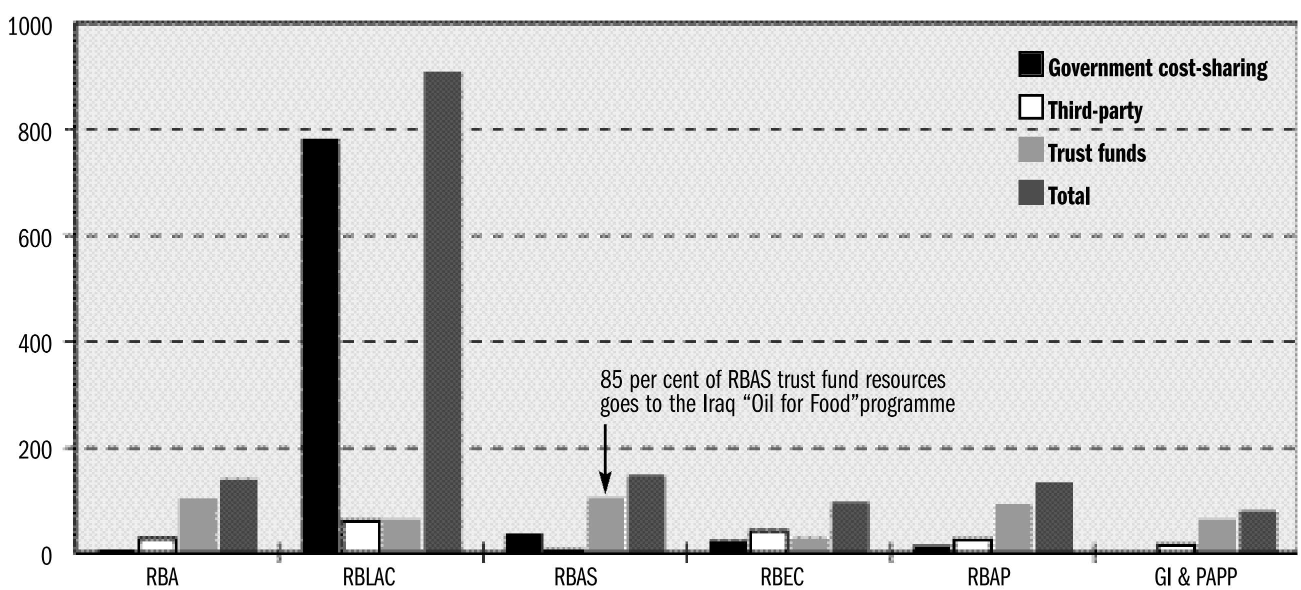
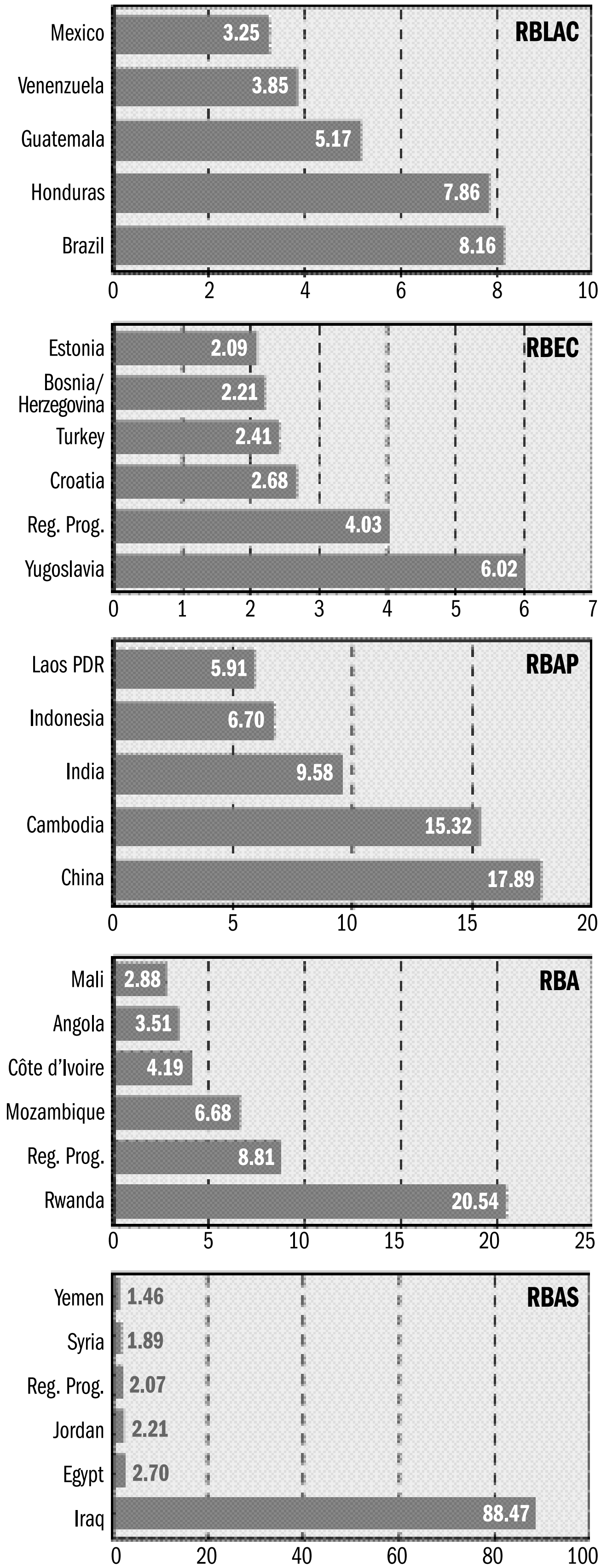


FIGURE D.9: BIG FIVE TRUST FUND COUNTRIES PER REGION, 2000 EXPENDITURE (MILLIONS OF US$)



SOURCES OF NON-CORE FUNDING

Figure D.8 (see previous page) shows the major sources of non-core funds per region. In Latin America and the Caribbean, the main source of funding is government cost sharing, a co-financing modality through which UNDP resources can be supplemented by government resources and government loans from the World Bank and other IFIs. In 2000, government cost sharing accounted for 86 per cent of total expenditures for the Latin American region.

For Africa and the Arab States, followed by the Asia-Pacific region, trust funds are the major source of non-core funding. The trust fund for the Arab States goes mainly to Iraq's "Oil for Food" programme, accounting for 85 per cent of its total expenditures. For each source of funds, the big five countries across regions are as presented in Figure D.9 at left.

TRUST FUNDS

In Africa, the big five country recipients for trust funds are: Rwanda, Mozambique, Côte d'Ivoire, Angola and Mali, the majority of which are post-conflict countries. Irrespective of region, the five largest country recipients of trust funds are Iraq, Rwanda, China and Cambodia (Figure D.9).

GOVERNMENT COST SHARING

The largest government cost sharing region is Latin America, as already indicated. Figure D.10 shows the largest five countries in each region in terms of government cost sharing, with Latin America's "Big Five" the largest contributors (Brazil, Argentina, Panama, Colombia and Peru).

All other countries have very low to almost negligible use of government cost sharing as a source of funding.

COST SHARING

The biggest user of third party cost sharing, irrespective of region, is Colombia in Latin America. It spent about $20 million, which is 31 per cent of its region's total expenditure in 2000. Mozambique in Africa is the next biggest beneficiary of third party funds in dollar terms, spending $13.1 million, which is about 45 per cent of the regional share. Use of third party funds in all other countries across the regions is less than $10 million in individual countries (Figure D.11).

FIGURE D.10: BIG FIVE COST SHARING COUNTRIES PER REGION, EXPENDITURES 2000 (MILLIONS OF US$)

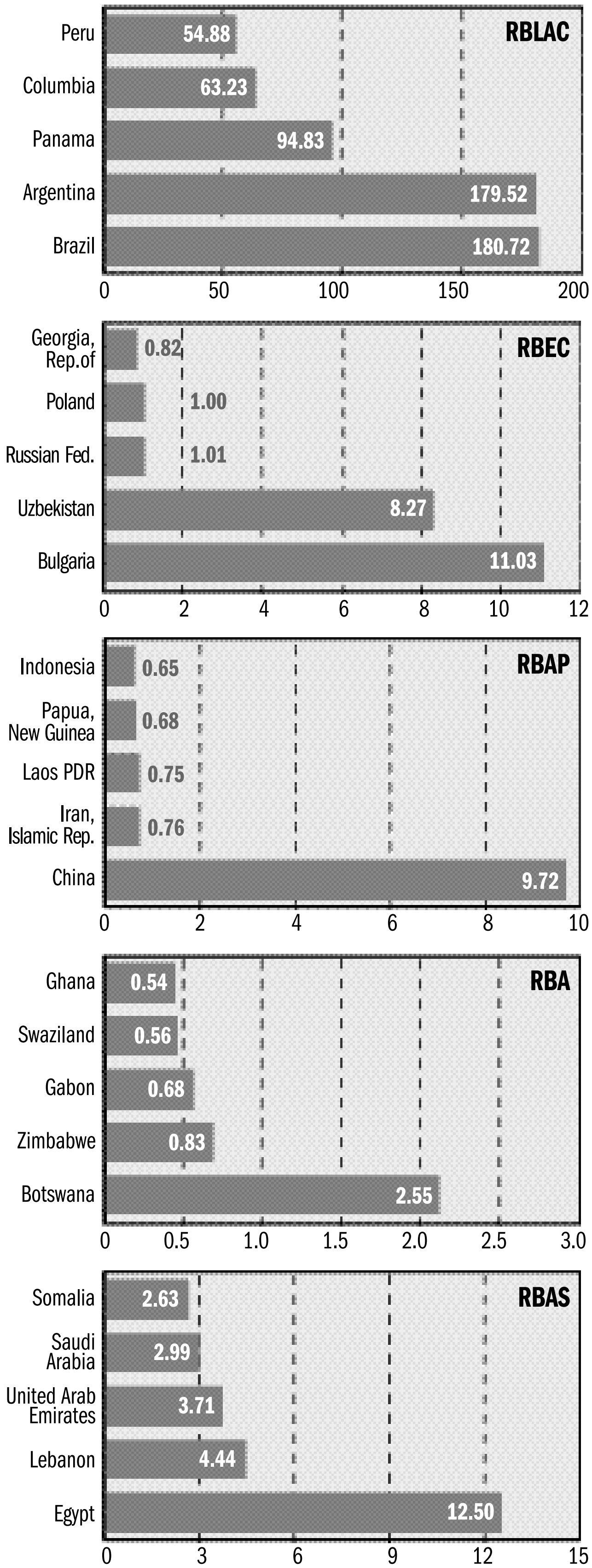


FIGURE D.11: BIG FIVE THIRD PARTY COUNTRIES PER REGION, EXPENDITURES 2000 (MILLIONS OF US$)

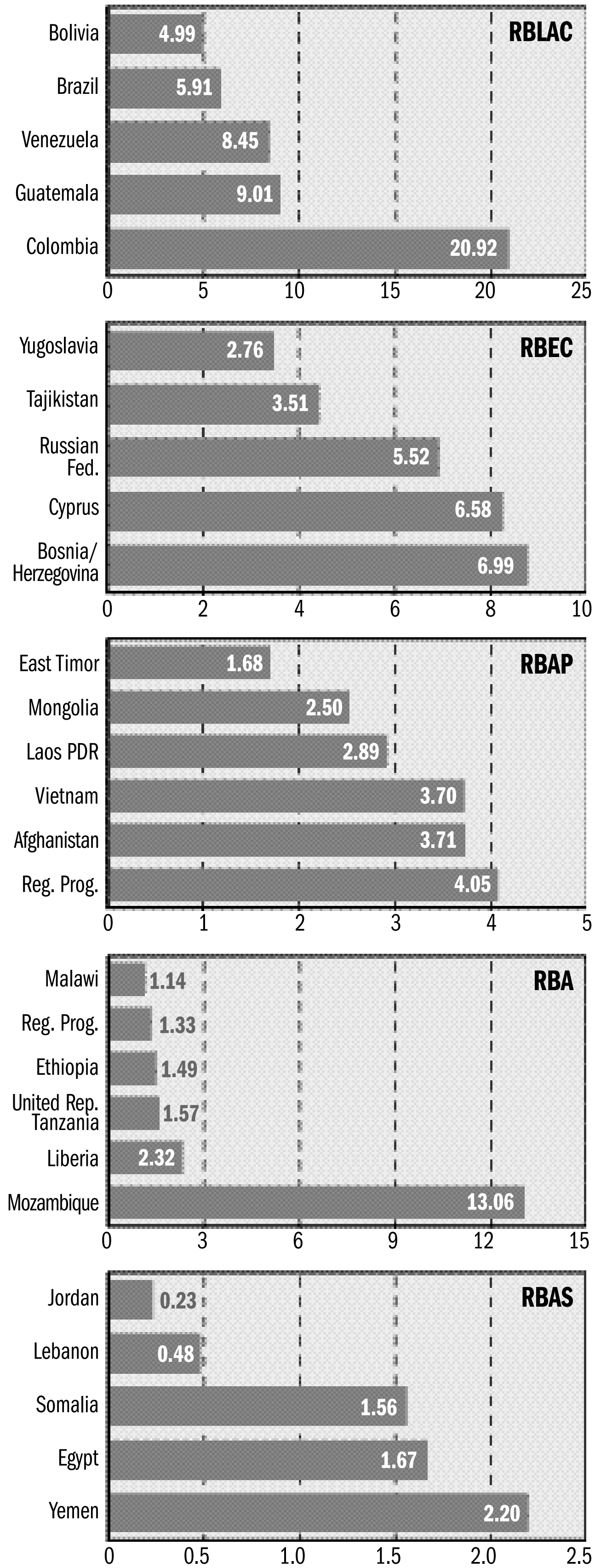


TABLE D.1: NON-CORE EXPENDITURES BY SOURCE FOR COUNTRIES VISITED, YEAR 2000 (MILLIONS OF US$)				
Region	**Country**	**Govt CS**	**Third-party**	**Trust funds**
RBLAC	Brazil	180.72	5.91	8.16
	Honduras	32.85	1.08	7.86
RBA	Zimbabwe	0.83	0.97	0.59
	Niger	–	0.43	0.13
RBAP	Pakistan	0.26	0.93	1.69
	Lao People's Dem.Republic	0.75	2.89	5.91
RBAS	Saudi Arabia	2.99	0.07	(0.32)
RBEC	Bulgaria	11.03	2.32	0.37

FIGURE D.12: THEMATIC DISTRIBUTION FOR CORE EXPENDITURES, 1998-2000 (MILLIONS OF US$)

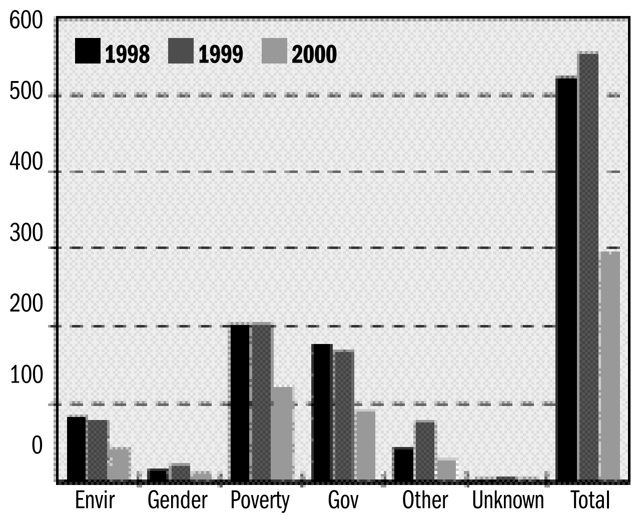
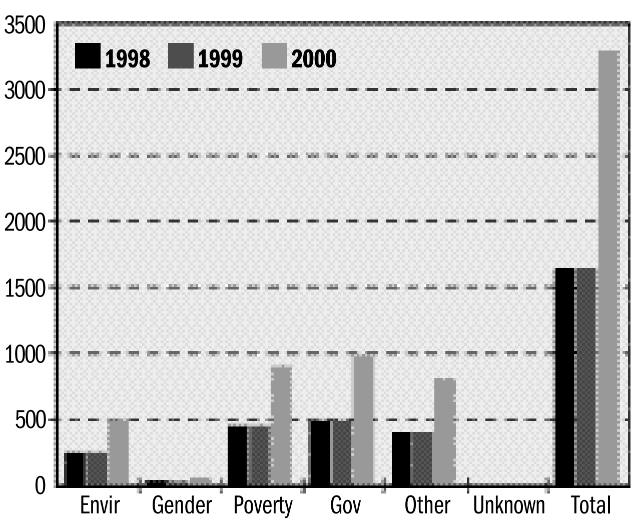


FIGURE D.13: THEMATIC DISTRIBUTION FOR NON-CORE EXPENDITURES, 1998-2000 (MILLIONS OF US$)



SOURCES OF FUNDS FOR COUNTRIES VISITED

For the countries visited, Brazil and Honduras were the biggest users of government cost sharing, followed by Bulgaria. The eight countries visited had comparatively minimal use of all types of funds, vis-à-vis other sources of funding, with the exceptions Lao PDR and Pakistan where trust fund expenditures were the highest among the three sources of funding (Table D.1).

The country samples also reflect the regional disparity in use of government cost sharing as a main source of funding. As expected, Brazil and Honduras in Latin America show the highest use of government cost sharing. Bulgaria, in the Europe and CIS region, also shows high use of government cost sharing, using it as its main source of funding. The rest of the countries, however, use very minimal to moderate levels of government cost sharing.

THEMATIC TRENDS

For the last three years (1998-2000), the largest expenditures for both core and non-core resources went towards poverty reduction and creating an enabling environment for sustainable human development (SHD). Out of the total core expenditure for 2000, 42 per cent went to poverty reduction and 30 per cent to creating an enabling environment for SHD (governance). Likewise, for non-core expenditure in 2000, 28 per cent and 29 per cent, respectively, was spent on poverty and an enabling environment for SHD. The least-funded thematic area per type of fund was gender (Figures D.12-D.15). Figure D.12 reflects a declining trend in funding for the environment, using core funds, between 1998 and 2000. However Figure D.13 reflects an increased level of expenditures for the environment from non-core resources.

THEMATIC FOCUS AND SOURCE OF FUNDS PER REGION

Figure D.16 presents the differences in sources of funding for different areas of focus per region. The thematic focus for Africa and Asia is mainly poverty reduction and an enabling environment for SHD, both of which are mainly funded from core resources. The focus for Arab States is mainly on an enabling environment for SHD (governance), funded by trust funds, while that for Europe and the CIS is on poverty reduction, an enabling environment for SHD and other UNDP areas. For all regions, the focus on gender as a theme is very minimal.

DATA LIMITATIONS

Since data for the non-core trend analysis is retrieved mainly from the Comptroller's database, compiled in a different format for different purposes, there was a bit of difficulty in changing the format of the data to suit the Evaluation Office's non-core resource analysis. Also, updates of the data cannot be accessed in a timely manner to make the analysis coherent and consistent. It is suggested that the EO provide a format of the areas of interest to be captured by the Comptroller's office as it tracks the data. The distinction in trust funds within various data sets is particularly noteworthy for consistent recording.

For this particular analysis, there was a lack of consistency in data formats provided from the different sources to facilitate updates of resources. For example, the ROAR 1999 presentation of goals and use of non-core and core resources was not the same as the ROAR 2000 data set. As such, data had to be generated to reflect consistency in reporting on the same variables.

FIGURE D.14: PERCENT THEMATIC DISTRIBUTION FOR CORE EXPENDITURES, 2000

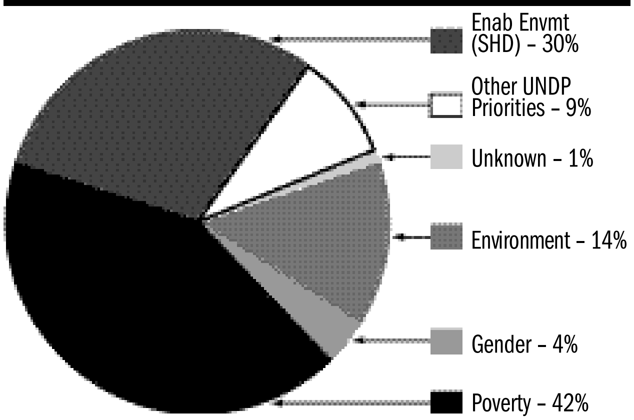


FIGURE D.15: PERCENT THEMATIC DISTRIBUTION FOR NON-CORE EXPENDITURES, 2000

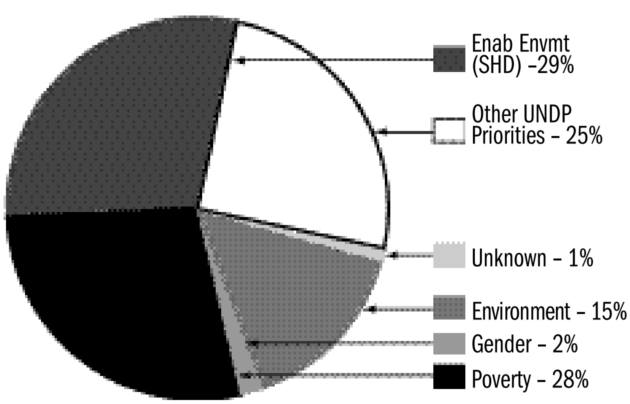
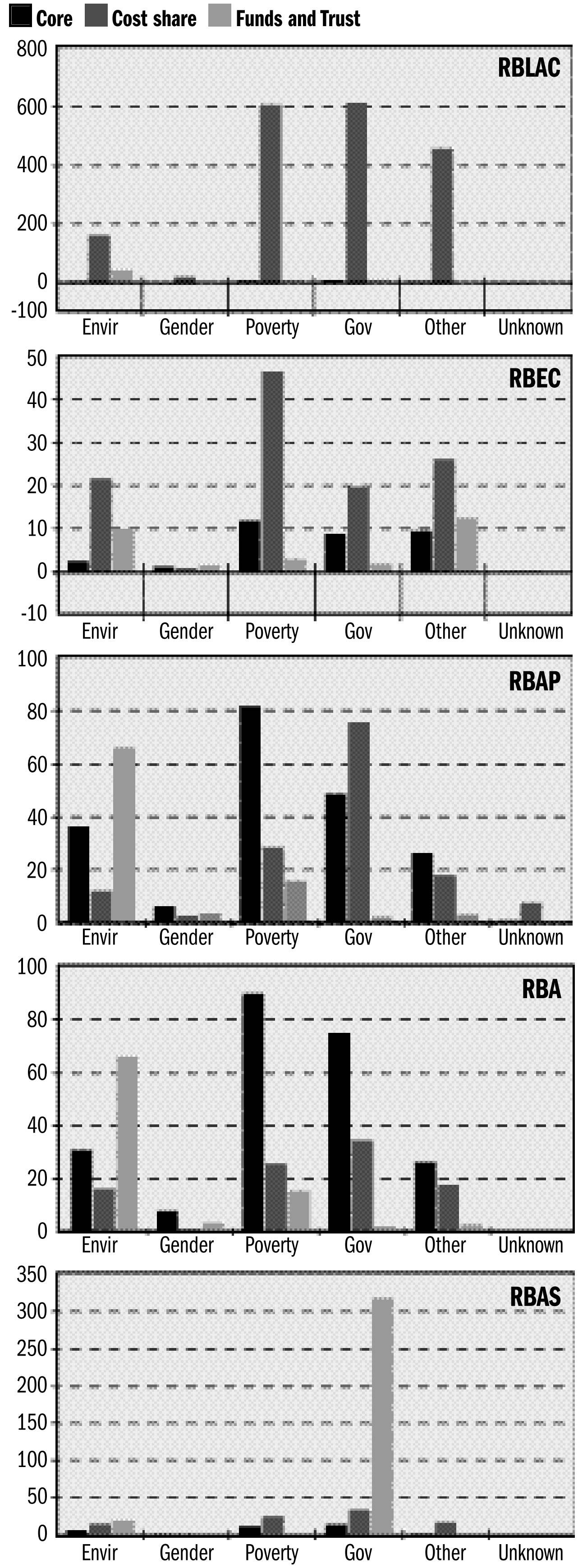


FIGURE D.16: THEMATIC FOCUS PER REGION



SUMMARY

The current analysis provides evidence of the important role of non-core resources as a major source of funding for UNDP programmes. This phenomenon was reflected not only in regions but for thematic areas as well. The main thematic areas being funded are poverty reduction and creation of an enabling environment for SHD (governance), which is consistent with UNDP's priorities. Out of the three main types of non-core resources, government cost sharing emerged as the key source of funding for most regions and countries, especially Latin America.

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E

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UNITED NATIONS DEVELOPMENT PROGRAMME

Evaluation Office
United Nations Development Programme
One United Nations Plaza
New York,NY 10017, USA
Tel. (212) 906 5095, Fax (212) 906 6008
Internet: http://www.undp.org/eo
Intranet: http://intra.undp.org/eo