



**Evaluation of the United Nations Capital
Development Fund (UNCDF)**

Synthesis Report



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Abbreviations and Acronyms

AIT	Asian Institute of Technology, Bangkok
ALD	Appointment of limited duration
ARR	Assistant Resident Representative (UNDP)
c.	<i>circa</i> (approximately)
CAT	Capacity Assessment Team (Capacity Assessment of UNCDF - France/Denmark, July 1996)
CCF	Country Co-operation Framework
CGAP	Consultative Group to Assist the Poorest
CTA	Chief Technical Advisor
DDF	District Development Fund (Uganda LDF project)
DRR	Deputy Resident Representative (UNDP)
DSG	Donor Steering Group
Eco	Eco-development (Instrument or project)
ES	Executive Secretary
EU	European Union
HQ	Headquarters
IA	Institutional analysis
ID	Institutional Development
IFAD	International Fund for Agricultural Development
Inf	Infrastructure
Inf/RD	UNCDF Infrastructure and/or Rural Development Project Type
IRD	Integrated Rural Development
ITAD	Information, Training and Agricultural Development
JPO	Junior Professional Officer (UN staff funded by member governments)
KADRE	Key and diverse resources and expertise (UNCDF participation technique)
KPI	Key Performance Indicator
LDC	Less Developed Country
LDF	Local Development Fund (used to describe the UNCDF project type or the fund available for allocation within an LDF project)
LDP	Local Development Programme (new UNCDF project type)
M&E	Monitoring and Evaluation
MDGD	Management Development and Governance Division (UNDP)
MF	Micro-finance (UNCDF project type)
MFI	Micro-finance Institution
MIS	Management Information System
NEX	National Execution
NGO	Non-governmental organisation
NO	National Officer (UN staff from the host country)
O&M	Operation and Maintenance
PAC	Project Approval Committee
PD	Participatory development
PM	UNCDF Programme Manager (UNCDF project officers, all based in New York and one outposted to West Africa. The East-Africa PM outposting arrangement was terminated in January 1999)

PO	UNCDF Programme Officer (country office staff)
POU	Programme Operations Unit (UNCDF HQ unit)
PPEU	Policy Planning and Evaluation Unit (UNCDF HQ unit)
PRA	Participatory Rural Appraisal
PRD	Participatory Rural Development (an Evaluation Team typology)
ProDoc	Project Document (also called Project Agreement)
PSU	Programme Support Unit (UNCDF HQ unit)
RD	Rural Development
RR	UNDP Resident Representative/Resident Co-ordinator (Res. Rep.)
RTA	Regional Technical Advisor (based in Kampala, and covering Uganda, Malawi, Tanzania and Zambia)
SHD	Sustainable Human Development
SIDA	Swedish International Development Agency
SUM	Special Unit for Micro-finance (UNDP and UNCDF)
SW	Stakeholder workshop
SWOT	Strengths - Weaknesses - Opportunities - Threats (a technique for strategy planning)
TA	Technical Assistance (project inputs of skills and knowledge as opposed to financing alone.)
TAU	Technical Advisory Unit (UNCDF HQ unit)
Team	The ITAD Evaluation Team
ToRs	Terms of Reference
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services

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The Evaluation was undertaken by a team of six people: Derek Poate (Team Leader), Andy Batkin (Deputy Leader), Ann Condy and Lucien Bäck, all from ITAD; with Andrew Lawson and David Hoole from Oxford Policy Management. Jackie Lane from ITAD managed the contract and gave valuable support to analysis of the country visit reports and preparation of the Synthesis Report. Local consultants played a key role in the eight country visits: Mr M. S. Shivakumar (Cambodia), Dr Jande Banda (Malawi), Mr Konimba Sidibe (Mali), Mr Jose Negrao (Mozambique), Mr Amadou D. Giouf (Senegal), Dr Servacius Likwelile and Prof Joseph Semboja (Tanzania), Ms Debra Johnson (Uganda), Ms Nguyen Thi Thu Hang (Viet Nam).

The text of this report can be found on the UNCDF website at www.undp.org/uncdf

Brief facts about UNCDF¹

The United Nations Capital Development Fund (UNCDF) is a semi-autonomous unit within UNDP working to develop new solutions for poverty reduction in least developed countries. It was established in 1966 by the UN General Assembly as a special purpose fund within the United Nations system in association with and under the administration of the United Nations Development Programme (UNDP). UNCDF is governed internally by an Executive Secretary. Externally, the UNDP/UNFPA Executive Board serves as its governing body.

With new project approvals at around \$40 million annually, UNCDF is smaller than other multilateral financial institutions. Investments are usually in the range of \$500,000-\$5,000,000, for community-based, capital-investment projects that are below the lending threshold of international development banks but beyond the financial means of most NGOs and local administrations. This allows UNCDF the flexibility to finance new initiatives, to respond and adapt quickly to improve project workability and to experiment with pilot programmes that can later be replicated by larger donors on a broader scale. Financing through grants rather than loans further encourages innovation by relieving governments of repayment burdens that might otherwise discourage ventures that are untested and therefore considered risky.

The Fund gets most of its resources from voluntary government contributions. The Fund can also accept contributions from NGOs, multilateral and bilateral agencies, and other funding institutions. In addition to general contributions, donors have supported UNCDF projects through various co-financing arrangements, such as cost-sharing and trust fund arrangements. In 1998, UNCDF's major donors included Belgium, Denmark, France, Japan, the Netherlands, Norway, Sweden and Switzerland. The United States of America has also recently started to contribute funds. Additional contributions came in from a wide range of countries from Austria and Bangladesh to Tunisia and Yemen.

The Fund is based in New York and draws on UNDP for technical and logistical support. UNDP resident representatives serve as UNCDF representatives in the field. UNCDF also works closely with UNDP for technical and logistical support, a partnership that keeps UNCDF's overhead low and maximises programme impact, particularly in building local capacity.

UNCDF's orientation fits into UNDP's focus on the creation of human capital, and as such is very much a part of UNDP's overall Sustainable Human Development paradigm with its emphases on equity, the environment, gender equality, and employment. The Funds' "first and foremost" assistance goes to LDCs, as directed by the UN General Assembly in 1973. By 1999, 56 countries had received financial assistance from UNCDF: 32 in Africa, 15 in Asia and the Pacific, five the Arab States and three in Latin America and the Caribbean. In an effort to increase the impact of its programmes, however, the Fund decided in 1998 to concentrate its future programme in 15 "Concentration Countries": Bangladesh, Benin, Bhutan, Burkina Faso, Cambodia, Ethiopia, Guinea, Haiti, Malawi, Mali, Mozambique, Nepal, Senegal, Tanzania, and Uganda.

The recognition that development assistance is more effective when focused locally has emerged at the same time that a wave of democratisation and decentralisation has swept across the globe. UNCDF is at the forefront of this effort; its programmes are now structured to encourage partnerships among local governments, community groups and the private sector. This helps each party to fill the role for which it is best suited: the community helps to set priorities and manage investments; local government serves as administrator, providing

¹ This description is abstracted from the UNCDF website. For the full text, refer to www.undp.org/uncdf/about.htm

planning and financing; and the private sector participates as one of the producers. In this way, UNCDF-financed programmes strengthen the capacity of local governments to provide public goods and services. They also provide opportunities for local communities and individuals to elicit greater responsiveness from their government, particularly in providing and managing investments.

In order to pursue these objectives, UNCDF's approach has evolved dramatically since its early days. Initially the fund provided physical equipment in support of project activities, which were generally in favour of the rural poor. In the course of decentralisation, however, there has been a marked shift of responsibility for the provision of basic infrastructure to local authorities.

UNCDF has consolidated the best features of each of its programmes into a new instrument it calls **Local Development Programmes (LDPs)**. LDPs offer a more unified and sustainable institutional strategy that links national and local government structures and builds on the lessons of interventions that involved Local Development Funds and support to sustainable natural resource management. Through UNCDF's LDPs, all local project activities -- particularly financing channels -- are anchored in local institutions and procedures.

Local Development Funds

The foundation of the LDP is built upon UNCDF's experience with Local Development Funds (LDFs). In the interest of supporting vital and new governance relationships between the governed and governing, UNCDF has steadily increased its use of Local Development Funds over the past few years. In fact, in 1998, the percentage of funding allocated to LDFs rose to 84 per cent of the Fund's annual approach (up from 38 per cent in 1996). To date, 17 Local Development Fund projects (\$93 million) have been launched worldwide and are at various stages of implementation.

LDFs are pilot projects that assist least developed countries in three critical areas: capital investment funds for rural infrastructure and other service-related investments, strengthening the governance institutions necessary to sustain such investments, and capacity building to produce the skills, procedures and resources required to sustain the institutions. LDFs are demand-driven capital funding mechanisms that are given to and managed by local governments to be used in conjunction with local contributions. The systems and procedures used are designed to evolve, with adaptation, into national systems for channelling resources to sub-national levels of government.

The Environment & Natural Resource Management

UNCDF's LDPs also address development constraints faced by populations in ecologically fragile and over-populated areas. This approach involves a participatory development process that attempts to restore ecological balance by reversing damage to natural resources as well as improving food security and meeting basic needs. The programme has two primary goals: to provide direct support to community-based programmes for poverty reduction in resource-fragile areas; and to pilot cost-effective approaches to these problems that can be replicated on a wider scale.

Blueprint Infrastructure

As a capital funding agency UNCDF has longstanding experience with projects that develop physical infrastructure. Traditionally, until the early 1990s, UNCDF infrastructure projects were designed with a very clear determination of project outputs, such as roads, water systems, irrigation schemes, storage facilities, and housing schemes. These were "blueprint" projects with pre-planned objectives, outputs, and corresponding predefined line item budgets. The capacity building components of these projects were minimal and almost exclusively related to implementing the physical infrastructure itself.

Since the mid-1990s, however, there has been a gradual shift in UNCDF programming away from technically pre-defined "blueprint" infrastructure investments, and towards entrusting a much greater degree of planning and management authority for infrastructure development to designated local institutions, particularly to local elected governments.

Micro-finance

UNCDF, through its micro-finance programme, supports institutions that provide financial services to the poor. UNCDF's initiatives in this sector include both credit to micro-entrepreneurs and savings instruments. Approximately 70 per cent of UNCDF micro-finance interventions are in sub-Saharan African, 20 per cent are in Asia and 10 per cent are in Latin America.

UNCDF carried out a peer review exercise with the Consultative Group to Assist the Poorest in 1998, which led to a major re-orientation of its micro-finance policy. Whereas UNCDF had previously focused on setting up refinancing and guarantee funds, the Fund is now re-focusing its support to help strengthen the institutional capacity of carefully selected micro-finance institutions (MFIs), helping them to become financially self sufficient.

To facilitate coordination between different microcredit initiatives at the UN, a joint unit between UNDP and UNCDF was established in 1997. The new unit, called the Special Unit for Micro-finance (SUM), brings together the growing work of UNDP in the area of micro-finance with the established credit and micro-finance portfolio of UNCDF. The central purpose of SUM is to provide quality technical support and backstopping to the UNDP MicroStart programme and UNCDF, in line with established microfinance best practices.

Preface

This report presents the findings of the evaluation of the United Nations Capital Development Fund (UNCDF). The evaluation aimed to assess UNCDF's performance in implementing the goals and directions of the organisation's new Policy Document entitled "Poverty Reduction, Participation and Local Governance: The Role for UNCDF" (1995) and to review the adequacy of actions taken with respect to the findings and the recommendations of the 1996 document "Capacity Assessment of UNCDF".

The evaluation was commissioned and co-funded by UNCDF's major donors (Belgium, Denmark, France, Japan, Norway, Sweden, Switzerland and The Netherlands). In order to guide and oversee the evaluation process a steering group consisting of the donors' evaluation departments was established. The group in which the evaluation departments of UNCDF and UNDP participated, in a largely technical capacity, was chaired by the Policy and Operations Evaluation Department of the Netherlands Ministry of Foreign Affairs.

As is commonly the case with multi-donor evaluations, the study's scope of work was comprehensive and it was decided to develop the terms of reference on the basis of a pre-study conducted by an independent consultant, Mr Bernt Bernander of the Stockholm Group for Development Studies, Sweden. His contribution to the evaluation is acknowledged.

The actual evaluation work was carried out by a team of independent experts from consultancy firms in the United Kingdom, Information, Training and Agricultural Development (ITAD) and Oxford Policy Management (OPM). The evaluation report is the result of their effort and commitment to the objectives set for this evaluation. Their work, as well as the constructive cooperation and openness with which UNCDF management and staff have participated and contributed to the evaluation, is very much appreciated.

It must be borne in mind that the time that has elapsed since the Fund's policy switch, and which the study could cover, is too short to assess the impact of the new policy. Therefore, in assessing the measures taken by UNCDF to implement the new policy approach, the evaluation had a mainly process-oriented and formative character rather than being a summative or product-oriented study. Nevertheless, I believe that the report will serve as a valuable input to UNCDF's donors, the Executive Board of the UNDP, UNDP and last but not least to UNCDF.

Ted Kliet

Chair of the Steering Group for the Evaluation of UNCDF

Executive Summary

Introduction

1. The United Nations Capital Development Fund (UNCDF) is a semi-autonomous unit within UNDP, established in 1966 by the UN General Assembly. Persistent questioning of the Fund's impact, its institutional place and *raison d'être* led the Fund to undertake a radical change in interpreting its mandate to combat rural poverty. Building in part on its experience, and in part on the renewed interest in decentralised aid policies, the Fund has made local empowerment a central objective of its work. Its new approach was set out in a policy document issued in 1995 entitled "Poverty Reduction, Participation and Local Governance: The Role for UNCDF". As a condition of continued support, donors agreed to make a comprehensive evaluation of the new approach in 1999 and report to the Executive Board of the UNDP in September 1999 so that a decision can be taken on the Fund's future. This report is the synthesis of that evaluation study.

2. The Terms of Reference for the evaluation are set out in full at Annex 1. The objective of the evaluation is:

"...to assess UNCDF's performance in implementing the goals and policy directions of the 1995 Policy Document...and review the adequacy of actions taken with respect to the findings and recommendations of the 1996 document 'Capacity Assessment of UNCDF'". (ToR Para.15)

3. The report integrates the results of the two earlier parts of the Donor Evaluation of UNCDF: a Desk Study at UNCDF Headquarters in New York in September-October 1998 (ITAD, December 1998) and visits to UNCDF projects in eight countries during January to March 1999 (ITAD, June 1999). This report sets out the findings in three main chapters, following an introduction and review of methodology².

Evolution of UNCDF Policy

4. Chapter 3 addresses the broad questions underlying the development of the Fund's distinct identity and role. The 1995 policy document confirmed the overall policy goal of UNCDF to be poverty reduction, building on the established mandate of UNCDF and consequent focus on the Least Developed Countries (LDCs). It stressed that this was to be guided by the '*paradigm of Sustainable Human Development (SHD)*' and that it would imply a focus on the rural areas within LDCs.

5. Support to decentralisation and local governance was established as the immediate policy objective. The rationale for this emerged from the unique role of government in the delivery of basic infrastructure and services to the poor and the consequent need to improve effectiveness and efficiency³ through decentralisation. It

² Copies of the Desk Study Report, Field Visit Report and this Synthesis Report can be obtained from UNCDF. This report can also be found on the UNCDF website at www.undp.org/uncdf

³ Definitions of key evaluation terms such as effectiveness and efficiency are in Annex 3.

was further justified by the recognition of the significance of civil society as the counterpoint to government in promoting accountability and responsiveness to needs.

6. Specifically, UNCDF's niche was seen to derive from its accessibility as a partner for local authorities and community groups and its ability to pilot test new procedures and operational models for replication by national governments and larger donors. As a donor that could work at the interface between local governments and civil society, whilst also remaining engaged through UNDP in the upstream policy questions surrounding decentralisation, UNCDF could occupy a territory not well covered by other development agencies.

7. The 1995 policy document was a considerable achievement that laid out a new strategic direction. But it was formulated in haste and UNCDF management recognises that there was less consultation than was desirable, though this was probably unavoidable in the circumstances owing to pressures on UNCDF management to act quickly. The overall policy goals have been well internalised within UNCDF and reasonably well understood by partner donors. But shortcomings in the internal coherence left UNCDF with a lack of clarity over the means-ends relationships implicit in its goal and objectives. This, in turn, clouded the definition of the niche and left an inadequate strategic framework against which to judge the relative importance of the four UNCDF instruments in meeting policy objectives and goals. The evaluation team considers that this has influenced the whole process of policy refinement and evolution, and has also slowed down the process of strategic change and competence development within the organisation as a whole.

8. The confusion over means-ends relationships noted by the CAT remained present until late 1998, illustrated at headquarters level by the diversity of different interpretations of means to achieve the policy goal and the lack of a single 'corporate view' on this important question. UNCDF planned and managed a process of external reviews and independent evaluations, which resulted in the emergence of local-level institution building as the dominant focus in new projects.

9. UNCDF has published an updated policy in 1999. With this revision, our judgement is that UNCDF has now resolved this issue of means-ends relationships. Its policy is to undertake innovative institutional development projects within private micro-finance companies or public local organisations, with a view to influencing national policies and/or having their approaches to institutional development replicated. In this way, it seeks to achieve its overall goal of poverty reduction.

10. Our main reservation is that the process of reviewing and revising the policy has been long drawn-out and has resulted in a prolonged process of change that even now is not completed. In effect, UNCDF staff have been immersed in a continual policy dialogue since 1996. Whilst there has been structure and reason to the process, a lack of clarity in the distinction between policy objective and implementation modality has prolonged the debate.

11. Underlying the process of policy refinement and development has been an understanding that UNCDF could only prosper as a niche agency, able to undertake risks with pilot projects which other agencies were poorly placed to initiate but which could later be replicated to good effect by partner governments and other donors. The

meaning and role of innovation needs to be clarified to avoid confusion among partners. The evaluation team understands that UNCDF intends to pilot-test institutional development and other initiatives and is prepared to take risks to encourage partner governments to learn from new approaches. Innovation is not an end in itself and is firmly based within UNCDF's expertise in decentralisation and local governance.

12. A gap has arisen between the awareness of the need to pilot and replicate and the means of doing so. Whilst policy impact and replication might be desirable for other donors, they are essential for UNCDF because of the small scale of UNCDF operations. The means of influencing policy and promoting replication need to be dealt with in project documents.

Implementation of the Policy Objectives

13. Implementation of the new policy orientation has involved changes to project cycle procedures, the design and implementation of projects, and performance of UNCDF staff. Chapter 4 deals with changes that have directly affected the portfolio of projects.

14. The changes can readily be seen in the shift in the portfolio. UNCDF has maintained the overall level of new approvals but changed the mix of projects such that new approvals are dominated by Local Development Fund projects and are overwhelmingly in concentration countries. The evaluation field visits went mainly to countries with examples of new formulations. From this sample of eight countries, the evidence that has emerged is broadly good. Unsurprisingly, the projects appear to be piloting and risk-taking. Support to local government appears to be well founded; support to civil society has good potential, and although there are some concerns about the efficiency of existing approaches to participation the Fund appears to be tackling this.

15. Project formulation is the critical step in translating good policy into successful projects. The Team found a number of problems with project preparation: the absence of appropriate formats; lack of definition of the project purpose and outputs; a problem of multiple objectives for LDFs; and the absence of economic, institutional and other analyses. Because of its small size, UNCDF lacks the means to separate formulation from approval. There is no official project appraisal stage, and the evidence is that too many technically and conceptually weak formulations have been approved.

16. Progress has been too slow in a number of key areas that would help improve the quality of the portfolio. First, although annual summaries of project evaluations are published, these appear to make little impact on policy development or the quality of project formulation and implementation. Second, the conceptualisation of key performance indicators (KPIs) for assessing project performance has been over-ambitious and has produced little result. Third, the design brief for the much-needed project database has been similarly over-ambitious, again with no outcome.

17. Good progress has been made in other areas. The Desk Study found a significant effort underway to institutionalise participatory practices and the country visits confirmed this finding, with many good examples of participatory formulation and/or implementation.

18. UNCDF needs to achieve policy impact. Two issues have emerged about this. First, it cannot be assumed that ‘upstream policy development’ will automatically occur through UNDP. It will in some countries, but this must remain a factor for assessment during formulation. Second, the objective of influencing government policy makes the creation of effective project monitoring and internal evaluation systems, that enable objective lesson-learning, particularly important. Governments are more likely to be influenced by development practices that are well supported by evidence, but feedback from project evaluations has not been a strong area of success for UNCDF.

19. The goal of UNCDF is poverty reduction. The orientation of the Fund’s capital expenditure - social and economic infrastructure - is shared by many donors and there is little doubt that a causal link can be identified between empowerment, access to social infrastructure and poverty. But it is important for UNCDF’s donor countries to recognise that poverty reduction will only take place in the long term, and requires complementary support for the operation of social infrastructure.

20. The evidence of the eight country visits is that UNCDF’s 1995 policy reformulation is leading to an interesting and innovative set of projects. The principal change the new policy has brought to UNCDF is that UNCDF is now increasing the ‘knowledge-content’ of its aid, notably through institutional development with local government and communities. After a relatively short period, UNCDF is increasingly known for its focus on decentralised rural development, and other in-country donor offices are beginning to show interest in the UNCDF concept. The role that is emerging for UNCDF is, in effect, to be a centre of excellence in the planning and implementation of local governance, micro-finance and participatory rural development projects.

Structure, staff and competence development

21. After adoption of the 1995 policy, UNCDF was reviewed by a donor-led capacity assessment mission. Their report gave rise to further donor finance to support staff development and institutional change. Chapter 5 reviews the ways in which UNCDF is organised and has been managed at headquarters and in the field, and the actions undertaken in response to the Capacity Assessment Team’s report.

22. The main emphasis of the change programme over the past four years has been to improve co-ordination amongst units and re-organise staff resources in line with the new policy and concentration country policies. The management team approach has helped improve co-operation, for example in planning staff visits to countries. Overall, staff have been satisfied with the leadership and management of UNCDF.

23. The weakness of the changes to date is that they have not achieved the product quality that the new policies demand. UNCDF is better led and the management style is more participatory, but this is disconnected from the priority task of increasing

project quality. The organisational structure continues to be dated, with units based on job specialisation (technical specialists, programme managers, programme support and policy/evaluators) rather than on product specialisation (LDFs, micro-finance, Eco-development and infrastructure). A new proposal by UNCDF management reflects the changes that this report foresees and is generally endorsed by the evaluation team.

24. Following the CAT recommendation, two programme managers were outposted to countries in Africa. The UNCDF staff view is that outposting programme managers has not been a success and the Team concurs with that view. The Team concludes that empowering and developing country programme officers and strengthening relationships with resident representatives appears to be a more practicable and beneficial strategy than out-posting administrative staff from New York.

25. The new UNCDF policy approach is essentially one of increasing the knowledge and ideas content of projects. The increased knowledge content of projects makes the identification and planning of technical assistance (TA) inputs more important than previously. More TA in total, and more specialised TA (such as for local government and public finance), will be required in view of UNCDF's more subtle and ambitious institutional development objectives. The experience of outposting a TA has been positive. There is some scope for competence development within UNCDF's existing staff, but the Fund will need to recruit professionals who already have the required technical expertise and needs the flexibility to do so from outside the UN system.

26. Three specific aspects of competence development stand out positively. First, there has been enhancement of the role of programme officers in the concentration countries. The support they have received and continue to receive has helped strengthen UNCDF's presence and has demonstrated the potential for a greater shift of responsibility to the field. Second, the debate since the Field Visit report indicates the emergence of a genuine awareness that institutional development projects directed towards local governance are skills intensive; they require an organisation to match. The third area is the relationship with UNDP. UNDP is found to be supportive of UNCDF, principally because UNCDF brings the possibility of project capital finance to an increasingly cash-strapped organisation. However, the country visits found considerable variation in the level of understanding and internalisation of UNCDF's new policies at country level. UNDP provides the entry point and leverage that makes UNCDF's interventions feasible. Management now recognises that the relationship with UNDP needs to be actively managed to overcome reliance on fortuitous personal relations.

Conclusion and Recommendations

27. The evaluation concludes that UNCDF has enhanced its distinctive identity by developing competence in the fields of decentralisation and local governance, together with micro-finance. The capacity of the institution has been improved and the preliminary judgement is that the new approaches have had a positive effect on field operations. UNCDF's experience has the potential to be used as a model for change by other UN agencies.

28. The **1995 policy** has reoriented UNCDF. The Fund now needs to stabilise policies and draw a line under the continual revision that has characterised recent years. The challenge is to find ways of ensuring good quality projects, to deal with the remaining gap in addressing policy impact and replication, to consolidate the local governance piloting niche and to put in place quality assurance measures to achieve excellence.

29. The **competence** of the Fund's staff has been enhanced. The new policies bring knowledge-intensive projects. As these increase to dominate the portfolio more skilled staff will be needed. The relationship with UNDP requires more active management at both headquarters and field levels.

30. Evidence about the **effect of new approaches and processes** is mixed. The quality of project preparation still needs to be improved. On the ground there are some very good, even excellent, projects. But there is much variation. The challenge is to build on the best and expand the proportion of good operations in the portfolio. UNCDF needs to adopt clear goals of excellence in both project design and project results, and report performance to its donors.

31. A total of fourteen recommendations are made, addressed specifically to UNCDF's donors, to UNDP and to UNCDF itself. Principal among them is that the donors should continue to fund UNCDF's operations under this new policy framework.

UNCDF

32. Policy development That UNCDF move rapidly to finalise a short, clear, policy statement of goals. The statement should resolve outstanding issues about policy impact, replication and innovation and have clear objectives for quality of projects, efficiency and effectiveness.

33. Replication and policy impact That UNCDF develops a strategy specifying the means by which it will achieve impact on national government policy and encourage replication by other multi-lateral and bilateral donors.

34. Portfolio clean-up That UNCDF review all projects in its portfolio with a view to closing all old, delayed, over-budget or non-performing projects by an agreed date.

35. Organisational structure That UNCDF adopt an organisation structure to bring the skills and authority required for project identification, formulation and supervision together.

36. UNDP relationship That UNCDF continues to seek the closest possible relationship with UNDP at HQ and country level, and notably with the regional bureaux responsible for UNCDF concentration countries.

37. Devolution and staff strengthening That UNCDF continues to increase the devolution of financial and implementation responsibility to country offices.

38. Management Information System That UNCDF takes immediate action to create a database of its entire portfolio of open projects.

39. Financial and cost-effectiveness reporting That UNCDF monitors and publishes annually an analysis of direct project expenditures and of the fixed and variable costs of project formulation, project support, supervision, evaluation etc., including missions financed under project budgets.

40. Project formulation That UNCDF introduce procedures to ensure that all formulations meet best practice international standards for quality of analysis and conciseness. Consideration should be given to the establishment of an external Project Appraisal Panel of experienced country and development specialists, and commissioning views from selected individuals on the Panel on new formulations, prior to UNCDF approval.

41. Project evaluation That mid-term and final evaluations continue to be led by independent external specialists.

UNDP

42. UNCDF Executive Secretary and Deputy That in appointing the new UNCDF ES and Deputy ES, UNDP seeks to appoint one who has strong practical field experience of institutional development project planning and management, and one who has strong insider knowledge of UNDP.

43. UNCDF relationship That UNDP headquarters units routinely invite UNCDF to attend significant meetings and activities relevant to UNCDF's policy priorities, projects and concentration countries.

44. The role of the UNDP Resident Representative That within UNCDF concentration countries, the relationship between the UNDP Resident Representative and UNCDF should be set out by means of a 'direct line' from the UNDP Administrator.

Donors of UNCDF

45. UNCDF future funding In view of the conclusion that UNCDF has enhanced its distinctive identity and developed competence in line with the 1995 Policy, donors should continue to support UNCDF. Future funding should be linked to performance targets geared to project design quality, and results performance including replication, with arrangements for objective verification and annual performance reporting. The impact of UNCDF's new-policy projects should be the subject of an evaluation study within five years.

1 Introduction and Acknowledgements

1.1 The United Nations Capital Development Fund (UNCDF) is a semi-autonomous unit within UNDP, working to develop new solutions for poverty reduction in least developed countries. It was established in 1966 by the UN General Assembly as a special purpose fund within the United Nations system in association with and under the administration of the United Nations Development Programme (UNDP). A description of the Fund, adapted from UNCDF's own website, is given at the start of this report (page v).

1.2 The focus on the least developed countries led to rapid successive increases in the annual voluntary contributions to the Fund by a core group of some 10 donors. By 1980 annual pledging had reached \$29.5 million. The Fund was seen to fill a resource gap, by engaging in relatively small projects that were unlikely to claim the attention of established national and international financial institutions.

1.3 Contributions to the Fund continued to grow and in 1991 peaked at \$42.8 million, enabling the Fund to make programme commitments at the \$300 million level and to work in over 40 of the world's poorest countries. By 1996 the Fund's programme numbered 537 completed and ongoing projects with cumulative expenditures standing at \$664 million, and with agriculture, water supply, small industry, transport and health infrastructure as the leading sectors. Some 10 per cent of all programme resources have been in the form of trust fund and cost-sharing contributions.

1.4 Since 1991 donor funding has fallen substantially, reaching a low of \$31.3 million in 1994, a drop of 25 per cent. In contrast to the 1980's, this reduction reflected not only a general decrease in donor allocations for development but was accompanied by persistent questioning of the Fund's impact, its institutional place and *raison d'être*.

1.5 Faced with the prospect of further resource attrition, the Fund has attempted what amounts to a radical shifting of gears in interpreting its mandate to combat rural poverty. Building in part on its experience over the past 25 years and in part on the renewed interest in decentralised aid policies, in grass-roots interventions and in the way local governance and participatory approaches affect development, the Fund has made local empowerment a central objective of its work. Its new approach was set out in a policy document issued in 1995 entitled "Poverty Reduction, Participation and Local Governance: The Role for UNCDF" (UNCDF, 1995).

1.6 As a result, working with local government agencies and civil society organisations in the recipient countries, the Fund is embarking on new procedures with a view to securing the active involvement of beneficiaries at all key stages of programme development, implementation and evaluation. By concentrating assistance to specific areas and countries enacting or favouring policies of decentralisation, the

Fund aims to overcome as far as possible the drawback of dispersing its relatively modest resources.

1.7 The Fund's donors responded positively to these initiatives and agreed to provide stable funding over a three-year period, during which the Fund would demonstrate that a new departure has been made and that new bearings have been firmly set institutionally and operationally. Donors accepted the Fund's proposal that they make a comprehensive evaluation of the results in 1999 and report to the Executive Board of the UNDP in September 1999 so that a decision can be taken on the Fund's future. This report is the synthesis of that evaluation study.

1.8 The report integrates the results of the two earlier parts of the Donor Evaluation of UNCDF: the Desk Study Report (ITAD, December 1998) and the Field Visit Report (ITAD, June 1999). This Report is prepared as a 'stand-alone' document, offering the reader an overview and synthesis of the findings from the two earlier studies. It includes brief comment on developments during early 1999, following meetings with UNCDF and donors in New York in May. For reasons of length and readability, much of the evidence on which the conclusions and recommendations in this report are based is not repeated here, notably the eight country studies. Further copies of all three reports (Desk Study Report, Field Visit Report and Synthesis Report) can be obtained from UNCDF, or can be found on the UNCDF website (www.undp.org/uncdf).

1.9 The Terms of Reference for the evaluation are set out in full at Annex 1. The objective of the Evaluation is:

"...to assess UNCDF's performance in implementing the goals and policy directions of the 1995 Policy Document...and review the adequacy of actions taken with respect to the findings and recommendations of the 1996 document 'Capacity Assessment of UNCDF'". (ToR Para.15)

The scope of the evaluation is set out in paragraph 16 of the ToRs as summarised here:

16a): assess whether the reorientation of the Fund's activities has enhanced its distinctive identity in relation to other development institutions, through its ability to take risks, test new methodological approaches and pilot innovations.

16b): review the adequacy of actions taken with respect to the ... capacity assessment report.

16c): examine the extent to which new approaches and processes are gaining acceptance ... make a preliminary judgement ... how they ... have affected field operations.

1.10 The Desk Study was primarily concerned with ToR paragraphs 16a and 16b and the country visits with paragraph 16c. Section 2, Methodology, describes the methodology adopted during the evaluation. Throughout the study ITAD has sought to achieve:

- a) Systematic assessment: through the use of common formats and rating systems for the country visits and the review of project documents.
- b) Triangulation of views: through testing views on each evaluation question across a wide range of informants: different groups of UNCDF and UNDP staff, country offices, other donors, host governments and project staff.
- c) Participation and independence: through maintaining the commitment to a participatory approach made in ITAD's proposal and Inception Report, whilst ensuring the necessary independence of judgement. The views and recommendations in this Report are entirely those of the Evaluation Team.

1.11 Chapter 3 describes the evolution of UNCDF policy since 1995 and Chapter 4 summarises the Team's findings on the implementation of policy in the eight countries visited. Chapter 5 examines organisation, staffing and competence development and the relationship between UNCDF and UNDP.

1.12 The conventional locus of evaluation is at the end of the project cycle, after implementation is complete. In this study the Team has had little opportunity to draw on the wisdom of hindsight which is available to most evaluators. The Terms of Reference require evaluation of the implementation of new policies defined less than four years ago and the principal objects of the evaluation - UNCDF's projects based on those policies - are all at early-implementation or late-formulation stage. This required the Team to use leading indicators of likely future project performance as much as hard evidence on performance to date. For the reasons set out in the following section, however, the Team is confident about the assessments made, notably in respect of UNCDF's principal new project-type: the Local Development Fund.

Acknowledgements

1.13 The Team is grateful, first, to the staff of the governments of Belgium, Denmark, France, Japan, The Netherlands, Norway, Sweden and Switzerland, for their work on the Donor Steering Group⁴, and their time, patience and support in guiding the evaluation over the past year. Second, the Team would offer particular thanks to Poul Grosen, his management team: Alberic Kacou, Roger Shotton and Laura Kullenberg, and all staff at UNCDF headquarters. The Team is very well aware of the additional work and the anxiety engendered by the evaluation, and is grateful to all UNCDF staff for their patience, cooperation and forbearance throughout. Despite the inevitable tensions of such an exercise, the Team was continually struck by the openness of UNCDF staff, and their genuine commitment to their projects and their organisation. Third, the UNCDF and UNDP staff in the eight visited countries did an excellent job in helping the country Teams grasp the context and background to projects, and in helping with logistics and meeting arrangements throughout the Team's visits. We are very grateful to them for that. Fourth, thanks go to the staff of other donor agencies the Team met in New York, Washington and in the eight visited countries. Last, but not least, our grateful thanks go to the government and project

⁴ The evaluation services of UNDP and UNCDF also formally participated in the Steering Group, albeit in a largely technical capacity.

staff, officials and villagers in the eight countries visited, who, as ever, gave generously and patiently of their wisdom and experience.

2 The Evaluation Methodology

2.1 This evaluation study was conducted in two parts: a Desk Study at UNCDF Headquarters in New York in September-October 1998 and visits to UNCDF projects in eight countries during January to March 1999. The Team's Inception Report (ITAD, July 1998) was presented to the Donor Steering Group in The Hague on 4 September 1998. Three key issues were agreed at this meeting. First, the Steering Group emphasised the importance of the Team ensuring independence of view during the evaluation. Second, it was agreed that the country visits would not constitute a set of project evaluations. The objective would be to gather evidence from the visited projects as a basis for assessing the global performance of UNCDF in meeting its policy objectives, as specified in the ToRs. The focus would thus be on UNCDF performance rather than project performance. Third, it was agreed that it would not be possible for the country visits to evaluate project impact in view of the relatively short period of time since publication of the Policy Paper. Most projects of interest would be either at late-formulation or early-implementation stage and it was agreed that the Evaluation Team would use the extant evidence - including project documents, views of project teams, UNDP, UNCDF and other donors, government and beneficiaries - as leading indicators for assessing outcomes and/or likely future outcomes.

The Terms of Reference

2.2 The ToRs for the evaluation (see Annex 1) are lengthy and complex and include coverage of the recommendations of the 1996 Capacity Assessment Team (CAT) Report and references to UNCDF's 1995 Policy Paper. In preparation for the Desk and Field Studies, the Team analysed and cross-referenced the ToRs, the CAT Report and the Policy Paper into a set of Evaluation Questions (see Annex 4). The Evaluation Questions were then divided into issues for the Desk Study, the Field Study or both.

The Desk Study at UNCDF Headquarters

2.3 The Desk Study sought to bring together information from five sources: individual and group meetings with UNCDF staff; meetings with UNDP and World Bank staff; an analysis of the recent UNCDF project portfolio (summarised at Annex 5); a systematic analysis of a sample of UNCDF project documents against 20 criteria (summarised at Annex 7); and a literature study of other UNCDF documents. The Inception Report committed ITAD to a participatory approach. During the Desk Study, the Team sought to achieve this by basing itself in the UNCDF office throughout, which offered plenty of time for informal discussion as well as formal meetings. One afternoon per week was devoted to an open meeting on topics including the structure of policy objectives, the UNCDF-UNDP relationship, and the selection of countries to be visited. The Draft Report was presented to the Donor

Steering Group in November 1998 in The Hague, and the final Desk Study Report was submitted in December.

Country Visits: Selection of Countries and Projects

2.4 During the Desk Study, the Team consulted UNCDF on the selection of countries to be visited. The final selection sought to balance the regional concentration of UNCDF's portfolio (70 per cent to Africa), the location of 'new-policy' projects, especially Local Development Funds already under implementation, and travel time and cost. The final selection was eight countries (rather than the six anticipated in the ToRs). Each country visit focused on a primary project incorporating aspects of the new policy orientation. The countries and projects visited are listed in Table 2.1 below. Primary projects (the main focus of the visit) and secondary projects (relevant other projects not examined in depth) are noted by the letters P and S.

Table 2.1 *Countries & Projects Visited*

Country	Project	Project Type	Approval Date	Original UNCDF Budget (\$000)
Cambodia	P- CMB/97/CO1 Local Development Fund in Battambang & Banteay Meanchey (Main Phase)	LDF	Apr 1997	4,526
	P- CMB/95/CO1 Local Development Fund in Battambang & Banteay Meanchey (Pilot Phase)	LDF	Apr 1995	255
Mali	S- MLI/93/CO1 to CO3 Aménagement et Gestion des Terroirs; Hydraulique Villageoise & Aménagement et Désenclavement du Sourou.	Eco	Dec 1993	6,541
	P- MLI/98/CO1 Appui Com. Rur. Cercle Tombouctou	LDF	1999	6,123
Malawi	P- MLW/93/CO1 District Development Fund (DDF)	LDF	May 1995	2,192
	P- MLW/97/CO1 Local Governance and Development Management Programme (LGDMP) DDF II	LDF	Dec 1997	13,308
	S- MLW/97/CO2 Microfinance	MF	1999	4,283
Mozambique	S- MOZ/93/CO1 Grassroots Initiatives in Nampula Province	Inf/RD	Sep 1993	2,512
	P- MOZ/98/CO1 District Support, Nampula	LDF	Jan 1998	2,412
Senegal	S- SEN/96/CO1 LDF - Kédougou	Eco/LDF /MF	May 1997	3,553
	P- SEN/98/CO1 PADMIR - Projet d'appui à la décentralisation en milieu rural	LDF	1999	6,000
Tanzania	P- URT/93/CO1 District & Feeder Roads	Inf/RD	Jan 1997	4,224
	S- URT/97/025 Local Development Fund	LDF	Nov 1997	5,454
Uganda	P- UGA/95/CO1 - District Development Project	LDF	Aug 1997	12,274
	P- UGA/96/CO1 - Kotido DDP	LDF	Mar 1998	2,693
Viet Nam	P- VIE/95/CO1 Rural Infrastructure Development Fund - RIDEF	LDF	Dec 1995	6,845

2.5 The coverage of recently approved projects in the country visit programme is set out in the Table 2.2.

Table 2.2 Visited projects as a share of all post-1995 & pipeline projects

Project Type	Total UNCDF Budget for Projects approved after January 1995 or in the pipe-line (\$'000) (From Desk Study Report Table 4.1)	Country Visit Projects (\$000) (From Table 1 above)	Country Visit Projects as a share of Total Budget Approved
Eco-Development	32,808	3,553	11%
Inf/RD	72,153	4,224	6%
LDFs	72,986	62,082	85%
Micro-finance	22,768	4,283	19%
All	200,715	74,142	37%

Note: The two projects in Table 2.1 that were approved pre-1995 (Mali Eco-Development & Mozambique Nampula Infrastructure) are not included in Table 2.2

2.6 The ToRs are concerned with the implementation of UNCDF's new policies. The project sample therefore had to be purposive rather than random. The rationale for the country selection and the coverage ratios was as follows:

- Location & Concentration: Eight countries were visited: six in Africa and two in Southeast Asia. All are amongst the fifteen Concentration Countries selected by UNCDF in early 1998, except for Viet Nam.⁵
- Eco-Development Projects: The Eco-development approach was reoriented following a succession of critical external evaluations of individual projects and the findings of the February 1998 Independent Review of the Eco-Development concept and implementation. It was therefore appropriate that these form a small share of the visit portfolio.
- Infrastructure/Rural Development Projects: Although project designs are considerably broader than the "Blueprint Infrastructure" description they are accorded in the 1995 policy document, they are essentially 'old-style' projects and thus of less relevance to this evaluation.
- Local Development Funds: The growth in budget share going to LDFs (up from one per cent of approvals by value in 1992-94 to 37 per cent in 1995-98) is the most significant development within the UNCDF portfolio since 1995 (see Annex 5). In terms of future donor funding it was therefore important that the Team try to obtain the best possible assessment of the implementation of the LDF concept. The country visits therefore include 85 per cent of the total budget approved for LDFs since January 1995.

⁵ Although not a concentration country, Viet Nam was selected for visit because a) It has one of the oldest LDFs and the only one to have had an external Mid-Term Review; b) The other Asian LDFs (Bangladesh, Bhutan and Nepal) are at very early stages; c) A transition economy presents an interesting contrast from other countries in terms of LDF relevance d) The UNCDF portfolio in other countries in Asia (notably PDR Laos) was judged to be of less relevance to the objective of the evaluation, comprising mainly older infrastructure/rural development projects.

- **Micro-finance:** UNCDF conceives micro-finance as a modest part of the portfolio, commanding up to 20 per cent of resources. The ‘new-style’ micro-finance projects are all at very early stages, with formulations post-dating the Independent Review of Micro-finance in mid-1998. There is nothing to see in the field to date, and the MF share was therefore kept small.

2.7 With the field visit programme covering 85 per cent of post-1995 LDFs approved (the most significant element of UNCDF’s new policy approach) the Team considers that the field visit evidence provides a reliable basis for assessing progress to date and likely future progress under post-1995 policy, as required in the Terms of Reference.

2.8 The country visits were conducted by three of the ITAD Team involved in the Desk Study (Derek Poate, Andy Batkin, and Ann Condy) and two additional country experts (Lucien Bäck & David Hoole). The five international team members worked with an experienced local consultant in each country. Six of these were nationals of the country and two (Cambodia and Uganda) were expatriates with long experience in the country.⁶

Preparation, Country Visit Format & Consistency

2.9 The Team used a common report format based on 30 headings as a basis for assessing performance across the variety of projects, countries and issues arising from the Desk Study. The format includes a summary scoring system for the primary project visited against the main UNCDF policy objectives, as shown in Table 2.3.

Table 2.3 *UNCDF Policy objectives assessed in the country visit reports*

UNCDF Policy Objective	Team Assessment of:
1. Innovation	To what extent the UNCDF approach is taking risks and promoting new approaches within the country setting.
2. Strengthening Local Government	Current progress and/or likelihood of UNCDF contributing to strengthening local government by building capacity, introducing new procedures and increasing performance.
3. Strengthening Civil Society	Current progress and/or likelihood of UNCDF to contribute to strengthening civil society, primarily by giving people greater influence over decisions that affect them.
4. Policy Impact	The extent to which UNCDF has been able, or is likely, to influence policy development by the government.
5. Piloting & Replication	The extent to which UNCDF has been able, or is likely, to act as a pilot and lead to replication by the government or donors.
6. Poverty Reduction	Current progress and/or likelihood of UNCDF contributing to poverty reduction.

⁶ Cambodia, MS Shivakumar; Malawi, Jande Banda; Mali, Konimba Sidibe; Mozambique, Jose Negrão; Senegal, Amadou G Diouf; Tanzania, Servacius Likwelile and Joseph Semboja; Uganda, Deb Johnson; Viet Nam, Nguyen Thi Thu Hang.

2.10 For the first three Policy Objectives, the assessment was made against the four criteria of:⁷

- Effectiveness: How likely the project is to achieve the policy objective
- Efficiency: How economically the project is achieving its objective
- Participation: The extent of involvement of relevant stake-holders
- Sustainability: The likelihood that project objectives will continue after project closure

2.11 A simple five point rating scale was applied to assist the team in obtaining consistent judgements: 4 = Excellent (meeting all of the project/policy objectives, or achieving performance in excess of those objectives); 3 = Good (meeting or likely to meet most of the objectives described in the project/policy document); 2 = Indeterminate (difficult, or not possible, to predict at the time of the visit); 1 = Poor (underperforming in more than one major aspect); 0 = Very Poor (underperforming in most aspects); n.a. = not applicable.

2.12 There was extensive discussion within the Team on how the rating system should be applied, prior to departure. The ratings were again discussed at a Team meeting in March 1999, after completion of the country visits. Several minor modifications were made to the scoring to achieve consistency of assessment across the Team. Despite the Team's best efforts to assure consistency in the Policy Objectives ratings, the use of such scales for complex projects, in different environments, and across a team, will always be contentious. The Team's view is that the results are fair and consistent, but that they should be treated as indicative only: the reality of individual countries and projects is inevitably complex. The ratings are used to summarise findings in the Field Visit Report country annexes only, not for statistical analysis. The interpretation of the ratings was further revised following discussion of the Draft Field Visit Report with the Donor Steering Group in New York in May 1999.

In-country Procedure

2.13 The country visits began with introductory meetings and a plenary session in the capital city involving key stakeholders (except for projects with little presence in the capital). The Teams then visited field sites and activities before returning to the capital for further meetings and the de-briefing. The Team found it helpful to have UNCDF field staff and/or project staff present in many discussions. This often helped avoid misunderstandings of history and context, and enhanced the accuracy and quality of the country reports. The Team sought to meet all UNCDF donors with a presence in country as well as other major donors and NGOs. The Asia programme included a two-day visit to the Asian Institute of Technology in Bangkok, which provides technical assistance for all the Asian LDFs.

⁷The definitions for these ratings are based on the OECD-DAC definitions: OECD 1986, Methods and procedures in Aid Evaluation, Annex: Glossary of Terms. See Annex 3.

Participation and Independence

2.14 The Team's Inception Report emphasised ITAD's commitment to working in a participatory fashion. As in the Desk Study, the Team sought to combine a participatory approach (understood as "enabling stake-holders to influence outcomes") with the independence of view which any external evaluation requires and which the Donor Steering Group is particularly anxious to ensure. In the Team's view, there is no necessary conflict between a participatory approach and independence. In country, the Team sought to obtain views from a wide spectrum of people and organisations. A local consultant with personal knowledge was recruited in each country (see para 2.8 above) and helped ensure that the views of NGOs and other independent third parties were obtained wherever possible. At the end of each visit, the Team provided written notes for discussion in the de-briefing meetings, which were well attended by a large cross-section of people and organisations, and had further written exchanges with UNCDF programme managers and other staff. In all countries, however, there were inevitably points of disagreement. These were subject to discussion in formal and informal settings. Ultimately, there were some disagreements and it is entirely the Team's view which appeared in the country annexes which formed the basis of the Field Visit Report. In sum, during both the Desk and Field studies, the Team sought to maximise opportunities to be informed and influenced by stakeholders (participation) but the judgements made - correct or incorrect - are entirely those of the Team (independence).

2.15 The Draft Field Visit Report was presented to UNCDF and the Donor Steering Group in New York from 4th to 7th May 1999. There was extensive discussion on the contents of the draft, on the findings of the eight country studies and on UNCDF's emerging plans for re-structuring and changes in policy. The Final Field Visit Report was prepared prior to combining the findings of the Desk and Field studies in the present report.

3 Evolution of UNCDF Policy

3.1 This chapter addresses the broad questions underlying the development of the Fund's distinct identity and role, which forms the focus of section a), paragraph 16 of the Evaluation terms of reference. Specifically, we have aimed to answer three inter-linked questions:

- *To what extent has the 1995 Policy document been internalised and understood by UNCDF staff, partner governments and UNDP colleagues?*
- *How far has the policy evolved to become more relevant and operational through the incorporation of evaluation results, internal reviews of the UNCDF instruments and other lesson-learning processes?*
- *Has the re-orientation of the UNCDF's activities enhanced its distinctive identity and enabled it to take advantage of its identified niche?*

3.2 In the following chapter, which draws closely on the results of our fieldwork, we examine the actual implementation of the policy direction.

Interpreting the 1995 Policy Document

3.3 The 1995 policy document⁸ was specified as the departure point for the present evaluation and also represented the benchmark for the 1996 Capacity Assessment. As such, it is important to present the Team's interpretation of the document.

Overview

3.4 The document confirmed the overall policy goal of UNCDF to be poverty reduction, building on the established mandate of UNCDF and consequent focus on the Less Developed Countries (LDCs). It stressed that this was to be guided by the '*paradigm of Sustainable Human Development (SHD)*' and that it would imply a focus on the rural areas within LDCs. (*Ibid.*, pp. 1-3)

3.5 Support to decentralisation and local governance was established as the immediate policy objective. The rationale for this emerged from the unique role of government in the delivery of basic infrastructure and services to the poor and the consequent need to improve effectiveness and efficiency⁹ through decentralisation. It was further justified by the recognition of the significance of civil society as the counterpoint to government in promoting accountability and responsiveness to needs.

⁸ UNCDF, Poverty Reduction, Participation and Local Governance: The Role for UNCDF – A Fund for Community and Local Development, UNCDF Policy Series Vol.1, August 1995.

⁹ Definitions of key evaluation terms such as effectiveness and efficiency are in Annex 3.

3.6 The document suggested that ‘*the incipient political, social and economic reforms in many*’ LDCs, offered ‘*opportunities for new collaborative arrangements, through which donors can strengthen rather than exclude emergent democratic institutions (elected local authorities, community organisations, interest groups, etc).*’ It was precisely in responding to these opportunities that UNCDF was considered to have a comparative advantage.

3.7 Specifically, UNCDF’s niche was seen to derive from its accessibility as a partner for local authorities and community groups and its ability to test new pilots and operational models for replication by national governments and larger donors. (Its ability to ‘*play a catalytic and pilot role in poverty reduction programmes in direct collaboration with communities and local governments*’. Ibid. p. 8). As a donor that could work at the interface between local governments and civil society, whilst also remaining engaged through UNDP in the upstream policy questions surrounding decentralisation, UNCDF could occupy a territory not well covered by other development agencies.¹⁰

Interpretation

3.8 The 1995 policy document represented a considerable achievement, which succeeded in its main objective of laying out a new strategic direction for UNCDF. Its key messages were clear and might be summarised in terms of four guidelines for future UNCDF policy:

- Poverty reduction should be the overall goal of the organisation;
- Support to decentralisation and improved local governance should be its immediate policy objective;
- This objective should be pursued through four instruments – Micro-finance, Blueprint Infrastructure, Local Development Funds and Eco-development projects, with an increasing emphasis placed on participatory investments;
- CDF strategy should aim to pilot innovations and test out operational models with a view to feeding into *upstream* policy on decentralisation and governance and promoting *horizontal* replication by larger donors.

3.9 On these four points, the 1995 document appears to have been well understood. However, there are ambiguities elsewhere which we believe have created uncertainty over how best to implement the policy. The ambiguities arise a) from the unclear extent to which participation is to be considered a means or an end, and b) from the failure to address the question of how precisely decentralisation and improved local governance would contribute to the overall policy goal of poverty reduction, and what role UNCDF projects would be expected to play within this broader process.

¹⁰ Thus, NGOs might commonly work at the community level but would by-pass local government organisations; the larger capital-financing donor agencies were seen to face constraints in channelling resources to either civic or local government institutions; some bi-lateral agencies did undertake local development programmes in partnership with local authorities but did not enjoy either the international coverage or the neutrality of UNCDF/ UNDP.

3.10 Certain parts of the document suggest that the poverty impact was expected to come simply from financing capital investments at the local level.¹¹ However, in the discussion of the niche in the subsequent section, the insignificance of this contribution is acknowledged. Instead, it is made clear that the contribution to poverty reduction is expected to come from the particular way in which UNCDF would undertake its investments and from the catalytic impact this might have on the nature of investments of partner governments and other donors:

'CDF stands very small within UNDP..., accounting for no more than 1/1000th of total ODA flows. Alone it cannot pretend to make any significant poverty reduction impact except in the smallest LDCs served. However, UNCDF is well placed to play a catalytic and pilot role in poverty reduction programmes in direct collaboration with communities and local governments.' (p.8)

3.11 How precisely could the UNCDF approach to decentralisation and local governance be expected to have a catalytic effect on poverty reduction? At the theoretical level, there are broadly two answers to this question – each of which is hinted at in the text of the 1995 policy.

3.12 In public sector management, the principal rationale for promoting decentralisation of financial and managerial authority is to increase the effectiveness and efficiency of expenditure. Effectiveness can be increased by tying the choice of activities more closely to the demands expressed by the public, while operational efficiency can be increased by the more informed management decisions over resources which become possible with the increased proximity of management and operations. These local-level management decisions serve to reduce internal transaction costs,¹² whilst also permitting the exploitation of local cost differentials and economies of scale.

3.13 There is a second and more subtle answer to this question that arises out of an appreciation of the importance of institutional structures in perpetuating poverty.¹³ Within this framework, the principal contribution of decentralisation and local governance to the reduction of poverty would come through the improvement of the surrounding institutional structure – making local governments more responsive to the needs of the poor and empowering local organisations within poor communities. To the extent that UNCDF could contribute a replicable approach to building and/or re-orienting the institutions that serve the poor, then it could expect to have a catalytic impact on poverty reduction.¹⁴

3.14 The theme of empowerment received considerable attention within the 1995 Policy. For example, it emphasised the need to empower the poor *'to take initiatives*

¹¹ See p.2 for example. This message is reinforced later in the discussion of the niche: 'As a capital funding organisation, it (CDF) can finance activities that contribute directly to poverty reduction.' (op.cit., p.8)

¹² The reduction of transaction costs through decentralisation and the re-organisation of principal-agent relationships was an important part of the New Zealand reforms. See J. Boston et al, Public Management: The New Zealand Model, Auckland, New Zealand, 1995.

¹³ Douglass North and others working in the field of "new institutional economics" have sought to analyse why differences in economic prosperity between nations cannot be explained simply by differences in natural endowments and human and physical capital. See for example, D. North, Institutions, Institutional Change and Economic Performance, New York: Cambridge University Press 1990

¹⁴ The relevance of institutional development in this process is explained in Annex 3.

and participate in the decisions and processes that shape their lives.' (p.2) However, the 1995 policy did not ultimately provide a clear exposition of the causal path between decentralisation and improved local governance and poverty reduction.

3.15 Does this matter? The presentation is conceptually sound. However, the 1995 policy document was not written as a theoretical exposition of the different ways in which improved local governance might serve to reduce poverty: it was intended as a **strategy document** to lay out the internal policies which UNCDF would need to follow to fulfil its mandate. As a small organisation with limited resources pursuing an ambitious set of policy objectives, UNCDF was poorly placed in 1995 to be following anything other than a precise and well-focused strategy. It needed to be clear about the principal mechanism by which it expected to have an impact on the reduction of poverty so as to be able to gear its instruments, its project design and management procedures and its internal competence development to the successful development of that mechanism.

3.16 The distinction between a policy document and a strategy is significant and has a direct bearing on the ability of UNCDF to leverage wider replication from its small piloting investment. This issue is explained in the review of policy implementation in Chapter 4.

The Internalisation of Policy

3.17 Following the acceptance of the 1995 policy document by UNDP and the Donor Group, the internalisation of the policy within UNCDF became the immediate priority,¹⁵ followed by its dissemination and discussion with partner governments, UNDP and other donors. This was achieved through wide dissemination of the Policy Document, internal briefings both for New York based staff and Programme Officers structured around the 'weeks-in residence', and an organised set of briefings by management to senior UNDP staff, the Donor Group and selected partner governments.

3.18 At the time of the Capacity Assessment in early 1996, the process of policy internalisation had only recently been initiated and the CAT observed '*within UNCDF itself, there is still some confusion as to what the new policy means and what it might entail.....*' The CAT also noted that, '*Impressions from field visits and discussions with partners elsewhere have shown that UNCDF's new policy is not well understood.*'

Understanding of the new UNCDF policy within UNDP and the World Bank

3.19 Within UNDP, New York, the Team was able to hold discussions with the Africa and Asia Bureaux of UNDP, the Management Development and Governance Division (MDGD) and with the Deputy Administrator. All were well aware of the re-

¹⁵ Policy internalisation and communication are both themes that were given considerable attention in the 1997 and 1998 Business Plans.

orientation of the mandate of UNCDF, had a good understanding of the basic focus on decentralised local governance and were familiar with the four policy instruments. Indeed, there has been an active sharing of ideas on governance and decentralisation between MDGD and UNCDF through participation in each other's conferences, exchange of literature and more informal contact. Within six of the Resident Representative offices of each of the eight countries visited, there was a reasonable understanding of policy, but knowledge was weak in two.

3.20 Meetings were also held at the World Bank, Washington DC with staff members who had had significant contact with UNCDF programmes in Senegal, Mali, Viet Nam, Cambodia, Uganda, Malawi and Tanzania. Whilst detailed understanding of the LDF and Eco-Development instruments differed from person to person, there was a uniform understanding of the UNCDF policy thrust and of the new orientation of the mandate - a significant achievement in only two years.

Status of internalisation – assessment from interviews at UNCDF Headquarters

3.21 In New York, the Team held individual discussions with most UNCDF staff on the issue of policy. In addition a group exercise was conducted with POU staff aimed at clarifying the different interpretations of the organisation's policy goals and objectives. With regard to the four key messages of the 1995 Policy as we have outlined above, there was a strong uniformity in the presentation of the policy. However, it was not clear that staff shared a common understanding of the means-ends relationship underlying the policy.

3.22 Three views were prevalent amongst headquarters staff at the time of our interviews in October 1998:

- some staff placed emphasis on capital resources and on the direct contribution UNCDF could make to poverty reduction through the construction of physical infrastructure and the provision of micro-finance;
- others stressed the significance of decentralising capital budgets to local governments and developing planning processes through which local-level investments can be made more efficient and effective;
- a third group highlighted the institution-building impact of UNCDF's work and the capacity of its projects to empower the poor by making local governments more responsive to their needs and strengthening their own civic associations.

The significance of the gaps in the internalisation process: evidence from project formulation and implementation

3.23 Our judgement on the significance of the ambiguities in policy internalisation is reflected in the discussion above on the policy document. The important question is not a conceptual one but purely practical and strategic: which poverty-reducing strategy was UNCDF best suited to implement as a small organisation with limited funding?

3.24 Our fieldwork and our analysis of a sample of project documents would seem to suggest that this question has now been answered. From the total of 96 UNCDF projects identified as approved since 1st January 1992, or formulated and in the pipeline, the Team sampled 29 project documents to review in detail. The fuller results are presented in Annex 5 as part of our overall analysis of the portfolio.

3.25 The main conclusions regarding the ways in which new policies are reflected in project design are as follows:

- Owing to the growth of LDFs in the portfolio, there has been a substantial increase in the resources devoted to strengthening **local governance**.
- Over 80 per cent of projects indicate some degree of attention to **institution building**, although only six cited this as the primary purpose.
- There has been substantial growth in the inclusion of **up-stream policy development** components, including in infrastructure projects.

3.26 The results of our fieldwork were perhaps more clear-cut still. Institutional development was recognised as a core objective of all LDF-style projects visited, with participatory methodologies being promoted as an integral part of this process and more generally in other projects as well. The conception of institutional development was sometimes narrow, focused primarily on the organisational strengthening of local government. Yet also present was the broader idea of empowerment – either through upstream policy changes to shift resources to local government or through strengthening local:local dialogue so as to strengthen the influence of the poor on resource allocation.¹⁶

3.27 It is not unusual for development agencies to enter operation on the basis of somewhat vague and ambiguous policies and to utilise the experience of project work and field operations to refine policy and sharpen strategy. This would appear to have been exactly the experience of UNCDF over 1995 to 1999. Below, we analyse more precisely the path which policy evolution took and make a judgement on its relative speed and efficiency. In Chapter 5, on structure and capacity, we consider whether policy ambiguities did indeed retard the processes of organisational development and procedural improvement necessary for the implementation of the 1995 mandate.

Refinement and Evolution of Policy

Actions undertaken by UNCDF since 1995

3.28 There has been an active and open process of policy debate within UNCDF, which has intensified since the publication of the 1995 policy. It has been in part spontaneous and in part stimulated by management. Thus, staff are free to comment on policy developments and have often done so unsolicited.¹⁷ The internal policy debate has been deliberately supported and stimulated by the inputs of outside

¹⁶ The reader may wish to refer to our definition of institutional development presented in Annex 3.

¹⁷ For example, a small group of staff established a “reflection group” between March and August 1998 to review the key elements of the Eco-Development instrument and to develop ways of retaining its best features.

academics, contracted to review the UNCDF instruments and to support the improvement of policy. Government officials have also been asked to contribute, attending workshops in Entebbe and Saly-Portudal on the LDF and Eco-Development instruments respectively.

3.29 The process has focused on the refinement of the instruments of policy and on the incorporation of institutional and participatory aspects into their design. The main accomplishments may be summarised as follows:

- The completion of thematic papers on the four main instruments: LDFs, Eco-Development projects, Infrastructure and Micro-finance;
- The commissioning of independent reviews of LDFs, Eco projects and Micro-finance and the internalisation of their results into new UNCDF policy proposals;
- The incorporation of guidelines on gender and on participation into UNCDF procedures;
- The drafting of a set of guidelines for policy and institutional analysis;¹⁸ and
- A formal up-date and consolidation of policy to incorporate lessons learned into a new policy paper issued in April 1999.

In addition, UNCDF has implemented the policy of concentration, noted in Chapter 1, to restrict new investment primarily to fifteen LDCs. Concentration is reviewed further in Chapter 4.

The overall impact of policy development

3.30 Clearly, there has been considerable attention given to policy development and refinement. In order to assess the impact and significance of all this activity, we will attempt to answer four specific questions:

- i. What has been the net result of the policy development process ?
- ii. Has this served to resolve the earlier confusion over means-ends relationships and to place UNCDF on a firm policy footing for the future ?
- iii. Has it served to enhance the niche role of UNCDF ?
- iv. Could the policy development process have been accelerated ?

3.31 The impact of the policy development process has been felt most in four areas:

- The LDF, Eco-Development and “blue-print infrastructure” instruments have now been synthesised within the umbrella of ‘Local Development Programmes’ (LDP), where local government or de-concentrated central agencies provide the entry point but greater emphasis is given to links with the community and a wider range of services is now fundable, including certain types of natural resource management activities (see tabular summary below);
- The Micro-finance instrument has been restructured in line with the recommendations of the independent review, with an exclusive focus on support to sustainable non-government MFIs;
- Participatory and gender-sensitive techniques are being introduced into the design of all programmes, with varying success according to country circumstances;

¹⁸ R. Shotton, *Policy and Institutional Analysis and Programming Strategies*, Internal mimeo for inclusion in the forthcoming policy paper.

- Emphasis is now placed on the policy and institutional analysis necessary to establish the setting for UNCDF projects and, more generally, on the institution-building objectives of UNCDF's work.

3.32 Thus, from April 1999 it is the intention of UNCDF to pursue two broad interventions – Local Development Programmes and support to Micro-Finance Institutions. This will provide the framework for project design for all new projects and, to the extent possible, will also facilitate the reformulation of some of the existing 'Blueprint Infrastructure' projects. The 'Local Development Programme' (LDP), a new idea not yet promoted within UNDP or with partners, provides a broad framework for rural investments and embraces essentially three project types – infrastructure projects, local-level 'Sector Investment Funds' (another newly-coined term) and modified Local Development Funds. The Team's interpretation of the main features of these project types is described below in Table 3.1. There are two important unifying features: the implementing agency (or main entry point) is always a government body, ideally an elected local government but possibly an appointed local authority or a de-concentrated central government agency in the case of larger-scale investments. Secondly, all three project types involve community participation, local:local dialogue and private sector contracting.

Significance of policy changes

3.33 With the publication of its latest policy document, our judgement is that UNCDF has now resolved the issue of means-ends relationships. Its policy is to undertake innovative institutional development projects within private Micro-finance companies or public local organisations, with a view to influencing national policies and/ or having their approaches to institutional development replicated. In this way, it seeks to achieve its overall goal of poverty reduction. Infrastructure projects represent an exception to this, in that institutional development is not the primary objective. However, such projects will typically be undertaken either to 'test the waters' before later introducing LDFs or Sector Investment Funds or to complement existing initiatives where a lack of capital investment appears to represent a bottle-neck to local economic development.

3.34 Our reservation is that the process of reviewing and revising the policy has been long drawn-out and has resulted in a prolonged process of change that even now is not completed. In effect, UNCDF staff have been immersed in a continual policy dialogue since 1996. Whilst there has been structure and reason to the process, a lack of clarity in the distinction between policy objective and implementation modality has prolonged the debate. The new typology of Local Development Programme and Sector Investment Funds will require explanation within UNCDF, to UNDP and to partner donors and countries - a process that UNCDF found difficult after the 1995 policy.

3.35 Micro-finance projects are likely to take up some 20 per cent of the future portfolio. The refinement of the strategy for their development has clearly been beneficial. The integration of UNDP's division for Micro-finance with UNCDF gives UNCDF a wider reach than its 15 concentration countries and there is no reason why, with the combined resources available to SUM, CDFs Micro-finance projects need to be limited to 15 Concentration Countries. For UNDP the benefits include access to

the specialised technical expertise available in CDFs Micro-finance division and its experience in working at the interface between local communities and local government, using participatory approaches. We question, however, whether this is likely to be of any real significance to UNCDF in the long run, because the relationship of the Micro-finance instrument to the centrality of UNCDF's decentralised development objectives is tenuous. In addition, the organisational arrangement is largely untested and will need to be monitored carefully by both UNCDF and UNDP. There is no question, however, neither of the wider usefulness of the instrument nor over the quality of the staff currently managing it.

Table 3.1 Local Development Programmes – summary description of potential project types

CHARACTERISTICS	NEW LDFS	SECTOR INVESTMENT FUNDS	INFRASTRUCTURE PROJECTS
<i>Summary</i>	Funds made available to LGs to finance small-scale infrastructure investments	Funds made available to finance medium-scale investments in a particular sector, e.g. agriculture	Fully-designed infrastructure projects, with details specified at formulation stage
<i>Implementing Agency</i>	Local government (preferably elected)	Local government or a de-concentrated central agency	De-concentrated agency, working in consultation with LGs.
<i>Primary Objective</i>	Institution-building : strengthening influence and responsibility of LGs over local investment through Block Grant	Institution-building: strengthening LG influence and responsibility over strategic sector investments at the local level (Conditional Block Grant)	Infrastructure provision to promote local economic development and poverty reduction
<i>Goods/ services eligible for funding</i>	Once-off development activities, i.e. investments in either physical or human capital	Probably physical capital investments but may include other development activities	Physical capital investment
<i>Private / Public Goods</i>	Public goods, private goods with positive externalities (merit goods) or collective private goods	Public goods, private goods with positive externalities (merit goods) or collective private goods	Public goods
<i>Poverty targeting</i>	Fund allocation formula requires attention to gender and poverty	Targeted by sector	Poverty targeting influences choice of region/ district at design stage
<i>Nature and level of community participation</i>	Fully participatory decision-making involving wards, villages, CBOs.	LG or govt staff select focal sector but some community consultation over precise investments	Community consultation at design/ formulation stage

3.36 With the merging of the old Eco projects into the new Local Development Programmes, there is no UNCDF instrument directly implemented by the community. To an extent, this plays towards the relative strengths of UNCDF, who clearly have more expertise in local government than in community based organisations. Moreover, UNCDF rightly point to the fact that the continued emphasis on local:local

dialogue retains the notion of the community as a counterpoint to local government (who may thus more effectively demand accountability and efficiency in the choice and management of local investments). However, this approach effectively leaves no alternative point of entry in the absence of a legitimate local government. This may not be an issue so long as the legitimacy and genuine accountability of local government bodies is properly assessed prior to making investment commitments. Given the costs of project identification and feasibility work, there may well be a tendency for such judgements to be “fudged” and UNCDF will need to guard against this in the future.

Impact of Policy Development on the Niche Role of UNCDF

3.37 Underlying the process of policy refinement and development has been an understanding that UNCDF could only prosper as a niche agency, able to undertake innovative pilot projects which other agencies were poorly placed to initiate but which could later be replicated to good effect by partner governments and other donors. We examine in this section the extent to which the re-orientation of UNCDF’s policy has enhanced its distinctive identity and enabled it to take advantage of its identified niche.

3.38 The 1995 policy set out to define the niche that UNCDF should occupy and to attract funding on the strength of the demonstrated importance of this niche and its potential for achieving a significant impact on the poverty reduction goal. The policy document, despite a number of embellishments which complicate the presentation, emphasised three points which stand out clearly as the defining features of the niche:

- i. That the niche would depend on the ability of UNCDF to pilot innovations and have them replicated by partner governments and other donors;
- ii. That it would depend, secondly, on the ability of UNCDF (in partnership with UNDP) to influence policy *upstream*; and
- iii. That the sphere of operations would need to be at the local level, working in collaboration with communities and local governments.

3.39 The meaning and role of innovation needs to be clarified to avoid confusion among partners. The Team understands that UNCDF intends to pilot-test institutional development and other initiatives and is prepared to take risks to encourage partner governments to learn from new approaches. Innovation is not an end in itself and is firmly based within UNCDF’s expertise in decentralisation and local governance.

3.40 The Executive Secretary of UNCDF provided his own view of the niche, which is consistent with the above interpretation:

‘Firstly, we are a small organisation and our funding represents a tiny proportion of aid flows...so we must pilot to make a difference. We work at the local level but have links downward into communities as well as upwards into policy. No other organisation provides this combination.’

3.41 It is the perceptions of the outside world regarding the UNCDF niche that will ultimately determine the success of its strategy of piloting for replication. Within the World Bank, discussions focussed primarily on those staff who had been directly involved in collaborative work in Uganda, Malawi, Viet Nam and Senegal. Their

perception of the UNCDF niche was clear-cut and is best encapsulated in the following quotation from the Country Director for Uganda and Tanzania:

'The World Bank cannot properly cover the continuum from policy dialogue and development to local-level participation and empowerment. We are not good at the nitty-gritty of working with local governments and community organisations. That is why we need links with organisations like UNCDF....'

3.42 Staff at the World Bank headquarters, together with some other bilateral agencies, have been specifically targeted by UNCDF management, to promote the new policy. But explanation of the niche at country level, and actions to foster replication, have been less well handled, as is shown in Chapter 4.

3.43 A gap has arisen between the awareness of the need to pilot and replicate and the means of doing so, a gap that illustrates some shortcomings of the policy process as a strategy for UNCDF. Whilst policy impact and replication might be desirable for other donors, they are essential for UNCDF because of the small scale of UNCDF operations. UNCDF is now aware of the centrality of policy impact and replication to its future success, however the specific means by which they are going to occur have yet to be defined. These issues need to be dealt with in project documents.

3.44 The concentration policy is often overlooked, yet is a key element in fostering the niche. Concentration is a simple method of focusing resources. It is essential to UNCDF's operations and yet is not well understood by UNDP. The process to select countries was unduly influenced by the needs of Local Development Fund projects. Other instruments, such as Micro-finance, might require different criteria. In the Team's view, concentration on fifteen countries might still be too many for the current budget and staff resources. More effective results might come from concentrating on 5 to 10 countries. UNCDF needs to examine how this policy can be kept flexible. Possibly it should be interpreted as a moving target, such as *'UNCDF will work in no more than ten countries at any time'*. Concentration needs to be better explained within UNDP, so that its implications can be taken into account when considering the skills of candidates for appointment as resident representatives.

3.45 To summarise, both internally and externally the UNCDF niche is seen to rely on the one hand on its experience at the interface of local government and the community and secondly, on its ability to influence policy directly as well as through the replication of innovative pilot projects. In this sense, the development of Local Development Programmes with their central focus on local government/community interactions would seem to be a step forward in deepening the niche. The importance now placed on policy and institutional analysis would also seem to enhance the likelihood of projects having a policy impact. Replication will depend on the ability of UNCDF to target potential partners and convince them of the potential in this field.

Could policy development have happened faster?

3.46 We have described the extensive process of policy revision above. The issue of the speed of development is important to the development of UNCDF's niche role. Policy impact and project replication are only likely to happen when an organisation

is clear about its goal and has developed a set of project cycle procedures to achieve that objective. The initial ambiguity in the 1995 policy document made it difficult for UNCDF to be single-minded when it initially adopted its new mandate. The mixed treatment of objectives and instruments created a significant element of confusion, noted in the Desk Study Report, but eventually overcome through the process of internal reviews. The successful examples of replication and policy influence are by and large relatively recent. Could this relatively long policy development process have been avoided?

3.47 This is a difficult question to answer. More clarity in the original policy document would certainly have speeded things up. However, the 1995 policy document was the basis of UNCDF's new mandate and the Donors who agreed to provide support should certainly have been aware of the ambiguities in the document. The more important question at this stage is whether UNCDF is now well geared to implement its refined policy and fulfil its niche role. This is the subject of our next chapter.

Summary: Policy, Instruments and Strategy

3.48 The 1995 policy document was a considerable achievement that laid out a new strategic direction. It was formulated in haste and UNCDF management recognises that there was less consultation than was desirable, but this was probably unavoidable in the circumstances, owing to pressures on UNCDF management to act quickly. Shortcomings in the internal coherence left UNCDF with a lack of clarity over the means-ends relationships implicit in its goal and objectives. This, in turn, clouded the definition of the niche and left an inadequate strategic framework against which to judge the relative importance of the four UNCDF instruments in meeting policy objectives and goals. The Team considers that this has influenced the whole process of policy refinement and evolution, and has also slowed down the process of strategic change and competence development within the organisation as a whole.

3.49 The overall policy goals have been well internalised within UNCDF and reasonably well understood by partner donors. Nevertheless, the confusion over means-ends relationships noted by the CAT remained up until late 1998, illustrated at headquarters level by the diversity of different interpretations of means to achieve the policy goal and the lack of a single 'corporate view' on this important question. UNCDF planned and managed a process of external reviews and independent evaluations, which resulted in the objective of local-level institution building emerging as the dominant focus in new projects. Considerable attention is also devoted to the use of participatory methodologies and increasing concern for upstream policy to support this objective.

3.50 There have been at least three clear-cut benefits from the process following the 1995 policy changes:

- The introduction of participatory techniques into the policy instruments has been an important step towards a policy focused on institution building and empowerment of the poor.
- The testing of the initial LDF principles and their adjustment to give more emphasis to local:local dialogue and decision-making structures, and greater

attention to institutional analysis, have improved the LDF methodology significantly.

- Later, as evidence emerged, the re-orientation of the Eco-development projects has prevented the whole-scale application of an inappropriate and inefficient design and implementation methodology.

3.51 The refinement of policy has also helped UNCDF recognise the importance of external relationships for the achievement of their goals. Neither policy impact nor replication can be achieved by UNCDF working alone. It is important for the Fund to recognise that successful implementation of the policy requires more than a collection of project instruments, but also a strategy to influence partners and donors.

4 Implementation of UNCDF Policy Objectives

4.1 Implementation of the new policy orientation has involved changes to project cycle procedures, the design and implementation of projects, and performance of UNCDF staff. This chapter deals with changes that have directly affected the portfolio of projects. Information was derived from two sources: a review of the UNCDF portfolio during the Desk Study phase in New York; and the field visits to eight countries. The eight annexes of the Field Visit Report present detailed evidence from each country on a common 30-heading report format. The Team's findings are summarised below.

Portfolio Management

4.2 UNCDF does not have a project database or project management information system. Terms of reference to establish a new database were drafted in October 1997 and a contractor began work in May 1998. But owing to a combination of factors - lack of competence by the contractor; the complexity of the brief and the difficulty of connecting to existing systems - there was still no operational database by May 1999. For the Desk Study, the Team constructed a database of all projects approved after January 1992 in order to assess the transition to new-policy projects, sample project documents for review and sample projects for the country visits. (See Annex 5: Evolution of the UNCDF Project Portfolio.)

4.3 The absence of a project database in UNCDF is compounded by a financial tracking system (UNDP software) which is acceptable for individual project monitoring, but is seriously inadequate in its multi-project reporting facilities. There is no readily available aggregate information on, for example, the size, geographical or sectoral composition of the live portfolio; over-due projects; or the rate of disbursement. In the absence of a project MIS there is no readily available information on the total size of the live portfolio.

4.4 The Team identified 96 projects approved since January 1992 or in the hard pipeline. The total live portfolio is likely to consist of perhaps 150 projects. For an organisation with an average annual income of \$35 million, an average project size of \$3.3 million, and average project duration of approximately 5 years, the live and pipeline portfolio should probably be around 60 to 70 projects: half the present number. Management is aware that there is a number of old overdue projects which should have been closed, but there is no hard data. A portfolio clean up would contribute to reducing administrative tasks and freeing-up staff time. It would also enable better management and analysis of the stock of UNCDF project assets, rather than just the flow of new approvals.¹⁹ In summary, in the absence of a MIS there is no management or analysis of the portfolio as a whole. This is a significant weakness, of which UNCDF is well aware.

¹⁹ UNCDF Business Plans and other published material report data on flow of approvals not the project stock.

Table 4.1 Summary of new project approvals by year and type

	Eco	Inf & Inf/RD	LDF	MF	All
Number of Projects Approved					
1992-94	8	27	1	6	42
1995-98	5	21	13	5	44
Pipeline	2	2	3	3	10
All	15	50	17	14	96
CDF Budget Approved (\$000)					
1992-94	32,358	64,807	1,469	16,186	114,820
1995-98	24,402	63,653	59,783	14,579	162,417
Pipeline	8,406	8,500	13,203	8,189	38,298
All	65,166	136,960	74,455	38,954	315,535
Share of Total UNCDF Budget Approved					
1992-94	28%	56%	1%	14%	100%
1995-98	15%	39%	37%	9%	100%
Pipeline	22%	22%	34%	21%	100%
All	21%	43%	24%	12%	100%

4.5 Table 4.1 summarises new project approvals from Annex 5. Two significant features emerge from the data. First, that the overall volume of approvals has grown, despite the policy reorientation and organisational changes. Second, that new approvals reflect the change in policy away from Eco-development and towards Local Development Funds, although approvals of infrastructure and rural development remain at a high level and form nearly half of the known portfolio.

Project Identification, Preparation and Implementation

Identification

4.6 The main change in the geography of project identification was the finalisation of UNCDF's fifteen concentration countries in early 1998 (see Annex 5 par. A5.6). There has been a significant increase in the share of budget approved for concentration countries between 1992-94 and 1995-98: from 39 per cent to 56 per cent of total approvals. By October 1998, all the pipeline budget was for the concentration countries.

4.7 The identification of projects has been strongly influenced by the development of the Local Development Fund (LDF) approach. The single most significant sectoral change between 1992-94 and 1995-98 was the growth in the share of approved budget going to LDFs.²⁰ From being a very minor element in 1992-94, almost \$60m was committed to LDFs between January 1995 and October 1998. The share of all three

²⁰ This growth in funding to LDFs was one of the most significant factors in selecting the projects and countries for the Field Visit stage of the Evaluation.

other instruments in terms of both the number of approved projects and UNCDF budget fell over the period (Table 4.1).

4.8 The varied nature of the subsequent formulation process makes the identification stage particularly important in terms of cost-effectiveness. The Field Visit evidence is that Local Development Fund projects require much more extensive formulations than 'normal' rural development projects. LDFs fund pilot activities in a few areas, but they are not area-based projects. Their principal concern is developing national policy, legislation, financing etc. in relation to local government function. LDFs require an excellent understanding of existing structures, systems and staff motivations at national and local level. Considerable time is required in confidence building with government and exploring implementation options. LDF formulations must be resourced accordingly. On the other hand, formulating local area-based rural development projects (sector investment funds in UNCDF's new terminology) where the project purpose is not national institutional development, can be quick and light. The 1995 Policy Paper included the concept of "Needs and Potential" analysis to determine the kind of project appropriate for a particular context. This continues to be a useful concept. The principal identification task is to determine the most viable type of project and to plan the timing and resourcing of the formulation process accordingly.

Project formulation

4.9 Project formulation is the critical step in translating good policy into successful projects. For a donor that has chosen to adopt strongly prescriptive policies - as UNCDF has done - project design is the vital link between vision and outcome. Further, all project teams require and deserve the clearest possible statement of the purpose of the project and what it is they are expected to achieve.

4.10 The Team expressed concern over several aspects of project formulation arising from the review of project documents: the absence of appropriate formats; lack of definition of the project purpose and outputs; a problem of multiple objectives for LDFs; and the absence of economic, institutional and other analyses. The summary of the Team's Review of Project Documents in Annex 7: Analysis of Project Documents describes several of the problems identified, which were subsequently borne out in the field visits.

4.11 The average formulation cost of UNCDF's 1992-98 projects was \$90,000 per project, excluding direct staff costs (see Annex 6). This appears reasonable. LDFs and Eco-development projects have been more expensive to prepare than the average, but not excessively so. It is a matter of concern that almost no projects have economic or cost-effectiveness analyses included, and in the absence of portfolio management, the cost of project supervision, support, TA etc. is not examined. The current practice whereby supervision visits are charged to projects and not budgeted in advance also mitigates against efficiency. With the proportion of knowledge intensive projects increasing, with greater requirements for TA, training and staff inputs, it is important that UNCDF makes a great effort to monitor the use of funds and assess the cost-effectiveness of project and support activities.

Participatory formulation

4.12 The Desk Study found a significant effort underway to institutionalise participatory practices. The main innovation appeared to be the use of KADRE²¹ and Stakeholder Workshops at formulation stage. The country visits confirmed this finding, with 13 out of the 24 country/policy combinations being assessed as excellent in relation to participatory formulation and/or implementation. The Uganda formulation process and the Consultative Review re-design of the Tanzania LDF display a degree of consultation during formulation far greater than that implied in the modular KADRE and Stakeholder workshop approach. UNCDF is aiming at empowerment of marginalised groups but recognises that this is not always feasible and has to be customised to local circumstances. The visits found strong in-country support for UNCDF's growing commitment to participatory project formulation and implementation. However, significant problems still exist in some countries, such as Mozambique. If UNCDF's ambitions for participation are to be fulfilled, much work remains to raise the average standard to that of the best examples.

Project appraisal and approval

4.13 Because of its small size, UNCDF lacks the means to separate formulation from approval. There is no official project appraisal stage, and the evidence is that too many technically and conceptually weak formulations have been approved (see, for example, Annex 7 Analysis of Project Documents). UNCDF argues that suspension of the discredited Eco-development concept has been a positive sign of their ability to recognise a problem and take action. The Team's view is that these formulations should have been halted at the approval stage. Their continued promotion reflected, in part, the confusion over the policy framework. Further, the exceptionally critical evaluations of the Eco-development project in Guinea and two in Niger should have led to a serious re-think, some time before the highly critical Independent Review of Eco-development report in February 1998. There is a case for UNCDF establishing a Project Appraisal Panel of external specialists (including experienced project implementers as well as academics), with members being commissioned to review project documents before approval.

Project implementation arrangements

4.14 Recommendation 10 of the CAT Report, was that the '*...direction and backstopping of the technical assistance accompanying the capital assistance should be managed by UNCDF...*'. The main UN-family executing agency used by UNCDF in recent years has been UNOPS. The Desk Study Report commented on the concern within both UNCDF and UNOPS about the nature of their relationship in the light of UNCDF's new policy approach. UNOPS prefers to have full management responsibility for larger projects involving substantial procurement of goods and services. In view of both the sharply-reduced import content and the increasingly specialist technical assistance needs of UNCDF's new approach, there is little benefit to either side in UNOPS continuing to be involved with UNCDF projects. The CAT Recommendation continues to be fully appropriate and is being applied.

²¹ "Key and diverse resources and expertise"

4.15 National Execution is the implementation mechanism for all LDF projects visited, apart from Cambodia (where the LDF is part of a larger UNDP re-integration project, executed by UNOPS), and Viet Nam, where a CTA continues to have expenditure authorisation powers. As the CAT Team suggested (Recommendation 8) national execution is an appropriate implementation arrangement for institutional development projects.²² It is less important for other rural development projects, which could be implemented through PMU structures or NGOs. National execution is also less relevant for micro-finance projects since these will be implemented by private organisations (experienced small-credit providers), with government playing a minor role.

4.16 Evidence from the Desk Study is that the supervision costs of LDFs and Eco-development projects are considerably higher than for the other instruments but that, as a proportion of the UNCDF project budget, there is no significant difference (see Annex 6). However it is a matter of concern that UNCDF Project Agreements (ProDocs) are excessively flexible about the duration and project budget. Many projects are well overdue and over 20 per cent of the Team's database of projects approved 1992-1998 have had increases in the total budget, increases that do not require approval outside UNCDF management. Without an MIS or active management of the portfolio as a whole, transparency and control is weak in this regard. A hard budget constraint is as desirable to stimulate good project management as it is to the local governments UNCDF is supporting.

Implementation of the Changing Portfolio

Innovative projects

4.17 Being innovative is at the heart of UNCDF's policy approach. This needs to be carefully understood. It is in no sense implied that UNCDF plans to use partner countries as experimental guinea pigs. The concept means that UNCDF will take risks to try out known techniques in new settings that will generate lessons for government and other donors. In fact, innovation would be better stated as risk-taking and piloting. In many countries the LDF approach is innovative and other donors shy away from working through local government. Yet the concept of funding local government actions through block grants is well accepted in the industrialised countries. The field visits deliberately targeted a majority of new policy projects, so perhaps it is not surprising to find that innovation is the policy feature on which UNCDF projects score most highly. Seven of the eight country visits scored UNCDF 'excellent' on the criterion of creating innovative projects, that take risks and introduce new approaches within the country context.

4.18 The Local Development Funds (Cambodia, Malawi, Mozambique, Senegal, Tanzania, Uganda, Viet Nam) are innovative in respect of some or all of the following features:

- Institutional development with different tiers of local government, using the availability of block grant capital funds to encourage and leverage institutional change.

²² With sufficient TA support, as discussed further below.

- Opening up local government through increased transparency and participatory planning and budget allocation procedures.
- Increasing community interest in local democracy and local government through offering people direct involvement in investment planning and fund allocation.
- Putting decentralised rural development on the national policy agenda.
- Developing light, replicable, objective-oriented participation mechanisms for selecting priority infrastructure schemes and allocating investment funds.
- Introducing principal-agent concepts and methodologies for the design, construction and monitoring of infrastructure.

These actions are not necessarily of themselves innovative, rather their innovative quality comes from being implemented within a specific country context.

4.19 There are few examples of Micro-finance projects since the new policy, but the example in Malawi is instructive. It is only at late-formulation stage, but follows UNCDF's innovative approach of inviting experienced small-credit providers - with proven track records for credit management and sustainability - to help begin small-credit operations in new locations. In the past, donors have normally sought to establish new small-scale credit facilities from scratch (peer-group collateral, Grameen replication models etc.) or they have supported NGOs to form self-help credit arrangements. Both of these approaches have questionable outcomes in terms of sustainability. Following discussions in 1998 with the World Bank-assisted Consultative Group to Assisted the Poorest (CGAP), UNCDF is one of the earlier donors seeking to extend the operations of proven small-credit providers rather than to create new ones.

4.20 Eco-development has been the problem instrument for UNCDF, and delays in resolving internal disputes about this approach have held back the new policy orientation.²³ The team visited an example in Mali to see how a strong project team has successfully re-oriented it as a participatory rural development project. Whilst the LDF and Micro-finance projects have increasingly clear objectives and scope, the Eco-development and Infrastructure/Rural Development projects have been subject to evolving methods and changing policy orientation. It remains to be seen whether the proposed sector investment funds will resolve this issue.

Strengthening local government

4.21 There are three different areas which projects aiming to strengthen local governance might address: strengthening the management of local government with a view to making it more effective, efficient, accountable, transparent, democratic; strengthening civil society (the environment in which local government operates); and

²³ The conceptual, design and implementation problems of the Eco-development concept, and the overwhelmingly negative project evaluations, were described in the Desk Study Report.

strengthening national government commitment to the role of local government in rural development.

4.22 In the first of these areas - strengthening local government - there is substantial variation in performance against the four assessed criteria of effectiveness, efficiency, participation and sustainability. Malawi and Uganda are rated excellent and Senegal and Tanzania are rated good. In Mozambique, Cambodia, Mali and Viet Nam, the team judged that it was still too early to assess the likelihood of impact.

4.23 This variation in outcomes could be caused by one of four factors: national context, local capacity, project design or project implementation. The fact that Malawi, Uganda and Senegal score highly in terms of the team's ratings suggests that national context is the most important factor in successful local government strengthening: all three countries are now firmly pro-decentralisation. In the longer term, the effectiveness, sustainability and replicability of official aid projects depend on national context and government commitment whilst in the shorter term, implementation is easier if the national context is stable and supportive. However national context does not explain differences in project performance within the same country. For example, several donors in Uganda with projects at district level are less than satisfied with results to date. Some donor staff with long experience of the country continue to be sceptical about the wisdom of decentralised approaches at the present time. It is not the case that decentralisation projects will automatically succeed within a supportive country context.

4.24 Some project staff argue that 'low capacity' amongst government officials is a key reason for differences in approach and outcomes. The modest evidence provided through the field visits suggests that this cannot be the determining factor. All field visit countries have 'capacity' problems (low educational standards, inexperienced management etc.). It is not clear that capacity in Uganda, Malawi and Senegal is significantly better than in any other country.

4.25 The field visit evidence is that project design and the impact of this on project implementation has been as influential as national context in determining outcomes to date. For example, the Cambodia LDF has delivered a lot of skills training which is much appreciated by local government staff. However, because these government staff are effectively project staff, paid and resourced to act as village organisers, the impact on the future operation of local government is uncertain. The Malawi LDF continues to operate in a climate of uncertainty over the nature of local government structures to be created under the 1998 Local Government Act, but the project's development of District, Area and Village Committees and its civic training of potential future elected politicians are designed in full consciousness of this uncertainty. In Tanzania, the LDF project was designed in 1994 and approved in 1997. In early 1998, a Consultative Review with all project participants was launched to review the whole design. The Uganda LDF was designed as an institutional development project from the outset: existing government systems and capacities were thoroughly assessed in the formulation phase, leading to systems re-design and staff training as necessary.²⁴ In Viet Nam, the project is managed by local government

²⁴ Senegal offers another potentially very favourable context for the LDF approach. It will be interesting to compare outcomes over the coming years as the Senegal LDF moves into implementation.

staff and it attracts a sizeable financial contribution from the provincial authorities. In other respects, however, the project is a parallel structure and training of government staff relates almost entirely to project-specific implementation methodologies.

4.26 In summary, a supportive national context is necessary but not sufficient for effective institutional strengthening. Where it was possible to judge the success of local government strengthening amongst the countries visited, a key factor in determining impact was the extent to which the project purpose is clearly to promote sustainable and replicable institutional development of local government, and the degree to which the project team and the TA inputs have been structured to support that objective.

Strengthening civil society

4.27 The assessment of civil society strengthening also shows considerable variation across the eight countries. In the Field Visit Report one project (Uganda) was assessed as excellent for all criteria. The projects in Viet Nam, Tanzania and Mali were also rated very highly in terms of their effectiveness and participatory approach, but there was more variation in the ratings for efficiency and sustainability. In Senegal, Malawi and Cambodia, the projects were rated as a mixture of good and indeterminate. In Mozambique, effectiveness, efficiency and the participatory approach were all assessed as poor.

4.28 The Uganda assessment flows directly from the project achievements in strengthening local government: the process includes introducing cleverly designed procedures and systems for increasing the involvement of local people. The 1993 Mali project has developed out of an impractical Eco-development design and has been adapted by the project team to become an effective community-strengthening project. The Tanzania assessment results from the benefits of the Consultative Review process in strengthening the participatory content of the LDF, and the positive reaction this has evinced. Viet Nam provides an interesting case example of the benefit of UNCDF's commitment to increased participation. The project began with a formulaic approach to participatory rural appraisal (PRA), introduced by an international NGO, which was too lengthy and had insufficient coverage for the project's needs. Under combined pressure from government and international TA, project staff have now developed a lightweight 5-day exercise which gives all villagers in a commune the opportunity to be involved in prioritising their infrastructure needs and allocating the available budget. In contrast to Viet Nam, Mozambique is rated poor, owing to apparent inflexibility over the participation process: in 1997, a national university team raised important questions over aspects of the PRA and participation process which have yet to be addressed by the project.

4.29 In summary, participatory methods and civil society strengthening are now common to most projects. This occurs in two different ways however: either as a corollary of institutional development with local government, including new systems for popular involvement; or as a required feature of a participatory rural development project, without necessarily having pretensions to institutional development.

Impact on government policy

4.30 The LDF approach is impacting on local government thinking in all visited countries. In terms of specific impact on national policy, four of the eight countries were rated as good or excellent (Uganda, Senegal, Cambodia and Malawi). It is still too early to assess the policy impact on the other four.

4.31 In Malawi, the extension to all districts of the 1993 six-district pilot is an indicator of significant policy impact. The project management unit has become the government's decentralisation secretariat and UNCDF was asked to lead a multi-agency study of the fiscal implications of decentralisation. The Senegal LDF is at an early stage, but the national context is pro-decentralisation and a well-executed project should be able to achieve significant policy impact. In Uganda, the UNCDF project is an intimate part of government planning for decentralisation of capital funding to districts. In Cambodia, the project's initiation of an inter-ministerial decentralisation working group has placed decentralised rural development firmly on the national agenda. In Mozambique there is interest from the Ministry of Planning and Finance, despite recent government back-peddalling on the implementation of decentralisation. In Tanzania, the national Local Government Reform Team is interested in the UNCDF approach, although an appropriate forum for exchange of practical lessons does not yet exist. In Viet Nam, there are early signs of national interest in the project's ability to target poorer communes and increase consent over local contributions.

4.32 Three points are worthy of note. First, more recent projects include an explicit intention to provide input on decentralisation into national policy. Second, it cannot be assumed that 'upstream policy development' will automatically occur through UNDP. It will in some countries, but the capacity of UNDP staff with respect to institutional development and local government is highly varied. Further improvements in co-ordination with UNDP will be required. Third, the aim of influencing government policy makes the creation of effective project monitoring and internal evaluation systems, that enable objective lesson learning, particularly important. Projects must be able to measure, for example: the cost of standard infrastructure provided; the overhead costs of the participation process; the impact of government staff training, etc. Governments are more likely to be influenced by development practices that are well supported by evidence. In addition, the project formulation process needs to take a wider look at the policy development process in each country context, and propose concrete means by which the UNCDF project will feed into this process both through UNDP and otherwise.

Replication of UNCDF projects

4.33 Piloting activities, with a view to replication by government and/or other donors with larger funds available, is important to the new UNCDF approach. There are two possible types of donor replication:

- a) Co-financing, where another donor decides to channel funds through the project, because they like the objectives and results and it is easier to use an established delivery mechanism.²⁵
- b) Project Replication, where another donor is sufficiently impressed with the project concept that they adopt the design and apply it in the same country or elsewhere.

4.34 In Cambodia, Sida and UNDP are financing investments using the UNCDF methodology in three provinces, through the UNDP parent project. IFAD and the World Bank are planning to channel re-integration funds through the same organisation. The current local planning and participation methodology is seen to be too resource-intensive for type b) replication and no donors are currently planning to adopt it. In Malawi, the 1997 project is a major upscaling to all 26 districts of an earlier 1993 project in six districts. To date, replication is all by government although the 1998 Local Government Act has generated considerable interest amongst donors, and may lead to replication in due course. In Mozambique, the Netherlands is co-financing and the government of Ireland is interested to extend the approach to another province. In Senegal, the World Bank is considering replication of the UNCDF approach as part of a national infrastructure project. In Uganda, UNCDF has been in close contact with the World Bank from the earliest stages and piloting for a major loan has been an objective throughout: a \$64m loan to extend the methodology to all districts is now well-advanced. In Viet Nam, AusAid has become a co-financier and the World Bank will be reviewing the UNCDF project during its formulation of two large new infrastructure loans for poorer communes. In summary, the evidence is that LDFs are beginning to stimulate co-financing and, to a lesser extent, project replication.

Donor Perceptions of UNCDF

4.35 In the majority of LDFs, donors are increasingly aware of UNCDF's policy orientation towards local government and decentralised rural development.²⁶ The main exceptions to this are where the project is local, without a strong capital city presence (Viet Nam) or where the UNCDF project is not distinguished from wider UNDP activities (Malawi, Tanzania and Cambodia²⁷). In Mali, bilateral donors are rather less interested in institutional development objectives, and see UNCDF as having strong staff who are good at running participatory poverty-oriented activities. After a relatively short implementation period, few donors are aware of the distinctive detail of the Local Development Fund concept. However there is considerable donor interest when the concept is explained, and therefore we can say that considerable potential for replication does exist. Again, two elements will be necessary to ensure that this potential is realised. Good measurement and presentation of results on the ground and early establishment of linkages with all potentially interested donors are

²⁵ The team acknowledges that co-financing is only a form of replication when the decision to co-finance is based on evidence of results, rather than just on shared objectives.

²⁶ Problems of donor co-ordination and information sharing are apparent in all countries. Most donors are heavily occupied with their own activities and knowledge of each others' work continues to be by chance as much as design.

²⁷ In Cambodia and Malawi, the commitment of the parent UNDP project to promoting decentralisation is known to all donors.

likely to contribute to an appreciation of the UNCDF approach. Where this has already happened, replication is occurring as noted above. The challenge is to do this systematically across the whole portfolio.

The poverty reduction goal

4.36 UNCDF policy sees decentralised rural development and better local governance as a means of achieving the goal of poverty reduction. The evidence from the country visits is that all projects will contribute to poverty reduction either through the direct provision of small-scale infrastructure, or through improved local governance, or both. Assessed across the four criteria of effectiveness, efficiency, participation and sustainability, all projects visited were rated as good or likely to be good at contributing to poverty reduction. However for three of the projects (Malawi, Mozambique and Senegal) it was still too early to assess project impact on poverty reduction, and this conclusion is based on the efficiency and participatory approach for these three projects.

4.37 The Team investigated the various linkages between better local governance and poverty reduction. These include:

- improved selection of priority infrastructure as a result of community choice over the type of scheme and fund allocation;
- more efficient fund-use by local government than by sectoral line-agencies;
- more efficient implementation and reduced misappropriation as a result of increased transparency of procurement and audit;
- improved operation and maintenance as a result of stronger local ownership; and
- increased voice for communities to stimulate accountability of local administrations.

4.38 The LDF projects at implementation stage (Cambodia, Malawi, Uganda, Viet Nam) demonstrate some or all of the above to differing extents. The local planning process used in all LDFs appears to be successful in ensuring that limited capital funds are used to support schemes that the community sees as a priority. Rather than 'parachuting' new construction into a village, there appear to be real benefits in allowing the community to decide if the road, the clinic or the school is their first priority. The schemes visited appear to be well built and at reasonable cost. The introduction of tendering and private contracting arrangements is universal in LDFs and appears to be having a positive impact on efficiency and government thinking about funder-provider separation. Because communities are able to select their own priority schemes within a hard budget constraint, local contributions appear to be significantly higher than the normal minima. Where they are imposed, transparency requirements do appear to make abuse more difficult. There are signs that a louder community voice increases the accountability of government staff. There is a stronger sense of local ownership as a result of community involvement in scheme-selection, and it is reasonable to assume that this will encourage better operation and maintenance over time.

4.39 In summary, there is no doubt that UNCDF projects have the potential to contribute to poverty reduction both through the ‘traditional’ means of increasing people’s access to infrastructure and through the ‘new-policy’ means of institutional development with local government to improve participation, selection, accountability, transparency and ownership. Several caveats are important, however.

4.40 First, the impact of institutional development projects takes a long time to appear and is more difficult to measure. It is not reasonable to expect an institutional development project to display the same impact on per capita incomes over a short project lifetime that a well-planned and executed rural development project would have. Institutional development projects also demand greater expenditure on training and communication than would normally be acceptable for poverty alleviation projects. Poverty reduction must therefore be seen as a high level goal for LDFs.

4.41 Second, LDFs are at an early stage in relation to the type of schemes supported. Much of the investment to date is for social rather than economic infrastructure. This arises in part from strong community demand for better school buildings and clinics. Although social sector facilities are essential for poverty alleviation, the benefits tend to be longer-term and more indirect than directly productive investments in roads and structures, irrigation and electricity supply. Social sector schemes also have high running-cost requirements, which has implications for the sustainability of individual schemes and for programmes that lead to a rapid increase in the overall level of social provision. Most importantly, the effectiveness of social sector infrastructure depends principally on the quality of service provision (teaching and health care standards etc.) rather than on the quality of buildings. Local Development Funds are concerned with the allocation of unconditional infrastructure funds, whereas conventional sectoral programmes normally include both infrastructure and operational interventions. For the future, it will be important to strengthen the linkages between community choice over infrastructure provision and efforts to upgrade service quality, particularly in the education and health sectors.

4.42 Third, most LDFs are also at an early stage in finding ways of achieving flexibility over the scale of selected schemes. The second reason for the high proportion of schools and clinics selected to date is that most LDF local planning systems make it easier for a community to vote for their own simple building than to co-operate with other communities on a larger road, dam or irrigation system. The development of local planning methods that enable larger schemes to be selected will be important in the future development of Local Development Programmes.

4.43 Fourth, there is considerable variation amongst projects in planned poverty and gender targeting. Within project locations, the degree of poverty targeting also varies substantially. All projects include gender measures and targets in relation to women’s participation. However, there is considerable variation in the degree to which women’s involvement is being promoted, depending on the quality of gender analysis and planning during formulation, the creativity of proposed interventions, and the priority and resources devoted to gender.

4.44 Fifth, it is too early to assess the quality of operation and maintenance in the LDFs under implementation. It is not clear that increased community-ownership alone

will be sufficient to ensure improved operation and maintenance. The evidence from the (non-LDF) Mali project is that the creation of community funds may be a necessary supplementary measure for LDFs. Measures to ensure that operation and maintenance is effective within the LDF model will be increasingly important over time. It cannot be assumed that an increased sense of local ownership alone will be sufficient to achieve the necessary improvements in performance.

4.45 Sixth, the Team reviewed the extent to which the LDF methodology is being applied to rural development activities beyond infrastructure provision. Thinking about the use of unconditional public funds to support non-infrastructure, quasi-private or small-group activities (agricultural extension, processing, marketing etc.) is at an early stage in all the existing LDFs. Examination of the interface between LDF methodology and agriculture/rural development policy is also in its infancy in all countries. It will take time to establish conceptual clarity and test possibilities.

Summary: UNCDF's New Niche

4.46 The changes experienced by UNCDF since 1995, and which form the background to this evaluation, have been policy based, as the Fund has endeavoured to carve a new niche. But if the changes have arisen from policy, they have also been driven by the programme of projects. Confusion or disagreement over policy led to promotion of instruments; experience on the ground led back to clarification of policy. Internal disputes about the interpretation of the new policy held back the development of a clear strategy and instead management planned and managed a process of internal review and evaluation, to build a consensus. The awareness of the need for a strategy to manage policy impact and replication has only now started to emerge, late in the process. The strategy and means of achieving policy impact and replication remains a significant gap and needs to be filled if UNCDF is to fulfil its potential.

4.47 The changes can be seen in the shift in the portfolio, such that new approvals are dominated by local development fund projects and are overwhelmingly in concentration countries. The evaluation field visits went mainly to countries with examples of new formulations. From this sample of eight countries the evidence that has emerged is broadly good. Unsurprisingly, the projects appear to be taking risks and innovating. Support to local government appears to be well founded; support to civil society has good potential, although there are some concerns about the efficiency of existing approaches to participation, and the Fund appears to be tackling this.

4.48 The goal of UNCDF is poverty reduction. The orientation of the Fund's capital expenditure - social infrastructure - is shared by many donors and there is little doubt that a causal link can be identified between empowerment, access to social infrastructure and poverty. But it is important for UNCDF's donor countries to recognise that poverty reduction will only take place in the long term, and requires complementary support for the operation of social infrastructure. The proposed Sector Investment Funds and new-style Micro-finance will both offer more direct routes to poverty reduction.

4.49 The basic characteristics of the new entrants to the Fund's portfolio are therefore positive. But caution needs to be voiced in four areas. Firstly, the most

successful projects visited by the current evaluation are at relatively early stages of implementation. Few have faced the challenge of replication and sustainable change. Impact evaluation will be needed in a few years' time. Secondly, the awareness of the importance of policy impact has brought new issues to the fore about the relationship with UNDP and the skills-mix required within UNCDF. Thirdly, replication is probably the key performance indicator for UNCDF. A coherent strategy to identify potential partners and foster relationships is only slowly emerging from UNCDF and raises further issues for internal organisation and staffing. In order to convince potential partners that replication is desirable, good project results and transparent lesson learning have to be achieved as well as close linkages from the early stages of the project. Lastly, the focus of this evaluation (as intended by the terms of reference) has been the implementation of post-1995 policy. Taking the portfolio as a whole, the new operations are a minor proportion of current disbursements and yet have dominated the time and creativity of senior management and technical advisors. These points are all taken up in the next chapter.

4.50 The evidence of the eight country visits is that UNCDF's 1995 policy reformulation is leading to an interesting and innovative set of projects. The principal change the new policy has brought to UNCDF is that after thirty years of providing mainly financial assistance for physical and financial capital schemes, UNCDF is now increasing the 'knowledge-content' of its aid, notably through institutional development with local government and communities. After a relatively short period, UNCDF is increasingly known, within the countries visited, for its focus on decentralised rural development, and other in-country donor offices are beginning to show interest in the UNCDF concept.

4.51 Importantly, UNCDF now has unique practical experience within the donor community of promoting decentralised capital development through local government in widely differing LDC contexts. The evidence of the field visits is that there is substantial variance in the quality of projects in the UNCDF portfolio. The Desk Study and anecdotal accounts of other projects support this. However, with a new focus on project quality, it should be possible for UNCDF to up-grade the average quality of projects very substantially. A first step would be for UNCDF to continue to clean up the portfolio by closing non-performing and old projects. This would enable management to concentrate on a smaller number of active operations. It should then be feasible for UNCDF to move on to become a centre of excellence in the planning and implementation of local governance, micro-finance and participatory rural development projects.²⁸ Such a role implies establishing clear procedures that can be followed by other agencies, documentation of practices, forging professional links with other agencies, and an open-access culture to foster learning.

²⁸ UNCDF rejected as impractical CAT Report recommendation 18 that it become a Centre of Excellence in local governance. The emphasis here is different: it should be feasible for UNCDF to achieve excellence in the planning and implementation of projects related to local governance, microfinance and other contributors to poverty reduction.

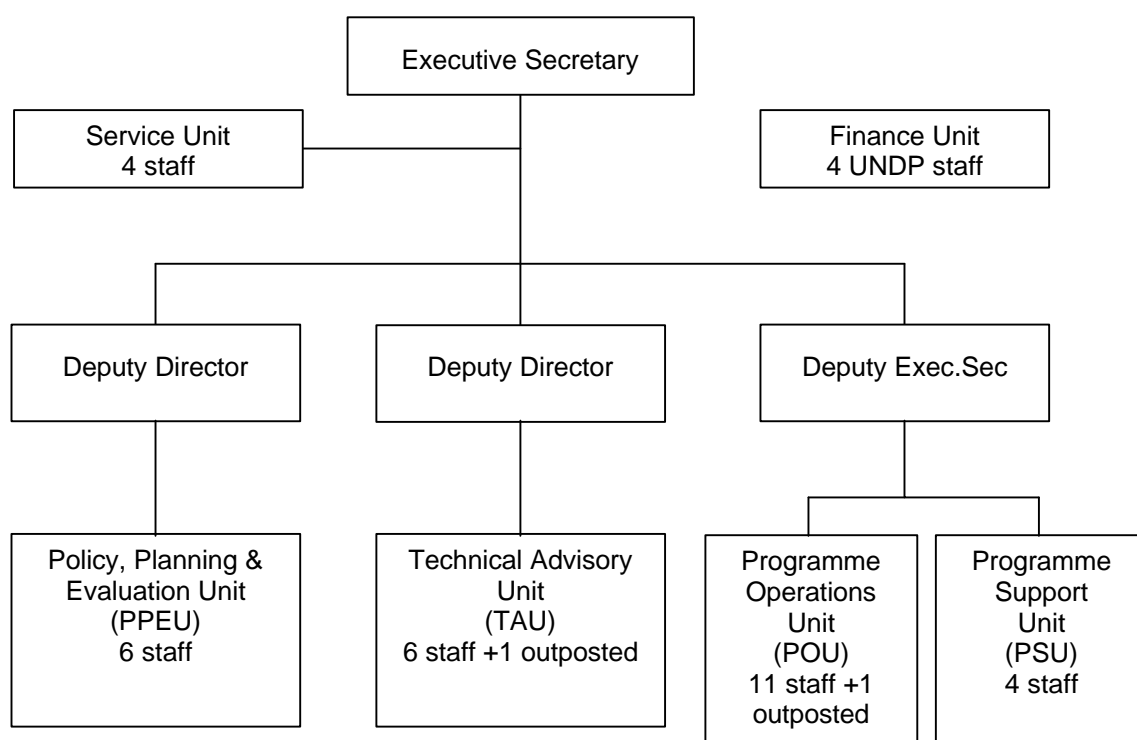
5 Structure, Staff and Competence Development

5.1 After adoption of the 1995 policy, UNCDF was reviewed by a donor-led capacity assessment mission. Their report gave rise to further donor finance to support staff development and institutional change. This chapter reviews the ways in which UNCDF is organised and has been managed at headquarters and in the field, and the actions undertaken in response to the Capacity Assessment Team (CAT) recommendations. A detailed, cross-referenced summary of action on the CAT recommendations can be found in Annex 8.

Organisational Structure, Responsibilities and Leadership

5.2 The present UNCDF staff structure is shown in Figure 5.1.

Figure 5.1 UNCDF organogram



5.3 The main changes in organisational structure and systems since 1995 have been:

- A new structure (as Figure 5.1) with equal status for POU, TAU and PPEU.
- A management team comprising the Executive Secretary and the unit heads.

- Adoption of quarterly workplans for the three Units.
- A planning ‘triangle’ for each new project, comprising one member of each unit, introduced in August 1998, with the aim of strengthening the quality of project formulation.
- Greater decentralisation to country offices (including giving greater authority to the RR in Laos; outposting two PMs and one TA and increasing PO responsibility).

5.4 The main emphasis of the Executive Secretary’s change programme over the past four years has been to improve co-ordination amongst units and re-organise staff resources in line with the new policy and concentration country policies. The management team approach has helped improve co-operation, for example in planning staff visits to countries. Overall, staff have been satisfied with the leadership and management of UNCDF. The staff assessments of the Executive Secretary in 1995 and 1997 found him approachable, accessible and consultative. However, there is a feeling that the participatory management approach has reduced over time. In May 1999 there was concern over the abrupt manner in which the Executive Secretary’s plan for future changes had been introduced (see below). The ‘triangle’ system is said to have had variable success overall: some teams of three have worked well; others less so, with allegations of encroachment into other units’ areas of competence. In summary, the Executive Secretary has succeeded in winning majority staff support for the changes over the past four years and his more committed and participatory management style has been a marked improvement on the past. In retrospect, the ES wishes he had been more assertive in driving through change.

5.5 The weakness of the changes to date is that they have not achieved the product quality that the new policies demand.²⁹ UNCDF is better led and the management style is more participatory, but this is disconnected from the priority task of increasing project quality. The organisational structure continues to be dated, with units based on job specialisation (technical specialists, programme managers, programme support and policy/evaluators) rather than on product specialisation (LDFs, micro-finance and other participatory rural development projects). The present division of responsibility for individual projects between HQ units has also resulted in conflict between the programme manager and technical advisor responsible for projects. The ‘triangle’ experiment was an attempt to improve co-ordination, but is reported to generate conflict wherever issues cut across staff perceptions of their own role, or their Unit’s role in the existing structure.

5.6 The alternative would be to re-organise staff into operational divisions each with its own complement of programme managers, technical specialists and support staff. This structure would help strengthen the specialised knowledge and experience of programme managers and administrative staff. This is already apparent in micro-finance, where specialisation is enabling the two staff responsible to develop real expertise in the requirements of sustainable Micro-finance projects. There is always

²⁹ A review of project documents conducted during the Desk Study found vague and poorly structured development objectives, poor indicators, and weak analysis of risks and sustainability. Treatment of institutional analysis, poverty and gender was patchy, but with some sign of improvements. ITAD Desk Study Report, para 4.111, December 1998

competition between units in an organisation: better that this be productive, quality-enhancing competition between units trying to prove their projects are the best, than turf-disputes between specialists, administrators and evaluators under the present structure. Some new proposals are emerging from within UNCDF and these are reviewed at the end of this chapter.

Technical Advisory Unit (TAU)

5.7 In 1995 the Technical Advisory Unit (TAU) had five staff responsible for rural development, infrastructure, planning, economics and micro-finance. Following the CAT recommendations, two new TAs were recruited for participatory development and institutional analysis. A specialist in local institutions was hired in early 1999 after a recruitment delay of almost 18 months. The Desk Study Report expressed concern that most TAU staff have become guardians of instruments (LDFs and Eco-development) rather than of technical expertise: the decentralisation specialist is the RTA for East Africa; the economist is mainly an LDF-designer/promoter; the former agricultural engineer was chief promoter of Eco-development and the engineer/planner is chief LDF-promoter. The engineer is mainly limited to 'old' infrastructure projects. This is not desirable in terms of promoting quality technical support to project design and implementation. Further discussion on the necessary increase in technical support for a more knowledge-intensive portfolio can be found below (para. 5.27 *et seq*).

Programme Operations Unit (POU)

5.8 The POU has seven programme managers (PMs), reporting to the Head of Operations, who is also the Deputy Executive Secretary. The PMs are seconded from UNDP and each is responsible for UNCDF projects in a group of countries. Their work includes project support and supervision functions including country policy analysis. The PMs have been closely involved in internal policy discussions. Like 'desk officers' in other agencies, their responsibilities go well beyond project administration, although their organisational separation from 'technical' staff tends to mask this. This technical/administrative distinction is increasingly blurred for the two staff (from the POU and PSU) responsible for Micro-finance projects.

5.9 The present headquarters structure includes a separate Programme Support Unit (PSU) which provides administrative support to projects and to programme managers, including monitoring expenditure, administering consultant recruitment, covering for programme managers on-leave and tracking the project pipeline. Some staff in PSU are playing a programme manager role. There is no apparent reason for a separate PSU.

Programme Manager outposting

5.10 Following the CAT recommendation, one programme manager was outposted to Togo (responsible for six countries in West Africa) and one to Uganda (responsible for four countries in East Africa). The UNCDF staff view is that outposting has not been a success owing to poor communications within the region; the consequent

increase in workload on PMs at HQ; the junior status of programme managers compared to the UNDP resident representative and overlap with the role of programme officers (PO). The Team reviewed the experience of out-posting a programme manager to East Africa.³⁰ The arrangement contributed little to the projects and much of the out-posted PM's role was very similar to that of a PO. Many matters were still referred to headquarters, although on occasion the PM helped to facilitate this. Project partners were not aware of any particular benefit of the out-posting arrangement. In West Africa, the outposted PM covers three concentration countries (Benin, Burkina Faso and Guinea) and three non-concentration countries (Togo, Sao Tome and Mauritania), leaving the two key concentration countries of Mali and Senegal managed from New York. The team concludes that empowering and developing country programme officers and strengthening relationships with resident representatives appears to be a more practicable and beneficial strategy than out-posting administrative staff from New York.

Policy, Planning and Evaluation Unit (PPEU)

5.11 The Policy, Planning and Evaluation Unit is responsible for evaluations, communications, publications and external relations, strengthening project monitoring systems and developing a UNCDF project data-base. PPEU also acts as a secretariat for the Executive Secretary. The Unit contracts consultant evaluators and publishes an annual summary of the results. A monitoring and evaluation (M&E) specialist was hired on a two-year contract in January 1998, funded through the INT/97/CO1 competence development project. He is developing a consultant network to strengthen project M&E. A number of logframe training courses for HQ staff and Programme Officers have been held in New York since September 1998. The Information Officer, recruited in September 1996, produces UNCDF printed material; has developed an effective UNCDF Web-site and is beginning to produce good reportage on UNCDF projects. PPEU has led the internal policy process, convened the internal policy 'task force', and has been responsible for drafting the majority of policy revisions. PPEU has led the competence development programme, including organising the major workshops (Entebbe, Glen Cove, Saly-Portudal and Arusha), three PO regional workshops, and the UNCDF 'weeks in residence'.

5.12 The team was concerned about several aspects of PPEU functioning. First, although annual summaries of project evaluations are published, these appear to make little impact on policy development or the quality of project formulation and implementation. Clearly, this is a function of Operations as much as of PPEU. Second, although PPEU has led on competence development, including organising the 1998 M&E/logframe training workshop, this has not been consolidated in a clear approach to results-based planning and monitoring. Third, effective PPEU involvement in several of the inter-unit project 'triangles' has been difficult to achieve. Fourth, the conceptualisation of key performance indicators (KPIs) for assessing project performance has been over ambitious and has produced little result (see Para.5.14). Fifth, the design brief for the project database has been similarly over-ambitious, again with no outcome.

³⁰ This arrangement finished in early 1999.

Project evaluation

5.13 Normal practice in UNCDF is to commission mid-term reviews and final evaluations from independent consultants. These are summarised in an annual publication: 'Project Evaluation Summaries'. UNCDF's use of external evaluators and its openness to publishing results is to be welcomed. The three 1997-98 independent reviews of the LDF, Eco-development and Micro-finance instruments were particularly significant, leading to the suspension of the Eco-development instrument and an important and positive shift in thinking on Micro-finance.

5.14 The compilation of key performance indicators (KPIs) was an early initiative designed to improve the quality of project monitoring and evaluation and achieve a programme-wide set of performance indicators. The 'KPI Kit' - a package of advice and examples - is now available in printed and electronic form. This initiative has not been a success. First, the 'menu approach' leads to a large number of indicators for many possible situations. Second, many of the suggested indicators overlook both conceptual issues of attribution and practical issues of cost and staff requirements. Third, the development of KPIs was not integrated with logical framework planning or revised guidance to formulators. Fourth, the Team's analysis of project documents (see Annex 7) found no explicit references to the KPI Kit, even in the most recent formulations, whilst the quality and coverage of indicators is generally weak. Fifth, rather than using the KPI menu for indicators, programme managers say they tend to seek advice from the M&E adviser or rely on suggestions made by the consultants doing the formulation. UNCDF has recently adopted a new approach whereby indicator development is part of the M&E module in stakeholder workshops, which are now a required feature of all project formulations.

5.15 The appointment of a monitoring system specialist in January 1998 is beginning to improve the quality of project monitoring systems, although this has yet to be based within a clear logical-framework approach to managing projects throughout the project cycle. During the country visits, the Team found wide variation in the concept and quality of project monitoring and internal evaluation systems.

Location of UNCDF Headquarters

5.16 The Executive Secretary introduced the idea of re-locating UNCDF headquarters to Africa as a possible means of increasing staff understanding of field issues in the most important concentration region. The overwhelming view amongst both UNCDF and UNDP interviewees is that a New York base continues to be preferable. The importance of maintaining and improving linkages with UNDP and the poor communications in Africa are seen as the key factors. With UNDP responsible for UNCDF finance, accounting, personnel and other support services, UNCDF would require a New York presence and only partial decentralisation would be feasible. The Team did not conduct a financial appraisal of a possible move, but with the great majority of costs due to salaries, any saving is likely to be small and out-weighed by the cost and disruption of re-location. Changes in UNDP's internal financial systems to enable greater decentralisation of decision-making may alter the balance against UNCDF remaining in New York and this issue should be reconsidered as UNCDF's organisation and management evolves.

Competence Development

5.17 Following the recommendations of the 1996 Capacity Assessment Team report, UNCDF obtained donor finance for the INT/97/CO1 project, *Support to the Implementation of the Capacity Action Plan*, to support competence development activities including workshops, seminars, weeks in residence and on-the-job training. By October 1998, most of the planned activities had been completed or were ongoing. Of the total of 58 tasks: 23 were completed; 20 were ongoing on schedule; seven were delayed and eight had been cancelled. The INT/97/CO1 project began in January 1997 with a planned duration of two years. The out-turn at October 1998, after 22 months, is shown in Table 5.1 below. Although competence development accounts for the largest share of expenditure to date, the volume is well below the level anticipated. It is also noteworthy that one-third of expenditure to date is in relation to outposting of the Regional Technical Advisor in East Africa and 'Support Costs' – neither of which feature in the original version of the INT/97/CO1 project document.

Table 5.1 Expenditure under Project INT/97/CO1 (October 1998)

i) Percentage of original budget (\$2.65m) spent	43%
ii) Percentage of revised budget (\$3.19m) spent	36%
iii) Share of Expenditure (to October 1998) on :	
a) Competence Development	39%
b) M&E Development	21%
c) Concentration Policy	3%
d) Regional TA – Uganda	24%
e) Support Costs	8%
f) Other	5%

5.18 The main purpose of the competence development programme was to upgrade country-based Programme Officers (POs), who had received very little input in the past. This has been of considerable benefit (see 'Programme Officers' below). Programme Managers feel that on-the-job training in participation through the stakeholder workshops and the recruitment of the M&E specialist has been beneficial. Headquarters, field and project staff feel that the Entebbe and Arusha workshops were very useful in helping to internalise the new policies and promote discussion of the LDF and Eco-development concepts.

5.19 The Team has four concerns about the competence development programme. Firstly, the recommendations from the CAT sent the wrong signals to UNCDF management by laying emphasis on activities rather than objectives. Secondly, activities and expenditure have concentrated on discussion and internalisation of UNCDF's chosen policy instruments (LDFs, Eco-development and Micro-finance) rather than on development of technical skills (economic and institutional analysis, logical framework planning, M&E strengthening and indicator development, etc.). Although we note that since September 1998 logframe and M&E training has taken place. Thirdly, there has been little systematic monitoring of the impact of the competency development activities. Last, the use of project budgets to finance staff and staff training is a sensitive issue for all donors and it is not clear that sufficient control has been applied. Although the available budget is significantly under-spent in

relation to competence development, the total budget was increased from \$2.65m to \$3.19m in 1998. The financing of the East Africa Regional Technical Assistance office through the project has been a positive initiative, but it is a matter of note that this was not authorised in the project document. Such unconventional project financing of staff should not be required if project TA inputs and the skills composition of HQ staff were better planned.

Programme Officers

5.20 Programme Officers (POs) are UNCDF's field staff based in UNDP country offices. They have a dual line of reporting to the Resident Representative and to UNCDF HQ. POs may be National Officers (NOs), Junior Professional Officers (JPOs) or UN Volunteers (UNVs). Five POs are Assistant Resident Representatives (ARRs). There is considerable variation in the performance of POs. UNCDF staff see National POs as more useful in terms of their understanding of the country context and local situations, although it is more difficult to dismiss under-performers. Because some NOs are under pressure from host governments, some UNCDF staff prefer to work with JPOs at country level, although others see JPO postings as too short to achieve local knowledge comparable with National Officers. The overall reduction in POs following concentration policy should make it easier to reinforce country offices with both a national PO and a JPO, as recommended in the CAT Report. Progress has been slow in this respect.

5.21 The evidence from HQ and from the country visits is that UNCDF's commitment to enhancing PO skills and involvement has been well achieved. POs have new job descriptions and more responsibility for project backstopping, identifying and drafting ToRs for local consultants and data-collection. POs now routinely receive management team minutes from HQ. They are invited in batches to attend UNCDF weeks-in-residence, seminars and regional workshops. The September 1998 logframe/M&E training was particularly well received and further workshops are planned for 1999. POs are invited to apply for support from UNCDF's small individual training fund. UNDP's Learning Centre has commented favourably on the UNCDF input to POs: no comparable arrangements are available for staff from other UNDP Units. All the POs interviewed during the country visits feel that their role has been enhanced and that they have more responsibility for a greater variety of activities than previously. All have appreciated the various training courses and seminars they have attended. They feel UNCDF offers better opportunities for training and development than are normally available to UNDP POs. They appreciate UNCDF's less formal, less bureaucratic and more open style of operation.

5.22 Despite the very positive achievements in respect of PO job enrichment, it appears that relatively routine matters are still referred to New York for approval. There remains considerable scope for UNCDF to devolve more management authority - including preparing sub-budgets and approving payments for routine administrative and project items - to country level. Clear guidelines and *ex-post* controls are normally more efficient than systems based on prior approval. Within the UNDP country office, some POs are not fully involved in the relevant programme areas (normally governance or poverty) or located in the UNDP unit which best fits the

UNCDF portfolio. UNCDF staff feel they should have an involvement in the selection and performance review of POs.

The Relationship with UNDP

5.23 UNCDF is an integral part of UNDP and the importance of the relationship was highlighted in the CAT Report. During the Desk Study, the Team held a SWOT exercise with UNCDF HQ staff to explore the relative benefits of being part of UNDP. The main advantages were seen to be the access to host governments, supplementary project finance and administrative support that UNDP offers. The disadvantages centred on UNDP's perceived lack of technical expertise, its excessive bureaucracy and vulnerability to pressure from host governments.

5.24 Any organisation in UNCDF's position is faced with the two alternatives of aiming to increase independence or to cement a closer relationship. UNCDF has attempted both at different times. The appointment of an Executive Secretary from outside the UN system has had clear benefits but has left much of the day-to-day relationship with UNDP to the Deputy ES. The main attempt to improve relations has been the agreement of Memoranda of Understanding with UNDP in concentration countries, and with specialist units at UNDP HQ.

5.25 From the Team's meetings in UNDP HQ and the eight country visits, it appears that UNDP is very supportive of UNCDF, principally because it brings the possibility of project capital finance to an increasingly cash-strapped organisation. UNDP sees strengthening local governance as in close accordance with UNDP's good governance focus area, and UNDP is co-financing the majority of projects visited. However the country visits found considerable variation in the level of understanding and internalisation of UNCDF's new policies at country level. The CAT Report recommendations 13 and 14 on improved co-ordination over programming are now largely being achieved. However, as noted in paragraph 4.32 above, UNCDF cannot assume that up-stream policy development will automatically occur through UNDP. This must be assessed and provided for during project formulation and through closer co-ordination at country-level and with the UNDP Regional Bureau concerned.

5.26 In four of the eight countries visited there have been significant problems in the administrative or programming relationship in the recent past. UNCDF HQ staff can cite many more. The reasons are numerous: differences in programming priority, procedural delays and personality clashes. The majority of these problems are situation-specific rather than systemic and it is difficult to suggest organisational or procedural solutions that would have overcome them. It is clear that the only feasible strategy must be one of continuing to strengthen understanding and relationships between the two organisations at HQ and country level.

Technical Support for Innovative Projects

5.27 The new UNCDF policy approach is essentially one of increasing the knowledge and ideas content of projects. For thirty years, the emphasis has been on financial assistance for physical and financial capital schemes. The new approach is principally institutional development with local government and communities,

supported by capital financing. The increased knowledge-content of projects makes the identification and planning of technical assistance (TA) inputs more important than previously. More TA in total, and more specialised TA (such as for local government and public finance), will be required in view of UNCDF's more subtle and ambitious institutional development objectives and the need to develop new systems and train government staff at central, regional and local level.³¹

5.28 At present, UNCDF uses seven different sources of Technical Assistance:

- a) The Technical Advisory Unit (TAU) and M&E staff in UNCDF Headquarters (established and short-contract UN staff and the monitoring specialist funded through the INT/97/CO1 project.);
- b) One Regional Technical Advisor (RTA) - posted in Kampala, and responsible for the LDFs in Malawi, Tanzania, Uganda and Zambia, funded through the INT/97/CO1 project;
- c) Regional TA through an institution: UNCDF has arranged to provide TA to the Asian LDFs through the Human Settlements Department of the Asian Institute of Technology (AIT) in Bangkok;
- d) International Consultants: heavily involved in formulation, evaluation and supervision missions, and occasionally contributing to implementation;
- e) Chief Technical Advisors (CTAs) attached to, and funded from, projects - on long-term contract and responsible, *inter alia*, for expenditure authorisation and control;
- f) Project TA: short and long-term project-funded advisors with technical rather than financial/managerial responsibility;
- g) Sub-contract Local TA: individuals, NGOs and other local institutions hired on short contract to deliver specific inputs during implementation.

5.29 The evidence of the country visits leads to four conclusions on the future organisation of TA inputs. First, the identification and formulation process is the vital link in translating UNCDF policy into projects ready for implementation (paragraph 4.9 above). The institutional development LDFs also imply a longer and more sophisticated formulation and confidence-building phase than previously (paragraph 4.8 above). Getting these steps right is essential, and the responsibility for this lies with the first four groups listed in paragraph 5.28. During the country visits, the Team became aware of considerable differences in concept, approach and communication gaps amongst projects and their TA support. Improved networking and communications amongst staff, TA, consultants and projects - through meetings and electronically - appears essential.

5.30 Second, the Team was favourably impressed with the experiment of a Regional Technical Advisor (RTA). UNCDF was successful in hiring an institutional

³¹ Recommendation 9 of the CAT Report was to increase the share of national/regional TA. The Team would present the objective rather differently: to identify the TA best equipped to promote project success, irrespective of origin.

development professional, with strong theoretical and practical experience. Outposted to Kampala, the RTA is geographically and operationally closer to the projects than New York staff. Whereas TA visits from New York resemble external supervision missions (with de-briefing meetings, aides memoire etc.), the RTA is seen as a working colleague, and has a closer working relationship with the project teams.³² He identifies closely with the projects (and they with him) and he feels a sense of responsibility for them. He is also available to play a representational role within country. Outposting technical expertise (rather than administrators) appears to be a fruitful innovation.

5.31 Third, the experience of institution-based TA from the Asian Institute of Technology (AIT) is rather less positive. Although useful inputs have been provided, this arrangement is not proving successful overall. Both AIT staff and projects feel that inputs have been short, sporadic and mainly concerned with detail rather than strategy. AIT has not been in a position to provide the major design re-orientations that have occurred in Tanzania and Zambia. On occasion, AIT has felt under-informed about developments in relation to projects. As an institution, AIT lacks some of the necessary skills for LDF and governance development. Different AIT staff are involved with each project at different times, in part because they carry heavy teaching loads and have other obligations. AIT inputs are seen as useful but not essential by the projects. The key difference from the RTA arrangement is that AIT does not have a full-time involvement or felt-responsibility for the projects in the way that the RTA does.

5.32 Fourth, it is essential that the last three sources of TA listed in para 5.28 e) to g)³³ are guided by a project design with a clear purpose and deliverable results, and, for LDFs, well-supported by experienced institutional development TA, especially at the late-design/early-implementation stage. Lessons from the field in Cambodia, Tanzania, Mozambique and Viet Nam reinforce the need for access to good TA.

5.33 In summary, the availability of experienced institutional development TA, especially for long-term project and regional postings, is a major constraint at present. The RTA experience indicates the importance of having thoroughly qualified and experienced TA, based in the field, with responsibility for one or more projects. The RTA arrangement also presages an interesting and progressive blurring between established UN staff and short contract appointments.

5.34 Recommendation 18 of the CAT Report was that UNCDF should become a centre of excellence in local governance. At the time, UNCDF rejected this view. However it appears both necessary and feasible that UNCDF becomes a centre of excellence in the planning and implementation of local governance, micro-finance and participatory rural development projects. The basis for centre of excellence would be clearer focus and specialisation within UNCDF headquarters and more effective networking amongst staff, TA consultants, and country project staff. This implies further changes to the organisational structure and working practices of UNCDF.

³² Visits from New York staff are appreciated by projects in Africa and Asia - and some projects would like more of them - but the input is very different in nature from a permanent TA role.

³³ The use of CTAs is reducing sharply since this role does not fit well with institutional development project approaches and national execution.

5.35 The implication is that the skill-mix and quality of staff working within UNCDF must change. A knowledge-intensive organisation needs skilled professionals of a comparable standing to those working for other agencies. The extent to which those skills could be obtained solely by on-the-job training is questionable. The specific areas that can be identified include institutional analysis, governance, the environment, infrastructure and evaluation. UNCDF will need to have the flexibility to recruit from outside the UN system, to create a modern, knowledge-based organisation.

1999 Organisational Changes

5.36 On 4th May 1999, during the consultation on the draft Field Visit Report, the Executive Secretary explained to the Team the new organisational structure he is proposing for UNCDF. His intention is that the new structure will be agreed by mid-1999, enabling it to be incorporated in the UNDP/UNCDF budget exercise for 2000 and 2001. The new structure proposes a transition to a multi-skill product-division structure, rather than the present structure based on job-classification. The proposed arrangements are in line with the conclusions of this evaluation.

Executive Secretary's proposed organisational changes (May 1999)

Directorate

External relations, communications, personnel, finance, MIS administration
2 policy specialists (to be recruited)

Evaluation Unit

2 Specialists (to be recruited)

Local Development Programme Operation Unit

- 5 Technical Specialists at HQ (Economics/Joint Unit Head, Infrastructure, Planning/LDFs, Institutional Analysis, Governance & Environment)
- 3 Outposted Governance/Institutional Development specialists & 1 outposted M&E specialist
- 1 Head of Operations/Joint Unit Head
- 3 Programme Managers (a reduction of 4 from the present complement of 7 PMs)
- M&E staff from the former PPEU
- Support staff

Microfinance Operations

This will combine the existing 2 UNCDF MF staff and all the staff working within the Special Unit for Micro-finance (SUM) on the UNDP MF portfolio. The combined staffing will be as follows:

- 2 Joint Heads
- 2 existing UNCDF programme staff
- 4 specialists (from University of Columbia)
- 1 specialist seconded from CGAP
- 3 outposted specialists (Africa 2 and Latin America 1)
- Support staff

Summary: Structure, Leadership and Relationships

5.37 UNCDF needs to finalise its policy direction and halt the process of continual updating. A mixed and changing message will not help forge relationships within UNDP and with donors and partners. The organisational structure, management procedures and competence development introduced since 1995 have helped the organisation define its niche and working relationships. It is clear that the internal struggles over policy have been mirrored by tensions in the working relationships between the three main units. Programme managers in the POU have seen a progressive redundancy in their traditional administrative role for the LDF projects as the skills requirement and involvement of technical advisers has risen. Interactions between the groups have been awkward at times with TAU staff restricted to concentration countries despite the rump of the portfolio being elsewhere and the TAU unable to provide sufficient support to meet the needs of the LDF portfolio. Despite the rhetoric of new policies and performance indicators, quality of project documents remains poor and M&E has failed to provide objective measures of performance from which lessons for this knowledge-intensive portfolio can be developed. But in the face of these problems, management has done a good job to maintain the pace of change, seek new solutions such as the triangle, and hold on to the process of change. The Executive Secretary's approach has been mainly consultative, some would say not autocratic enough, and as a result has engendered a willingness to change and reform that is not easy to find in an international bureaucracy.

5.38 The report of the Capacity Assessment Team and the ensuing donor support for competence development has been beneficial. For the donors, there is a good lesson that change can be managed. But the role of outsiders is to identify where performance is deficient and set objectives. Management needs to be free to choose the best means to achieve those objectives. The CAT recommendations mixed objectives and activities.

5.39 Three specific aspects of competence development stand out positively. First, has been the enhancement of the role of programme officers in the concentration countries. The support they have received and continue to receive has helped strengthen UNCDF's presence and has demonstrated the potential for a greater shift of responsibility to the field. Second, the debate since the Field Visit report indicates emergence of a genuine awareness that institutional development projects directed towards local governance are skills intensive; they require an organisation to match. The third area is the relationship with UNDP. UNDP provides the entry point and leverage that makes UNCDF's interventions feasible. Management now recognises that the relationship with UNDP needs to be actively managed to overcome reliance on fortuitous personal relations.

5.40 It is important that the evolving HQ organisation is designed to support the new policies and a goal of project excellence. Wherever possible, staff with generalist backgrounds need to develop further competence. Training in the logframe and the development of M&E guidelines are both positive steps currently being taken. The present organisation requires changing from a structure based on job-classification to one which ensures focus and specialisation on the different types of project; which

encourages quality-enhancing competition amongst organisational divisions; which equips each division with the skills and authority for project identification, formulation and supervision; and where necessary enables skills to be brought in from outside the UN system.

5.41 The change in emphasis from policy development to achieving project excellence has implications for the experience profile of the future Executive Secretary and Deputy ES. The leadership of UNCDF requires two different sets of experience: a) proven practical experience of planning and managing development projects, preferably with a focus on institutional development, and b) insider knowledge and experience of UNDP.

5.42 From the evidence collected during the Desk and Field Studies, the nature of the relationship between UNCDF and UNDP can be summarised as follows:

- a) UNCDF is an integral part of UNDP, but has its own donors, concentration countries, policy objectives and project priorities.
- b) In respect of policy: the poverty reduction goal is common to both UNCDF and UNDP. UNCDF's priority of decentralised rural development and strengthened local governance fits well with UNDP's governance focus.
- c) In respect of organisation: UNDP resident representatives are UNCDF's senior representatives in country. UNCDF is dependent on UNDP in relation to many aspects of project implementation and policy work with governments.
- d) Thus, whilst maintaining its distinctive policies, project-types and concentration countries, UNCDF and UNDP must make every effort to ensure the closest possible co-operation.

6 Conclusions

6.1 This chapter sets out our conclusions under a number of thematic headings and ends with reference to the main aims of the evaluation Terms of Reference. Overall the assessment of this evaluation is broadly positive. The Team acknowledges that, by design, the projects that were reviewed represent the Fund's most recent policies. Those projects have received a lot of attention and support. The best of what the Team saw is very good. We have placed this in context by pointing out the importance of UNCDF expanding the lessons and practices from these new operations across the whole portfolio.

UNCDF: Performance and Promise

6.2 The Terms of Reference for this evaluation asked the team to investigate the performance of UNCDF in implementing the goals and policy directions of the 1995 policy document. The information gathered from the Desk Study and field visits has provided a body of evidence that UNCDF approached this task in a determined and organised way. Despite a slow start caused by inadequate consultation when the policy document was prepared, and lingering debates to resolve inconsistencies about the ends and means, UNCDF staff have internalised the 1995 policy orientation, worked through a traumatic process of debate about the project instruments and presented a new image to donors and governments in concentration countries. But the need to revisit policy led to a process of policy update, which in the Team's view has been perpetuated for too long.

6.3 The slow start arose from confusions in the policy document. A lack of clarity about means and ends, perhaps a deliberate fuzziness to placate opposing internal views, led implementation to be driven by experiences on the ground. The policy committed UNCDF to pursue its new project types, primarily LDFs and Eco-development, and cemented the importance of participatory formulation and implementation. This programme focus was finally resolved after painstaking and painful consultation with external experts, independent evaluations and independent reviews of the instruments. The fact that it took longer than expected to resolve how to achieve the objective of decentralised development is probably offset by the fact that after such a process, everyone is now on board. The important change in Micro-finance only came in 1998. In managing this change UNCDF has created a valuable example of planning and managing a learning process.

6.4 In working through this process the Fund is creating a niche for itself in the eyes of other multilateral and bilateral donors in the countries where it is working. They have seen the Fund take risks to implement projects through local government and not be afraid to redesign Eco-development or Infrastructure projects to make them more participatory. UNCDF is virtually alone among donors in embracing CGAP's recommendations about hands-off support for Micro-finance Institutions. Donor representatives interviewed during the field visits concur that piloting and innovation are sensible roles for a small agency with good access to government. Innovation needs to be clearly understood as piloting and risk-taking. UNCDF needs to foster its

emerging role as a centre of excellence in planning and implementing local governance projects.

A New Focus on Project Excellence

6.5 In order to help UNCDF develop internal capacity to implement the policy direction, the donors funded competence development activities in line with the findings of a capacity assessment mission. This facility was a key element in UNCDF's success, but not in the way expected. The capacity assessment came up with 23 detailed recommendations that mixed broad maxims '*become more risk-taking, innovative, catalytic,*' with detailed prescriptions such as '*review implementation cost efficiency*'. The funds for competence development were used at a slower pace than expected, and for reviews of the policy instruments and employment of an outposted technical advisor, rather than as originally budgeted. They were probably used wisely, although UNCDF acknowledges that staff development was less strategic than it should have been. Programme officers in particular have benefited and seen their role enhanced.

6.6 But the absence of a clearer understanding about the link to the policy objectives means that the opportunity to focus on the quality of the products that UNCDF delivers, its portfolio of projects, was missed. Distraction with the policy debate left project design and the operation of the project cycle unreformed. The quality of project documents now significantly lags behind the examples of good work taking place on the ground. The poor quality of many formulations tends to undermine projects from the outset and leads to unpredictable outcomes as project teams adopt the objectives they are most comfortable with. In part, this is why the Eco-development portfolio went unchallenged for so long. Action is needed to lower the transaction costs that come with having to reformulate after start-up, by improving identification, preparation and appraisal of projects - quality assurance.

Skills, Structure and Relationships

6.7 The capacity development funds were designed to help create an organisation that could match the ambition of the new policy, and stand out in the UN system. Much has been achieved with institutional development. Skills have been upgraded by on-the-job training and interaction with outside experts about institutional development, participation and monitoring and evaluation. A limited range of procedural changes have been introduced, to improve the efficiency of the technical advisors, and to facilitate teamwork among the three main organisational units. The efficiency and effectiveness by which staff have been used has been improved through quarterly planning procedures. But delays in the development of a management information system, and inadequacies in the UNDP financial reporting system have left financial resources managed inefficiently.

6.8 Energetic promotion of the fund by senior management has helped improve the responsiveness of UNCDF to the needs of donor agencies and partner governments. Participation was at the centre of the new policy. A somewhat formalised approach was adopted to design participation events linked to project preparation. These have gained ready acceptance by staff and the field visits identified

examples where participation has gone beyond formal events, to imbue a new style of working on the ground.

6.9 The areas where progress has been slower are in the relationships with other organisations and the wider environment. The 1995 policy is clear about UNCDF's role to pilot projects. The Fund's management recognise clearly that to have a major impact on poverty, the Fund has to have its small-scale activities replicated by government or other donors, and the policies it is espousing adopted by the partner government. Policy impact and replication both depend on the actions of other donors and government. In logframe parlance they are in the assumptions column - necessary to achieve the desired goal, but outside project control. They may be outside control, but that doesn't mean they cannot be managed. Awareness that UNCDF has to have strategies to foster donor collaboration, and generate the lessons that will convince governments to adopt policies has come late and still needs to be dealt with.

6.10 The issue of the wider environment concerns UNCDF's niche as a piloter and an innovator. If UNCDF is to continue to pilot interventions it must have the ability to attract the necessary economic, social and political skills to stay abreast of mainstream development work. This implies access to skills from outside the UN system, something that is closely linked to managing the changing portfolio.

The Potential for Impact

6.11 Significant changes can be seen in the shift in UNCDF's portfolio, such that new approvals are dominated by Local Development Fund projects and are overwhelmingly in concentration countries. The evaluation field visits went mainly to countries with new examples of formulations. Support to local government appears to be well founded; support to civil society has good potential. The goal of UNCDF is poverty reduction. The sectoral orientation of the Fund's projects is shared by many donors and there is little doubt that a causal link can be identified between empowerment, access to social infrastructure and poverty. But it is important for UNCDF's donors to recognise that poverty reduction will take place in the long term, and requires complementary support for the operation of social infrastructure. The proposed Sector Investment Funds and new-style Micro-finance will both offer more direct routes to poverty reduction.

6.12 The changing portfolio has brought a new style of knowledge-intensive projects. There is some concern about the extent to which UNCDF can manage this change. The new projects have taken almost the full attention of the technical advisers since 1995, yet over half the portfolio, in value terms, is old-style infrastructure or rural development projects. The current portfolio is too large. The newer, knowledge intensive projects will require more technical assistance, which implies a fundamental reorientation of staff skills. This is recognised by UNCF management and proposals are in hand for a new organisational structure and staff complement. These need to be supported by a clean up of old projects to reduce the size of the total portfolio.

Objectives of the Evaluation

6.13 The Terms of Reference for the study were detailed and comprehensive. The Team considers that evidence has been gathered to address all the major concerns and specific items, with one small exception: the ‘...*analysis of expected impact of new policies on technical and administrative support costs*’ (ToR para 21). Limitations on financial data to compare the situation before and after the new policies, described in para 4.2, have precluded detailed coverage of this item.

6.14 The scope of the Terms of Reference is described in ToR para 16, and summarised here:

- a) *assess whether the reorientation of the Fund’s activities has enhanced its distinctive identity ... through its ability to take risks, test new methodological approaches and pilot innovations.*
- b) *review the adequacy of actions taken with respect to the findings and recommendations contained in the Capacity Assessment...*
- c) *examine the extent to which new approaches and processes ... are gaining acceptance ... and make a preliminary judgement as to how these processes have affected field operations.*

6.15 In respect of the identity of the Fund, the conclusion is that the 1995 policy has reoriented UNCDF. The Fund now needs to stabilise policies and draw a line under the continual revision that has characterised recent years. The challenge is to find ways of turning the policies into good projects, to deal with the gap in addressing policy impact and replication, to consolidate the local governance niche and to put in place quality assurance measures to achieve excellence.

6.16 The competence of the Fund’s staff has been enhanced. The new policies bring knowledge intensive projects. As these increase to dominate the portfolio, more skilled staff will be needed. A clear strategy is needed either to train staff seconded from UNDP or to recruit from outside the UN system. The relationship with UNDP requires more active management at both headquarters and field levels.

6.17 Evidence about the effect of new approaches and processes is mixed. The quality of project preparation as evidenced by project documents, still needs to be improved. On the ground there are some very good, even excellent, projects. But there is much variation. The challenge is to build on the best and expand the proportion of good operations in the portfolio. UNCDF needs to adopt clear goals of excellence in both project design and project results, and report performance to its donors.

6.18 The evaluation concludes that UNCDF has enhanced its distinctive identity by developing competence in the fields of decentralisation and local governance, together with micro-finance. The capacity of the institution has been improved and the preliminary judgement is that the new approaches have had a positive affect on field operations. UNCDF’s experience has the potential to be used as a model for change by other UN agencies. Time will tell whether or not the desired impact on poverty reduction materialises.

7 Recommendations

7.1 The recommendations are grouped together according to the organisation to which they are addressed.

UNCDF

7.2 Policy development That UNCDF move rapidly to finalise a short, clear, policy statement of goals and then concentrate on dissemination of that policy and the strategy to implement it. The statement should resolve outstanding issues about policy impact, replication and innovation and have clear objectives for quality of projects, efficiency and effectiveness.

7.3 Replication and policy impact That UNCDF develops a strategy specifying the means by which it will achieve impact on national government policy and encourage replication by other multi-lateral and bilateral donors.

7.4 Portfolio clean-up That UNCDF review all projects in its portfolio with a view to closing all old, delayed, over-budget or non-performing projects by an agreed date.

7.5 Organisational structure That UNCDF adopt an organisation structure to bring the skills and authority required for project identification, formulation and supervision together.

7.6 UNDP relationship That UNCDF continues to seek the closest possible relationship with UNDP at HQ and country level, and notably with the regional bureaux responsible for UNCDF concentration countries.

7.7 Devolution and staff strengthening That UNCDF continues to increase the devolution of financial and implementation responsibility to country offices.

7.8 Management Information System That UNCDF takes immediate action to create a database of its entire portfolio of open projects. The design criterion of the MIS should be “minimum essential” not “maximum desirable”.

7.9 Financial and cost-effectiveness reporting That UNCDF monitors and publishes annually an analysis of direct project expenditures and of the fixed and variable costs of project formulation, project support, supervision, evaluation etc., including missions financed under project budgets.

7.10 Project formulation That UNCDF introduce procedures to ensure that all formulations meet best practice international standards for quality of analysis and conciseness. A new set of short, clear guidelines for formulators for each project type will be required. Consideration should be given to the establishment of an external Project Appraisal Panel of experienced country and development specialists, and

commissioning views from selected individuals on the Panel on new formulations, prior to UNCDF approval.

7.11 Project evaluation That mid-term and final evaluations continue to be led by independent external specialists.

UNDP

7.12 UNCDF Executive Secretary and Deputy That in appointing the new UNCDF ES and Deputy ES, UNDP seeks to appoint one who has strong practical field experience of institutional development project planning and management, and one who has strong insider knowledge of UNDP.

7.13 UNCDF relationship That UNDP headquarters units routinely invite UNCDF to attend significant meetings and activities relevant to UNCDF's policy priorities, projects and concentration countries.

7.14 The ResRep role That within UNCDF concentration countries the relationship between the UNDP Resident Representative and UNCDF should be set out by means of a 'direct line' from the UNDP Administrator, to ensure that: i) UNCDF is fully involved in the preparation of the Country Co-operation Framework; ii) an annual programme of work is agreed with UNCDF; iii) UNCDF projects receive timely, efficient and effective support in relation to both policy development with government, and administrative, financial and procedural matters; iv) UNCDF is involved in the selection and performance review of UNCDF Programme Officers; v) The UNCDF PO, irrespective of their grading, receives all necessary information, meeting invitations etc. relevant to the UNCDF portfolio; vi) POs with joint UNDP/UNCDF responsibilities are located in the most appropriate UNDP unit for the UNCDF portfolio; vii) The UNCDF PO has every opportunity to attend training, seminars and other UNCDF-organised events; viii) Recruitment for UNCDF-financed staffing and TA of UNCDF projects is decided by UNCDF, in consultation with UNDP; ix) The UNDP-financed staff and TA for UNCDF projects is subject to agreement by UNCDF.

Donors of UNCDF

7.15 UNCDF future funding In view of the conclusion that UNCDF has enhanced its distinctive identity and developed competence in line with the 1995 Policy, donors should continue to support UNCDF. Future funding should be linked to performance targets geared to project design quality, and results performance including replication, with arrangements for objective verification and annual performance reporting. The impact of UNCDF's new-policy projects should be the subject of an evaluation study within five years.

UNCDF COMMENTS ON THE EVALUATION PROCESS

In 1995 the United Nations Capital Development Fund put its head on the block and engaged donors to take up a challenge: give UNCDF three years to deliver on the ambitious goals set out in its 1995 policy paper, and evaluate its performance. If the Fund failed in this endeavour, donors were to recommend closure of the organisation; but, if successful, they would be asked to provide UNCDF with more consistent and more active long-term support. No UN body had ever thrown down such a challenge before.

The donors accepted this challenge, and the evaluation process began with the independent 1996 Capacity Assessment Team (CAT) Study. This initial critical diagnostic exercise highlighted five main problem areas needing change, and served as a baseline for the 1999 evaluation. From the CAT study, UNCDF laid down a comprehensive change strategy and plan of action to address these areas: policy development, sharper country and thematic programme focus; closer relations with UNDP, national partners and other donor agencies; introduction of more inclusive and participatory programming processes; and organisational competence building and decentralisation.

But implementing this change programme alone was not sufficient. At the same time, UNCDF had to ensure buy-in by its own staff to this change; and it also had to ensure maintenance of programme delivery levels throughout the sometimes disruptive process. Without the former, this change could simply not have been implemented; and without the latter, UNCDF credibility amongst its partners would have been damaged.

UNCDF management kept close watch on the pace and direction of change, working to ensure that targets and indicators were based on the CAT report, while also promoting the maximum feasible degree of internal consultation and transparency. Change issues were a regular agenda item of weekly management meetings, the minutes of which were routinely disseminated to all HQ and field staff for comment and feedback. Most key decisions were only made after such feedback.

Furthermore, over the past two years, UNCDF actively sought close scrutiny of independent outside opinion in the development of policy, and in the evaluation of its projects and main programme instruments. It was in response to a highly critical independent review of the eco-development approach that UNCDF moved quickly to review and realign its existing eco-development portfolio, and to make radical adjustment to its overall policy and programming framework to ensure a more consistent institutional strategy.

Throughout the evaluation process, UNCDF has sought to maintain a programming focus as earlier endorsed by the Executive Board: to focus on supporting local governance; to focus on a limited number of countries where decentralisation policies are conducive to this; and to focus on developing relations with other partners in these countries, first among which is UNDP.

With the present ITAD/OPM Synthesis Report we are now close to the end of the process of evaluation of UNCDF change performance. When this evaluation exercise began, in September 1998, UNCDF felt confident that it had made major progress in realising its change objectives and in implementing the goals of the 1995 Policy Paper and the recommendations of the 1996 CAT study.

We are therefore gratified that this progress has been recognised and that the conclusions and recommendations are broadly positive. After the field study phase, the evaluation team concluded that “the capacity of the institution has been improved and the preliminary judgement is that the new approaches have had a positive effect on field operations”. The present Synthesis Report confirms the innovative role of UNCDF, and the potential for impact on both poverty and policy. It further concludes that “UNCDF has enhanced its distinctive identity by developing competence in the fields of decentralisation and local governance, together with microfinance”. It notes that “for donors there is a good lesson that change can be managed” and recommends that “donors should continue to support UNCDF”. While this is a gratifying endorsement, UNCDF does not intend to remain complacent.

From the beginning of the nine-month exercise, the evaluation team identified a number of problem areas and made recommendations which UNCDF accepted and has already begun to act upon. Throughout, we have seen this exercise not just as one of validation of success but also a tool for further change and improvement.

The conclusions and recommendations of the evaluation were incorporated into the Administrator’s report to be discussed during the September 1999 UNDP Executive Board meeting. It should be stressed that UNCDF does not see the evaluation as a discrete event, but rather as part of a long-term strategic change process of establishing a niche, refining policies, maintaining focus, engaging dialogue with key partners, and building organisational competence - all while ensuring real impact through programme delivery and efforts at replication of its pilot programmes. It is precisely to ensure that we maintain adherence to this path that the Executive Board report proposes annual UNCDF reporting on the state of implementation of the evaluation recommendations, and an impact evaluation after five years. UNCDF is again challenging the donors to maintain a stance toward the agency which is both supportive and critical; and is challenging itself to deliver on its commitments.

ANNEXES

Annex 1 Terms of Reference

EVALUATION OF THE UNITED NATIONS CAPITAL DEVELOPMENT

Background

1. The United Nations Capital Development Fund (hereinafter referred to as the Fund) was established by the General Assembly in 1966 as a semi-autonomous Organisation within the United Nations system for the purpose of supplementing the sources of capital assistance to developing countries by means of grants and concessional loans. The assistance aimed at accelerating economic growth in those countries and was "oriented towards the diversification of their economies, with due regard to the need for industrial development as a basis for economic and social progress".

2. Generating only very modest financial resources in the initial years, the Fund was placed under UNDP management and under the legislative control of the UNDP Governing Council. In 1973 the latter decided that the Fund should in the first instance confine its operations to the least developed countries. In line with this mandate, the Fund's activities should help strengthen their economic and social infrastructure, particularly "in the fields of integrated rural development and small-scale industries".

3. The focus on the least developed countries led to rapid successive increases in the annual voluntary contributions to the Fund by a core group of some 10 donors. By 1980 annual pledging had reached \$ 29.5 million. Although resources pledged in the next five years diminished in US dollar terms, the Fund's mandate was reinforced by the attention devoted to the least developed countries in the early 1980's, and in particular as a result of the Substantial New Programme of Action adopted by the United Nations Conference on the Least Developed Countries in 1981. In terms of its specific role, the Fund was seen to fill a resource gap, by engaging in relatively small projects that were unlikely to claim the attention of established national and international financial institutions. Its target constituency was increasingly seen to be the rural poor in the poorest nations, and its resources were expended on economic, productive and social infrastructure in rural areas.

4. Contributions to the Fund accordingly continued to grow and in 1991 peaked at \$ 42.8 million, enabling the Fund to make programme commitments at the \$ 300 million level and to work in over 40 of the world's poorest countries. By 1996 the Fund's programme numbered 537 completed and ongoing projects with cumulative expenditures standing at \$ 664 million, and with agriculture, water supply, small industry, transport and health infrastructure as the leading sectors. Some 10 per cent of all programme resources have been in the form of trust fund and cost-sharing contributions.

5. Since 1991 donor funding has fallen substantially, reaching a low of \$ 31.3 million in 1994, a drop of 25 per cent. In contrast to the 1980's, this reduction reflected not only a general decrease in donor allocations for development but was accompanied by persistent questioning of the Fund's impact, its institutional place and *raison d'être*.

6. Faced with the prospect of further resource attrition, the Fund has attempted what amounts to a radical shifting of gears in interpreting its mandate to combat rural poverty. Building in part on its experience over the past 25 years and in part on the renewed interest in

decentralised aid policies, in grass-roots interventions and in the way local governance and participatory approaches affect development, the Fund proposes to make local empowerment a central objective of its work. Its new approach is set out in a policy document issued in 1995 entitled "Poverty Reduction, Participation and Local Governance: The Role for UNCDF".

7. As a result, working with local government agencies and civil society organisations in the recipient countries, the Fund is embarking on new procedures for project preparation, rethinking fundamental project design and restructuring its programme portfolio with a view to securing the active involvement of beneficiaries at all key stages of programme development, implementation and evaluation. By concentrating assistance to specific areas and countries enacting or favouring policies of decentralisation, the Fund would furthermore overcome as far as possible the drawback of dispersing its relatively modest resources.

8. While continuing to provide investment resources for economic and social infrastructure, as well as finance for various types of credit schemes, the Fund's capital assistance will be slotted into the three main areas of (a) "blueprint" infrastructure projects, (b) micro-credit and/or loan guarantee schemes, and (c) local development funds prioritised and managed by local authorities. Where appropriate, local infrastructure programmes will be linked to strategies of more long-term environmental restoration.

General Framework

9. The Fund's donors have responded positively to these initiatives and agreed to provide stable funding over a three-year period, during which the Fund would demonstrate that a new departure has been made and that new bearings have been firmly set institutionally and operationally. Donors have furthermore accepted the Fund's proposal that they make a comprehensive evaluation of the results in 1999 and report to the Executive Board of the UNDP in September 1999 so that a decision can be taken on the Fund's future.

10. A Steering Group, in which all UNCDF donors, UNCDF and UNDP have been invited to participate, has been established to guide and oversee the Evaluation. The Netherlands is managing the evaluation process and chairs the meetings of the Steering Group.

11. Donors recognise that the Fund has embarked on an ambitious undertaking, which contains many features of an experimental nature and whose success is not a foregone conclusion. Yet the experience gathered and any innovations made by the Fund, working in a flexible manner and with limited spending levels, could be rich in yielding lessons both for the larger international financial institutions and for voluntary organisations working directly with the target communities.

12. Donors also acknowledge that the time that has elapsed since the Fund's policy switch, and which the present Evaluation would cover, is too short to demonstrate a full-fledged product, or to assess socio-economic impact in a meaningful way. Accordingly, they accept that the Evaluation should be process-oriented and mainly assess the measures taken by the Fund to enable it to design and deliver a programme infused with the new policies.

13. A donor-financed study carried out in the first half of 1996 to assess the capacity of the Fund to redirect its activities has strengthened the focus on process rather than on product and impact. As a practical matter, donor agencies have agreed that the findings and recommendations of this study form the baseline position for the Evaluation.

14. On this basis the Fund has prepared an action plan establishing targets for capacity improvement, financed from general resources to the tune of \$3.18 million. The action plan is a second, ready frame of reference for the Evaluation. Internal reviews of the action plan and other arrangements made at headquarters and in the field to give effect to its stated policies

are underway and will be available to the evaluation team. A number of evaluative studies covering newly implemented activities have furthermore been commissioned.

Objective of the Evaluation

15. The objective of the Evaluation is to assess UNCDF's performance in implementing the goals and policy directions of the 1995 policy document "Poverty Reduction, Participation and Local Governance: The Role of UNCDF" and review the adequacy of actions taken with respect to the findings and recommendations of the 1996 document "Capacity Assessment of UNCDF".

Scope of Evaluation

16. The Evaluation should address issues arising in three interrelated, and in some respects overlapping areas. Based on experience to date, it should:

- a) assess whether the reorientation of the Fund's activities has enhanced its distinctive identity in relation to other development institutions, through its ability to take risks, test new methodological approaches and pilot innovations. This comparative element in the evaluation has to be understood in terms of UNCDF's ability to implement its policies of the 1995 Policy Document, i.e. focus on the least developed countries, the Fund's particular role in supporting processes of decentralisation and local governance, and its emphasis on support for infrastructure development (including environmental restoration), micro-credit and/or loan guarantee schemes and locally prioritised and managed development funds;
- b) review the adequacy of actions taken with respect to the findings and recommendations contained in the Capacity Assessment referred to in paragraph 13, and made the subject of a series of internal reviews;
- c) examine the extent to which new approaches and processes instituted for project preparation, implementation, monitoring and evaluation are gaining acceptance among recipient agencies, target communities and partner organisations, and make a preliminary judgement as to how these processes have affected field operations.

17. On the basis of the findings and conclusions presented, the Evaluation should make an overall assessment whether the Fund's policies are well served by present practices and formulate recommendations as to how the Fund can improve its performance.

A. The Fund's distinctive identity and role

18. Being concerned with the rural poor in the world's poorest and least developed countries, a critical review should be made of the implementation of the Fund's policy emphasis on support for decentralisation and local governance. on an enhanced role for the private sector and on promoting the active participation of beneficiary communities at all stages of the project cycle.

19. In the light of the reality exposure gained so far, the Evaluation should inter alia establish:

- a) how relevant these policies are to the needs and conditions prevailing in the countries found eligible for assistance according to the Fund's criteria for concentration;
- b) how satisfactory accountability can be assured both in relation to programme concentration and to the decentralised locus of project operations;

- c) what efforts have been made to consolidate activities of different types or to bring elements of the various products into a single intervention so as to secure greater area development impact.
- d) whether, in terms of financial management, the present "partial funding formula,, remains optimal in terms of the Fund's financial and programme priorities, and shed light on the relative importance, quantitative and qualitative, of cost- sharing contributions.

20. While there is broad agreement that meaningful participation by project stakeholders is desirable, this is a time-consuming process and carries a cost. The Evaluation should establish the implications of this process in terms of the Fund's operational efficiency.

21. The Evaluation should quantify the expected impact of the new policies on technical and administrative support costs.

22. The proposed geographic concentration of the Fund's work to the Africa region raises the question whether advantages would accrue by relocating the Fund's headquarters. Although the Fund's programmes have clearly benefited in the past from its association with UNDP and although close cooperation at the country level is in the interest of both organisations, the Fund's organisational place within the UN system should be discussed.

23. In part, the Fund's policy shift was prompted by the experience accumulated in the past. Additional to the analysis of projects implemented following the 1995 policy document, the Evaluation should also cover projects implemented during the 1992-1995 "transition period", having elements that are consistent with the new policy direction or providing lessons that are germane in this context.

24. The new policy carries clear implications as regards the implementation modalities for the Fund's programmes, making national execution the obvious option (ownership). Implementation considerations are dealt with summarily in the documentation generated by the 1995 policy paper and in the subsequent capacity assessment. The Evaluation should however take up this matter.

B. Capacity enhancement to implement the new approaches

25. Based on the findings and recommendations of the Capacity Assessment conducted in 1996, the Fund prepared an action plan whose main components were to:

- a) refine the policy focus of the Fund's principal strategies. in the area of local development funds (LDF), eco-development and micro-finance, administrative decentralisation and community participation;
- b) explore further the potential synergy between the Fund and UNDP, particularly in the areas of country programming, good governance and micro-finance;
- c) improve the Fund's capabilities for action in the field through decentralisation, delegation and the outposting of staff;
- d) elaborate a methodology allowing the Fund to concentrate its activities in countries displaying affinity with its policies;
- e) develop staff competence, both at headquarters and at the country level, so as to perform effectively in the main areas of interest, i. e. participation by target groups, local governance and civil society, monitoring and evaluation, as well as on project management and finance;
- f) set in motion, through a series of publications, a more active communications strategy to spread understanding of the new policies and priorities, and to support resource mobilisation efforts.

26. Using the Capacity Assessment as a baseline, the Evaluation should review project documentation, technical studies, procedural directives, training programmes, workshop records and organisational changes made with a view to achieving the above objectives. The Evaluation should make an overall assessment of the thrust, adequacy and quality of the processes listed in paragraph 25 above, and the degree to which they have led to an internalisation of the new policy directions.

27. The Evaluation should report on the progress made in restructuring the Fund's programme portfolio in accordance with the 1995 policy declaration and discuss the expected impact of the Fund's concentration methodology on programming and on resource allocation. It should furthermore examine the conclusions of any internal review processes available as of mid-1998 and examine the extent UNCDF has responded to the following:

in the substantive area:

- a) the conceptual or operational adjustments that are recommended or may be warranted as a result of the examination of the Fund's principal programme products carried out at the end of 1997, particularly with respect to the central concepts underpinning eco-development;
- b) how, in the recent experience and in the light of capacity and resource constraints at the local level, adequate planning, participation, sustainability and project ability to reach target groups can be secured;
- c) in what way attention to the status of women and to poorer groups is concretised in individual programmes.

in the area of programme preparation:

- a) whether policy and institutional analysis of programme environments are systematically undertaken, in conformity with the Fund's objectives;
- b) how processes applied in the identification, negotiation and formulation of programmes have been changed and are affecting project design;
- c) the role played in project formulation by UNDP, through its co-financing of technical assistance components, a regular feature of the Fund's programmes;
- d) the extent to which implementing partners are associated with the formulation of programme products and as a consequence able to translate the Fund's new policies into operational realities;

in the area of monitoring and evaluation:

- a) whether monitoring and evaluation is addressed at the project design stage and whether benchmark and baseline indicators are clearly relevant and are routinely being assembled;
- b) the progress made in the use of key performance indicators (KPI) and in incorporating impact monitoring and evaluation in project design and in operational procedures;
- c) what steps have been taken, in terms of project design, to assimilate lessons learned within projects, and also to link the results of project monitoring and evaluation with project preparation;

in the institutional area:

- a) what further measures have been taken to strengthen cooperation with UNDP in the elaboration of country programmes, and in relation to poverty alleviation, sustainable human development goals and good governance;
- b) what may be the implications of integrating the management of UNDP's division for micro-finance with that of the Fund's;
- c) how institutional relationships, especially with technical assistance agencies and NGO partners, are being affected by the new approaches and by the Fund's attempts to decentralise project management;

in the organisational area:

- a) whether the Fund's current management structure and decentralisation of staff are appropriate and adequate responses to the new operational exigencies
- b) whether stakeholder colloquies, seminars and staff training programmes have been effective for the purpose of securing a good understanding of the Fund's programme processes and products, in particular as regards participatory development and impact monitoring
- c) the progress made on setting up an efficient information management system and data base.

C. Institutional responses and initial assessment of impact

28. The third level of review is closely related to the segment on the competency development of the Fund's staff and on the adequacy of the processes used to translate objectives and new policies into concrete action.

29. Taking representative samples of projects identified and formulated and implemented since 1995 but also selected projects whose formulation predated the 1995 policy study, the Evaluation should focus on how the Fund's objectives and policy emphasis on Local development funds, Eco-development and Micro-finance, are understood and have gained or failed to gain acceptance among recipient governments, ministerial and provincial agencies, partner organisations and local communities.

30. In particular, the Evaluation should describe how the relationship between the Fund's principal programme components and its goals of targeting and reaching the poor, of supporting marginalised groups and addressing the needs of women, is operationalised in the field.

31. While recognising that the short period covered by the Evaluation would not allow for measuring the impact of the new policy and approach in terms of social and economic change, or for assessing conclusively the progress made by the Fund towards establishing a distinctive identity or niche, the Evaluation should form a judgement on UNCDF's performance with respect to:

applying the new approaches:

- a) how participatory techniques are affecting the design of programme products, local development funds, eco-development and micro-finance projects
- b) how the policies of decentralisation, empowerment of local administrative structures, and community participation affect the implementation of the Fund's programmes
- c) the extent to which the new processes and approaches, especially the involvement of target communities in programme planning and monitoring, as well as stakeholder workshops, are effective in creating a sense of local ownership;

relating to in-country institutions:

- a) the extent to which recipient governments and their agencies at provincial and district levels have been responsive to the Fund's new policies
- b) whether partner agencies, implementing agents and co-operating NGO's have developed a good understanding of the Fund's aims and processes, and of their own respective roles and responsibilities
- c) the possibility of extending the network of existing partners in such a way that they could assist the Fund in the technical area and with backstopping;

performing its catalytic role:

- a) whether recent project design has succeeded in factoring in the elements of risk-taking, experimentation and innovation
- b) the problems, if any, associated with merging programme products as components of a single intervention to enhance its impact
- c) whether there is evidence at the country level that the Fund's aims and processes are influencing national policies and practices, scaled up by the government or that they have raised interest among other donors
- d) the degree of success achieved in developing working partnerships with private sector entities.

Methodology

32. The Evaluation consists of two stages: a desk study phase (phase I) and a field study phase (phase II) . Phase I comprising a study of two months' duration should review all pertinent documentation and material at the Fund's headquarters supplemented with interviews with key informants at headquarter level. It should include an analysis of UNCDF's portfolio covering ongoing project and programmes as well as projects implemented during the 1992-1995 "transition period". on the basis of the findings from the desk study and taking into account gaps in knowledge, issues for further investigation will have to be defined. The desk study report will therefore include a justified proposal of countries en projects to be covered by the field study. The field study phase of three months, duration, consists of visits to selected "concentration countries" and field operations. The countries and project locations to be visited should be chosen in the light of the findings of the desk review, and should provide a representative sample of activities of the Fund. It is envisaged that six (6) countries will be included in the field study.

33. The issues addressed in the preceding section (Scope of Evaluation) apply to both phases of the investigation, although issues raised in the third segment (on institutional responses and initial assessment of impact) are likely to predominate in the second phase, which would be based to a greater extent on interviews. There will be an interval of two months between the two phases, during which the Donor Steering Group will review the results of the Desk Study and if appropriate adjust the present terms of reference for the field studies.

34. For the purpose of the Desk Study, the evaluation team will have before it all relevant documentation and material produced since the 1995 policy paper and the 1996 capacity assessment were issued, such as working papers devoted to the programme products, operational and procedural guidelines, workshops and seminar proceedings, project documents and appraisal records, mission and field reports, progress reports relating to the implementation of the Action Plan, internal thematic reviews, annual project evaluation summaries and business plans, as well as minutes of the weekly meetings of the Management Group.

35. The evaluation team will be assisted on the Fund's behalf by a resource group led by the head of its Policy, Planning and Evaluation Unit. The group will make available to the evaluation team all pertinent documentation, as well as assist team members in drawing up travel schedules and setting up contacts and project visits in the field.

Organization and timetable

36. A consulting entity (Consultant), selected through competitive procedures, will carry out the Evaluation. The Consultant should have a professional background and/or extensive experience in: (1) evaluation of institutional development (policy and institutional analysis); (2) evaluation of organisational and financial management; (3) evaluation of socio-economic programmes in developing countries, with special emphasis on the three main areas of interest to the Fund; (4) the work of multilateral and bilateral institutions engaged in development

cooperation; (5) the United Nations system of developing agencies, their respective mandates and operational programmes. The team leader should have considerable experience as evaluation manager.

37. The present Terms of Reference, along with the invitation to bid, provide the basis for the Consultant's tender of proposals. Consulting entities that have been short-listed will obtain the key documents listed in the annex to the Terms of Reference.

38. The Consultant's bid should give a proposal for the methodological approach for the evaluation, based on the Terms of Reference outlined above. The tender should also provide detailed information on staffing and professional experience of the team.

39. In order to accommodate the national perspective in the Evaluation, the Consultant should make a special point of including experts from the programme country, or specialists from a developing country, in their study teams for the field segment (the specific personnel to be determined in the proposal for the field studies following the desk phase). While the consulting entity has significant latitude in the way it proposes to organise the study, it is estimated that the desk phase might require a work input of 6-8 person/months and the field phase 15-20 person/months.

40. Tender submissions should be according to the two-envelope procedure, one sealed envelope containing the consultant's technical proposal and a second sealed envelope with the Consultant's financial proposal. In the analysis of the bids, the following criteria will be applied, in order of the following priority:(a) Staffing and professional experience of the team;(b) Approach and understanding of the assignment;(c) Methodological aspects. The bids will be scored following a scale with four grades. Different weights will be given to the above mentioned criteria. The final score will then be considered in relation to the proposed budget.

41. The Final report should be drafted in English and no longer than 50-60 pages, excluding appendices; a French translation of the final report will be financed separately.

Timetable

42. The following timetable will apply:

- | | |
|---|------------------------|
| - Launching of invitation to bid: | 1 April 1998 |
| - Submission of bids: | 15 May 1998 |
| - Contract award: | 15 June 1998 |
| - Inception report: | 15 July 1998 |
| - Desk Study (phase I): | September/October 1998 |
| - Submission Desk Study Report: | 1 November 1998 |
| - Field Studies (phase II): | January-March 1999 |
| - Submission Field Study Report: | 15 April 1999 |
| - Preparation Final Report: | May 1999 |
| - (synthesis of desk and field study reports) | |

- Submission draft Final Report: 1 June 1999
- Submission Final Report: 30 June 1999

The reports will be produced in the following number of copies:

- 15 copies of the inception report
- 50 copies of the desk study report
- 50 copies of the field study report
- 100 copies of the final report

Annex 2 Selected Bibliography

This bibliography lists the documents referred to in this report and a selection of key documents from the Desk Study report. The Field Visit report also contains extensive bibliographies of materials used in that part of the evaluation study.

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Annex 3 Glossary and Definitions

Co-financing See 'Replication' below

Decentralisation The word “decentralisation” simply means the transfer of powers from a central to a local authority or organisation. It is not a normative concept. It is necessary to distinguish the extent of decentralisation by reference to the type of powers that are transferred (planning, financial decision-making, administrative authority) and the level of unit to which powers are transferred or with which powers are shared. Different forms of decentralisation can be distinguished primarily by the extent to which authority to plan, decide and manage is transferred from central bodies and by the amount of autonomy that the recipient organisation enjoys in carrying out decentralised tasks.

Effectiveness How likely the project is to achieve its objective

Efficiency How economically the project is achieving its objective

Governance A formal definition of governance is lacking from the 1995 policy document. Thus, it seems appropriate to adopt the definition commonly utilised by UNDP as: *'the exercise of political, economic and administrative authority to manage a nation's affairs.'*³⁴ Governance *'embraces all of the methods – good and bad – that societies use to distribute power and manage public resources and problems.'* UNDP thus focuses on “sound” or “good” governance which is *'a subset of governance, wherein public resources and problems are managed effectively, efficiently and in response to the critical needs of society. Effective democratic forms of governance rely on public participation, accountability and transparency.'*

Institutional Development There are two ways in which the concept of “institutions” is generally understood: i) For economists, “institutions” are normally understood to mean the set of administrative rules, laws and customs that govern economic behaviour.³⁵ These comprise both formal laws and regulations – the structure of contract law, the mechanisms of bank regulation; and informal rules and customs, such as those governing the use of water rights, pastureland and other common property resources.³⁶ In this sense institutions comprise “the rules of the market” or more broadly, “the rules of the game”. ii) There is a narrower sense in which the term “institutions” is more commonly understood where an institution is used to describe an organisation – a group of people working together within a private company, a church group or charity or a government department.

The two concepts are quite clearly related – within an organisation, members will adopt certain internal rules and regulations, as well as informal codes of behaviour in order to interact easily together without having to negotiate and re-negotiate contracts at each point of interaction.³⁷ A good organisation is akin to a good sports team. However, just as the members of a successful sports team and the way in which they inter-relate will need to change when the rule book changes so, in the marketplace, most organisations change when the overall “rules of the game” (or the institutional

³⁴ MDGD, Reconceptualising Governance, Bureau for Policy & Programme Support, UNDP, January 1997.

³⁵ This definition is now common to virtually all modern economics but it was pioneered by the school of New Institutional Economics, whose foremost proponents have been Douglass North, Eleanor Orstrom and Jon Williamson.

³⁶ In Developing Countries especially, many rights and obligations are determined by a combination of formal and informal systems, the nature of land tenure being perhaps the best example of this.

³⁷ In an economic sense, the purpose of internal organisational rules is to reduce “transaction costs” but, of course, the need for carefully structured internal rules becomes less strong when the overall “rules of the game” (the institutional framework) themselves serve to reduce transaction and information costs.

structure) are amended. In terms of rural development or poverty alleviation, organisational development is often helpful. For example, to the extent that existing farmer's associations or local governments can strengthen themselves through better internal rules and more efficient management, then this is likely to be to the benefit of the members whom they serve. However, their effectiveness in promoting development will be tightly circumscribed by the institutions ("rules of the game") within which they have to work. To the extent that organisations can develop the necessary influence to actually change the rules of the game in their favour, then they may be described as having been empowered. If outside forces serve to change the rules of the game, there will also be a resulting empowerment.

A useful working definition is '*The process of improving an institution's ability to make effective use of the human and financial resources available*' Arturo Israel, Institutional Development - Incentives to Performance, World Bank, 1987 pp.11.) In this report, ID mainly refers to the process of developing policy and systems which enable local government to plan and allocate small-scale infrastructure funds in a participatory manner (UNCDF's Local Development Fund approach.)

Innovation The extent to which UNCDF projects take risks by introducing new approaches that differ from other government initiatives and donor projects within the country. The evidence for the assessment of innovation comes from the Team's discussions with government and donors in-country and from the Team's own country-knowledge.

National Execution: The project implementation modality normally used in UNDP, whereby Government and UNDP (the project 'owners') select a government department or cell as the national executing agency. UNDP make quarterly advances to the executing agency, which is then responsible for implementation and accounting.

Participation Participation in simple terms can be said to mean the involvement of local people in the development processes that affect their lives. However this simple definition hides a complex reality and we need to ask four key questions to understand the nature of participation in any specific context. The first question to answer is participation in *what*? Participation in the design and implementation stages of a project is now very common, with considerable emphasis being placed on accurately assessing the needs and priorities of potential beneficiaries. However this is only part of the project cycle, and participation in prior decision making processes, in the monitoring and revision of ongoing projects, and in evaluation of project impact should also be considered.

The second dimension of participation is *who* should participate? In practice it is often the marginalised groups who the project specifically aims to target (e.g. the poorest) who are the last to be fully involved. The third question is *how* is participation to be achieved in practice? Through information sharing and consultation processes, or through delegation of decision making powers to the local level? The mix of what, who and how in any particular setting is basically determined by the answer to the final question – what is the *purpose of participation*? Is participation a means to improving the relevance, effectiveness, efficiency and sustainability of externally determined projects? Or is participation an end in itself, aiming to empower local individuals and community groups to initiate action and take control of decision-making processes that affect their lives?

The 1995 policy paper claims that participation is '*not another project component but rather a method or practice that is consistent throughout the project cycle, and is based on learning, dialogue, consultation and shared decision making with local partners*'. This implies a high level of participation at each stage of the project cycle. At the centre of UNCDFs approach to participatory development is the often repeated phrase – 'delegation of responsibility for planning and management to as low a level

as possible', 'as close to the people affected as possible'. This means delegation of decision making power to local government and/or other local level institutions, whilst simultaneously introducing measures which will strengthen popular participation in these institutions. Some of the language of the policy paper therefore implies that UNCDF is aiming at a high level of participation, to empower local groups, and sees participation partly as an end in itself. However, two key problems can be identified which imply that a much lower level of participation will be achieved in practice:

- Firstly, the continued focus on a range of predetermined project instruments, inevitably limits participation of local communities to consultation and information sharing;
- Secondly, the mechanism by which participation is actually supposed to be achieved lacks clarity, and risks the achievement of only a low level of participation in practice.

Replication UNCDF tends to use the word 'replication' to cover both Co-financing (where another donor decides to channel funds through the project, because they like the objectives and results and it is easier to use an established delivery mechanism) and Project Replication (where another donor is sufficiently impressed with the project concept that they adopt the design and apply it in the same country or elsewhere.). The two concepts are differentiated in this Report.

Sustainability The likelihood that project effects and impact will continue after project closure

Annex 4 Evaluation Questions

Cluster	Subheading	Question
UNCDF Identity and Policy Framework	Internalisation of policies	1 1 1 Is the CDF programming strategy clearly understood by its staff? Has it been operationalised in a sound manner? Have different interpretations been standardised?
		1 1 2 Internalisation : Has UNCDF internalised the policy; has UNDP cooperation been strengthened?
		1 1 3 Internalisation : Do governments and partner agencies understand the new policy and what is their reaction to it, especially w.r.t. LDF, EcoDev, Microfinance?
	Refinement and evolution	1 2 1 Has the 1995 policy paper been further developed since 1995 to make it more relevant, comprehensible and operational?
		1 2 2 Policy refinement : Has UNCDF responded to the reviews of its products (1997), especially eco-dev?
		1 2 3 Policy Development : Have governments and partner agencies been involved in refining the 1995 Policy ?
		1 2 4 To what extent have Northern associations of LG s contributed to CDF programme and strategy formulation ?
		1 2 5 [Centre of Excellence : If becoming a CofE in LG is “too ambitious” (Int/97), is the PREPALGO objective also too ambitious ?]
	Influence on partner gov/other donors	1 3 1 Has CDF been successful in piloting concepts or models which have been later replicated by larger Donors ?
		1 3 2 Impact on Governments : Is CDF influencing host government policy and/or practice ?
	Role in the UN system	1 4 1 CDF in the UN system: What are the implications of the new approach?
		1 4 2 To what extent has the project experience of UNCDF fed into the upstream advisory role of UNDP?
		1 4 3 Programming : Is CDF programming now integrated with UNDP CCF cycle ? If so, what are the strengths and weaknesses ?
		1 4 4 Formulation : What role does UNDP play in project formulation?
		1 4 6 Joint work : Are there joint efforts with BPPS and/or MDGD?
Niche role of CDF		1 5 1 To what extent has the modest size and scope of UNCDF facilitated innovation and close involvement with local institutions?
	1 5 2 Have the recent changes enhanced CDF's identity in the donor community?	
	1 5 3 How does the 1995 policy compare with the policies of other bilateral/multilateral agencies and NGOs on decentralised development of local governance? (Similar/contradictory; complementary/duplicating)	

UNCDF as an institution	Competence development, action and outcomes	2 1 1	Competence Development - Actions : What actions have occurred ? Has there been sufficient budget flexibility? Have stakeholder colloquia, seminars and staff training been effective?	
		2 1 2	Competence Development - Impact : What improvements in performance have there been ?	
		2 1 3	TAU : has it acquired expertise in policy analysis, IA, public finance, capacity building & training and with what outcome ?	
		2 1 4	POU : Do COs now do policy analysis; programming with UNDP; manage the programme cycle up to approval; participate in reviews and evaluations ?	
		2 1 5	PPEU : has it acquired more expertise in evaluation and information production and dissemination and with what outcome ?	
		2 1 6	PPEU Database : Has the definition of KPIs been completed and is the database now a complete and useful management tool? Has an efficient information management system and database been set up?	
		2 1 7	PSU & Management of TA & project support: Despite being “Too Ambitious” & “beyond CDF scope” (INT/97) there are known problems. What action has management taken to direct and backstop TA?	
		Organisational structure and resp.	2 2 1	Structure and Responsibilities : Is the current structure right ? Has management clarified roles and responsibilities and are they appropriate ?
			2 2 2	PO upgrading : What role do POs (FIOs) now play compared to previously and with what result ?
			2 2 3	PO role : Are POs playing a greater role in identification, formulations, management and monitoring ?
2 2 4	Need for POs : Has the need for POs in all countries been reviewed and with what outcome ?			
2 2 5	Outposting : Have COs been out-posted and with what outcome ?			
2 2 6	PO & JPO staffing : Are National POs working with JPOs and/or short-term advisors ?			
UNCDF approach and instruments	Evolution of portfolio	2 3 1	HQ Location : What are the advantages and disadvantages of re-locating (to Africa) ?	
		3 1 1	What has been the change in the structure of the portfolio in terms of the nature of project interventions (blueprint infrastructure, LDFs, etc) before and after the 1995 Document ?	
UNCDF approach and instruments	Evolution of portfolio	3 1 2	Has CDF shown flexibility in adapting its procedures and building upon project innovations ?	
		3 1 3	Combining instruments : Have the various instruments been merged as a single intervention? Are there problems in so doing? Are they creating a greater area development impact?	
		3 1 4	Partial Funding : What are the benefits and problems of joint funding arrangements, and relative importance of cost sharing?	
	Concentration strategy	3 2 1	Relevance : Is the new policy relevant to the needs and conditions of concentration countries?	

		3 2 2	To what extent has CDF been successful in implementing the strategy of geographic concentration ? Has management finalised the list of concentration countries and has the portfolio been restructured accordingly? Do the countries match UNDP decentralisation/local governance priorities?
	Microfinance	3 5 1	Microfinance : What are the implications of integrating microfinance management with UNDP? What indicators demonstrate the existence of expertise in Micro-credit and Guarantee schemes? How does CDF experience compare with other agencies
Project identification	Need and potential analysis	4 1 1	What examples are there of Need and Potential analysis ? Are they useful in guiding project identification ?
	Process change and design outcomes	4 2 1	Identification : Has the process changed? How and with what outcome on project design?
		4 2 2	Do the 3 programme objectives written into the programming strategy provide adequate scope for the identification of local-level poverty-reducing projects ?
		4 2 3	Has CDF proved accessible to Local Governments and CBOs in target countries ?
		4 2 4	What examples are there of local institutional analysis in project identification?
Project formulation	Process change and design outcomes	5 1 1	Formulation & negotiation: Has the process changed ? How and with what outcome on project design ?
		5 1 2	Risk, Innovation, Experimentation, New methodologies, Catalytic role: Do new formulations exhibit these features ?
		5 1 3	Participation: Are partners and beneficiaries more involved in formulation? How and with what outcome? To what extent has CDF been successful in engaging local communities in project preparation through participatory planning processes?
		5 1 4	How does each stakeholder participate in practice [from consultation to decision-making] for each stage of the project cycle?
		5 1 5	Support Costs : What is the impact of the new policies on technical and administrative costs and the Fund's operational efficiency?
	Quality of design	5 2 1	Is the goal of improved local governance clarified for the different types of interventions and partners?
		5 2 2	Policy and Institutional Analysis : Are they stronger now ?
		5 2 3	Targeting : Has targeting, including women and the poor, been strengthened?
		5 2 4	M&E : Is M&E adequate in new formulations ?
	Sustainability issues	5 3 1	Sustainability : Are measures to increase sustainability improved ?
	Learning from experience	5 4 1	Past lessons : Are KPIs and impact evaluations used to learn from experience and improve new Formulations ?
		5 4 2	To what extent have improvements in M&E procedures created a more dynamic interaction between Operations and Evaluation and a more rapid transmission of lessons learned
Project implementation	Targeting and participation	6 1 1	Impact of changes : How are decentralisation, empowerment and community participation affecting implementation?

- 6 1 2 Effectiveness : Has the Project's participation methodology been effective in achieving policy goals?
- 6 1 3 To what extent have CDF projects (esp. LDFs) served to empower local organisations ?
- 6 1 3 How does each stakeholder participate in practice in each stage of the project cycle?
- 6 1 4 Impact : What impact does greater or lesser participation have on results ?
- Implementation partnerships
 - 6 2 1 Have CDF projects successfully fostered 3-way partnerships: Communities/ LGs/ Private Sector ?
 - 6 2 2 Partners : Are TA agencies, NGOs and the private sector more involved, and with what outcome ?
 - 6 2 3 How far have they promoted the use of the private sector to serve local needs ?
- National execution
 - 6 3 1 National Execution - Strengthening : Why is this "Not a Priority" (Int/97) ?
 - 6 3 2 National Execution - Concept : If improving governance is the objective, is national execution the 'obvious option'? Are there alternatives? Have standards and modalities been developed?
 - 6 3 3 Delegation of authority : Has project management authority been delegated to Country Offices and with what outcome ?
 - 6 3 4 Management : Have RRs & POs been sensitised and assumed responsibility for CDF project management? What is the impact on accountability?
- Decentralisation and ownership
 - 6 4 1 To what extent have programme responsibilities been decentralised to local bodies?
 - 6 4 2 To what extent have they improved the accountability and responsiveness of decentralised government ?
 - 6 4 3 To what extent have CDF projects (esp. LDFs) served as pilots for decentralisation of Central Govt capital spending ?
 - 6 4 4 To what extent have CDF projects succeeded in building capacity of financial intermediaries or in promoting groupings of borrowers
 - 6 4 5 Local TA : Has use of national/regional TA increased and OECD TA decreased ?
 - 6 4 6 Ownership : Are the new policies increasing the sense of local ownership ?
 - 6 4 7 Governance : What impact has participation made on promoting good governance?

Annex 5 Evolution of the UNCDF Project Portfolio

The Project Database

A5.1 This Annex is based on the UNCDF project database created by the Team during the Desk Study. During the Team's first two weeks in the UNCDF office (21st September to 5th October 1998), a form was circulated to all Programme Managers to collect information on all projects approved after January 1992. The required data had to be extracted from project files, complicated by the fact that the format and length of Prodocs is very variable. Despite hard work by PPEU staff, Programme Managers, Finance Section and support staff, many fields were incomplete and contained estimates and data of questionable quality. It was often difficult to reconcile data from different sources. It was also necessary to clean typing errors and resolve differences of understanding or interpretation (whether projects in one country are separate or part of a single programme; scoring evaluation results; whether projects are alive or dead; how to deal with various types of follow-on projects; unconventional charging; etc.). By the beginning of the third week in New York, however, the Team was confident that it had a reasonably reliable data set for the most important fields.

A5.2 The following points on the Team's database are important:

- ❑ **Completeness:** The database is believed to be complete in respect of all Projects approved by UNCDF PAC between 1st January 1992 and 30th September 1998, plus all pipe-line projects where there is at least a first draft formulation report. The three "Internal" (INT) projects are excluded from analysis.
- ❑ **Data quality:** All fields in the database were checked to the extent possible. No use was made of fields which were seriously incomplete or where the quality of data was considered poor (e.g. revised partner budgets and several of the date fields.)
- ❑ **Estimations.** In many cases, date fields (identification, decision to formulate, formulation mission, project signing, start-up and closure) were provided as a year only (1989, 1995 etc.). In these cases, the date was entered as 1st June of that year.
- ❑ **Project Type:** All projects were allocated to a project-type (LDF, Eco, Inf, Inf/RD, Micro-finance) based on the majority content of the project in the combined view of the Programme Manager responsible and the Technical Advisory Unit.
- ❑ **UNCDF expenditure to date:** All data is the booked expenditure at 1st October 1998. The lag between incurring expenditure and booking varies across countries, but is c.2 months on average.

- **Pipeline, new and old** : The trend analysis is based on a division of the Projects into three strata, according to the date of approval by the UNCDF PAC:

Old projects: 1st January 1992 to 31st December 1994

New projects: 1st January 1995 to 30th September 1998

Pipeline projects: Formulated but not yet approved.

- **The Identification - Formulation - Approval lag**: The median time from project identification to PAC approval is 22 months (average: 30 months), and from the time of the project formulation mission to PAC approval is 10 months (average: 14 months). The aggregate periods shown for project approvals (January 1992 to December 1994 and January 1995 to October 1998) therefore reflect identification and design work from the previous two years on average.
- **Pipeline projects**: The pipeline sample is very small and includes several anomalies (one very old formulation, one formulated but with no budget as yet and one un-reviewed consultant formulation). The pipeline data set must therefore be treated with caution and as indicative only.

Approvals by Instrument

	Eco	Inf & Inf/RD	LDF	MF	All
Number of Projects Approved					
1992-94	8	27	1	6	42
1995-98	5	21	13	5	44
Pipeline	2	2	3	3	10
All	15	50	17	14	96
Share of All Approved Projects					
1992-94	19%	64%	2%	14%	100%
1995-98	11%	48%	30%	11%	100%
Pipeline	20%	20%	30%	30%	100%
All	16%	52%	18%	15%	100%
CDF Budget Approved (\$000)					
1992-94	32,358	64,807	1,469	16,186	114,820
1995-98	24,402	63,653	59,783	14,579	162,417
Pipeline	8,406	8,500	13,203	8,189	38,298
All	65,166	136,960	74,455	38,954	315,535
Share of Total UNCDF Budget Approved					
1992-94	28%	56%	1%	14%	100%
1995-98	15%	39%	37%	9%	100%
Pipeline	22%	22%	34%	21%	100%
All	21%	43%	24%	12%	100%

- A5.3 The single most significant change over the period was the growth in the share of approved budget going to LDFs.³⁸ From being a very minor element in 1992-94, almost \$60m was committed to LDFs between January 1995 and October 1998. The share of all three other instruments in terms of both the number of approved projects and UNCDF budget fell over the period.
- A5.4 Infrastructure and rural development projects account for over half of all projects, and over 40 per cent of the total budget committed, but the share is falling sharply. (The great majority of the pipe-line Infrastructure budget is for a road project in Ethiopia which has been under negotiation since 1994.)
- A5.5 In contrast to LDFs, Eco-development approvals almost halved over the period as a result of the major conceptual and implementation problems this instrument encountered. The number, budget and share of Micro-finance projects fell slightly.

Approvals by Concentration Country

		Concentration Countries	Other	Total UNCDF Budget (US\$ '000)
1992-94	Approvals (\$)	44,780	70,040	114,820
	% of CDF Budget	39%	61%	100%
1995-98	Approvals (\$)	90,953	71,463	162,417
	% of CDF Budget	56%	44%	100%
Pipeline	Approvals (\$)	38,298	0	38,298
	% of CDF Budget	100%	0%	100%
All	Approvals (\$)	174,031	141,503	315,535
	% of CDF Budget	55%	45%	55%

- A5.6 There is a marked increase in the share of budget approved for concentration countries over the two periods: from 39 per cent to 56 per cent. The entire pipeline budget is for the concentration countries. The actual budget for concentration countries has more than doubled, while that for other countries remained level.

³⁸ This growth in funding to LDFs was one of the most significant factors in selecting the projects and countries for the Field Visit stage of the Evaluation.

Approvals by Region

		As&Pac	Africa	LatAm	MidEast	All
1992-94	% of Projects	21%	69%	5%	5%	100%
	% of UNCDF Budget	23%	73%	2%	3%	100%
1995-98	% of Projects	25%	61%	9%	5%	100%
	% of UNCDF Budget	19%	70%	6%	5%	100%
Pipeline	% of Projects	20%	60%	20%	0%	100%
	% of UNCDF Budget	24%	60%	16%	0%	100%
All	% of Projects	23%	65%	8%	4%	100%
	% of UNCDF Budget	21%	70%	6%	4%	100%

A5.7 UNCDF's target of committing about 70 percent of resources to Africa is being achieved. The lower pipeline shares are not considered significant.

Cost Sharing

	Eco	Inf & Inf/RD	LDF	MF	All
UNDP Budget as % of UNCDF Budget					
1992-94	25%	20%	54%	12%	21%
1995-98	11%	17%	47%	10%	26%
Pipeline	25%	0%	24%	7%	16%
All	20%	17%	43%	10%	23%
Counterpart Financing as % of UNCDF Budget					
1992-94	10%	16%	0%	0%	12%
1995-98	0%	1%	4%	0%	2%
Pipeline	50%	0%	0%	0%	11%
All	11%	8%	3%	0%	7%

A5.8 LDFs attract a much higher contribution from UNDP than any other instrument. This is partly due to the substantial TA requirement of LDF projects, and in part due attaching LDFs to pre-existing UNDP projects, for example in Cambodia, Palestine and Bhutan.

A5.9 The contribution of counterpart project financing dropped from 12% to 2% over the two periods. The actual picture is slightly better than indicated since contributions obtained after the project is signed are not included. For example, the Government of Japan has become a major donor to UNDP/UNCDF activities in Palestine.

Local Development Fund Projects

A5.10 Between January 1992 and October 1998, seventeen LDFs were approved as set out in the table below:

Country & Code	Name	PAC Approval
1. PAL/93/C01	LRDP-I	Jan-94
2. MLW/93/C01	District Devt Fund (DDF)	May-95
3. CMB/95/C01	LDF Battambang & Banteay Meanchey Pilot	Oct-95
4. ETH/94/C03	Woreda Dev. Fund	Oct-95
5. ZAM/93/C01	DDP	Nov-95
6. VIE/95/C01	RIDEF (QNDN Province)	Jan-96
7. PAL/96/C01	LRDP-II	Oct-96
8. URT/97/C01	Support LG Mwanza	Oct-96
9. CMB/97/C01	LDF Battambang & Banteay Meanchey Main Phase	Apr-97
10. BHU/97/C01	Streng. Cap. for dev't Man. & Decent.	Jul-97
11. UGA/95/C01	DDP-Pilot	Oct-97
12. MLW/97/C01	Local Governance & Devt	Dec-97
13. MOZ/98/C01	District Support Nampula	Jan-98
14. UGA/96/C01	KDDP	Mar-98
15. BGD/97/C01	Loc.Gov. Devt Project	Pipeline
16. NIC/98/C01	LDF in Wiwili	Pipeline
17. SEN/98/C01	New LDF	Pipeline

Eco-Development Projects

A5.11 Between January 1992 and October 1998, fifteen Eco-development projects were approved as set out in the table below:

Country & Code	Name	PAC Approval
1. NER/87/C02	Rural Development MAYAHI	Dec-92
2. MAU/92/C01-4	Programme de l'Assaba	Jun-93
3. NER/87/C04	Dev't. Rural de N'Guigmi	Nov-93
4. GUI/92/C01	PDRMG	Dec-93
5. MLI/93/C01	Aménag.& Gest. Terroirs	Dec-93
6. MLI/93/C02	Hydro. Villageoise	Dec-93
7. MLI/93/C03	Aménag. & Désencl. Sourou	Dec-93
8. MAG/94/C01	Ambato Boeni	Jun-94
9. LAO/95/C03	Eco-Devt & Irr. Proj.	Mar-96
10. SEN/96/C01	LDF	Feb-97
11. BKF/97/C01	PSB	Jun-97
12. BKF/97/C02	Dev't des Res. Agro-Past. Namentenga	Aug-97
13. ETH/97/C01	Sustainable Dev. Project	Jan-98
14. HAI/98/C01	Environment Nord-Est	Pipeline
15. MLI/98/C01	Appui Com. Rur. Cercle Tombouctou	Pipeline

Micro-finance Projects

A5.12 Between January 1992 and October 1998, fourteen Micro-finance projects were approved as set out in the table below:

Country & Code	Name	PAC Approval
1. UGA/91/C02	West Nile Credit	Aug-92
2. MAG/92/C01	Fonds Garantie et Crédit, Micro et Petit Entr.	Nov-92
3. VIE/90/C05	Industrial Credit Facility – QuangNam DaNang	Nov-92
4. RAF/94/C01	Projet Régional Crédit Assist. Fin. Petit Entrepreneur	Jul-94
5. MLW/93/C02	Credit Guarantee - Micro-Enterprises	Aug-94
6. RAF/94/C02	Fonds Régional de Garantie	Aug-94
7. COI/95/C01	Création Mutuelles Santé	Oct-95
8. NIC/92/C05	Rural Finance Jinotega & Nueva Sagovia	May-96
9. RAF/96/C01	Guichet MF Afrique Ouest	Jun-96
10. LAO/96/C01	Microfinance & Sust. Livelihoods	Dec-96
11. HAI/98/C02	Microfinance Nord-Est	Sep-98
12. BHU/98/C01	Microfinance	Pipeline
13. MLW/97/C02	Local Fin. for Sustainable Livelihoods	Pipeline
14. MOZ/98/C02	Microfinance Prog.. Nampula	Pipeline

Concentration Countries

A5.13 Recommendation 14 of the CAT Report (CAT 7/96) was that UNCDF concentrate efforts on LDCs “...where the government and UNDP have selected decentralisation/local governance as one of the few prioritised programme areas included in the CCF... or .. where the political environment has been assessed as being particularly conducive for strengthening decentralisation and local governance...” . In March 1997, the UNDP Executive Board also recommended that UNCDF concentrate on fewer countries.

A5.14 In mid-1997 UNCDF formed a task force consisting of one staff member from TAU and PPEU and four from POU to develop a concentration methodology. Professor James Manor, Director of the Institute of Commonwealth Studies at the University of London and a fellow at IDS, Sussex, was engaged to provide further advice.³⁹ Country-selection criteria were established, based on the CAT recommendation, UNDP policy, the papers by the task force and James Manor, the existing portfolio, and the need for regional balance.

A5.15 In August 1997, an initial list of nine countries was prepared by management based on the criteria adopted. This was then subject to intensive internal

³⁹ Prof. Manor ranked 39 LDCs on 16 indicators drawn from the Human Development Report, World Development Report and the views of a panel of experts. He divided the ranking into four groups designed to assess current government attitudes to decentralisation and their institutional capacity to facilitate development accordingly.

discussion involving all staff, and a final list of 15 countries was agreed early in 1998 as shown in the Table.

East & Central Africa	West Africa	Asia	Latin America & Caribbean
Uganda	Mali	Bangladesh	Haiti
Malawi	Burkina Faso	Bhutan	
Ethiopia	Guinea	Cambodia	
Tanzania	Senegal	Nepal	
Mozambique	Benin		

Annex 6 Technical and Administrative Support Costs

A6.1 Paragraph 21 of the ToRs requires an assessment of the expected impact of new policies on technical and administrative costs. The following analysis (also using the Team’s database compiled in New York) and includes all post-January 1992-approved and pipeline projects.

Project Formulation

A6.2 The Table below compares the average cost of formulation by instrument and date stratum with the original (un-revised) UNCDF Budget. The formulation costs of pipeline projects are not included since these are not coded to the project until after it is approved.

	Eco	Inf/Inf- RD	LDF	MF	All
Average cost of Formulation (\$)					
1992-94	108,238	76,823	9,627	100,572	84,600
1995-98	129,971	67,985	142,090	29,059	92,500
All	116,597	72,956	132,628	68,066	88,642
Average original UNCDF Budget (\$000)					
1992-94	4,045	2,400	1,469	2,698	2,734
1995-98	4,880	3,031	4,599	2,916	3,691
All	4,366	2,676	4,375	2,797	3,224
Formulation cost as % of original UNCDF Budget					
1992-94	2.7%	3.2%	0.7%	3.7%	3.1%
1995-98	2.7%	2.2%	3.1%	1.0%	2.5%
All	2.7%	2.7%	3.0%	2.4%	2.7%

A6.3 The average formulation cost is c.\$90,000 per project, representing 2.7% of the average original UNCDF budget per project. The formulation costs of LDF’s and Eco-development projects are considerably higher than infrastructure and micro-finance projects. How reasonable is this? The first factor to be considered is the size of UNCDF projects. LDFs and Ecos both average over \$4.4m. Micro-finance projects continue to be between \$2.7 and \$3.0m on average. The size of infrastructure and infrastructure-plus projects varies considerably, but most are much smaller than LDFs or Eco-Development, averaging \$2.7m. The second factor to consider is the input required to prepare a professional formulation for projects of this size with normal rural development objectives. A typical team for such a job might include, say, three international and three local specialists working for six to

eight weeks. Including airfares, fees, DSA and all costs, an input at this notional level would total c. \$90,000 to \$120,000.

A6.4 Thus the average out-turn formulation cost of \$90,000 per project appears reasonable. LDFs and Eco's are more expensive than to prepare than the notional amount, but not excessively so.

A6.5 There was considerable comment prior to the Evaluation on the \$710,000 cost of formulating the 'flagship' LDF: the District Development Pilot Project in Uganda. At two and a half times the cost of the next most expensive formulation (market infrastructure in Nepal) and three and a half times the cost of next highest LDF (the Cambodia pilot) the Uganda formulation is clearly an exception. The Country Visit to Uganda found that:

- Much of the work commonly done during the inception phase of a project had occurred during formulation. This included thorough consultation, planning and confidence-building work with government, local government staff, communities and contractors in four districts.
- The Uganda ProDoc was much the most impressive formulation reviewed by the Team in terms of concept and quality
- The intensely participatory nature of the formulation process has resulted in a genuine sense of government ownership
- Start-up of activities was very rapid in Uganda, with a gap of only eight months between signature of the ProDoc and the first disbursement
- The formulation cost is reasonable as a share of the total \$17.5m UNDP/UNCDF resources committed to the Uganda LDF projects.

A6.6 The view amongst UNCDF staff is that both the cost and sophistication of the Uganda formulation was excessive, and is unlikely to be repeated. The evidence is that the nature of the formulation process was appropriate for a sophisticated and ambitious institutional development project in a supportive environment, and that the quality and participatory nature of the formulation has enhanced implementation in numerous respects.

Supervision Costs

A6.7 The following table is based on an analysis of Budget Line 16 "Mission Costs" for the 68 projects in the Team's database where data is available. The variable costs of monitoring and other supervision missions are normally charged to this budget line, and it therefore offers an indication, if not the complete picture, of the supervision costs associated with each instrument.

Instrument	No. of Projects	Average Mission Budget (BL16) \$ (Latest revision at 10/98)	Average Mission Budget as % of latest revision of Total UNCDF Budget
LDF	10	216,200	4.8%
Eco	9	202,244	6.9%
MF	10	123,727	5.6%
Inf/RD	18	115,096	4.3%
Inf	21	89,688	8.3%
All	68	134,922	6.1%

Notes:

- a) The Budget Line 16 data used is from the latest available revision to Budget Line 16 at October 1998. Any previous over-spend on formulation or other costs has normally therefore been accommodated through revisions to this Line Budget.
- b) All projects with no Budget line 16 (pipeline projects, small projects with supervision solely by UNDP or the UNCDF PO, or with supervision under separate sub-contract arrangements) have been excluded.
- c) The \$580,000 allocated under Budget Revision D of the Int/97/C01 project for the Regional Technical Advisor based in Uganda is not included in the LDF supervision costs.
- d) Formulation Costs are also charged to Budget Line 16. These have been subtracted in the Table and the analysis.
- e) Evaluation costs (mid-term and final) are also charged to budget line 16. These have not been subtracted.
- f) Monitoring and supervision also appears on occasion to be charged under Budget-lines 17 - "National professionals", 21 - "Sub-contracts", and possibly elsewhere. It is not possible to disaggregate these budget lines. Budget Line 16 is therefore a reasonable proxy indicator of relative as opposed to all supervision costs.
- g) Budget line 16 does not include any fixed costs relating to UNCDF staff and their on-costs or the agency fees/support costs charged on all projects.

A6.8 On the basis of the Budget-Line 16 data, as set out in the Table, the evidence is that the actual supervision costs of LDFs and Eco-Development projects are considerably higher than for the other instruments, but that as a proportion of the UNCDF budget, there is little significant difference.

Annex 7 Analysis of UNCDF Project Documents

- A7.1 From the total of 96 UNCDF projects in the Team's project database which were approved after 1st January 1992, or formulated and in the pipeline, the Mission Team sampled 29 Project Documents (ProDocs) to review in detail.
- A7.2 Project Documents are by no means a reliable indicator of the quality of a donor's portfolio, of course: the best designed project can founder for numerous reasons whilst a good project team can turn a poor formulation into a success on the ground. However the content and quality of project formulations are a useful point-of-entry indicator of what it is the donor is seeking to achieve and of how well the formulation, appraisal and approval process is conducted. For UNCDF, the ProDoc is particularly significant since it becomes the formal agreement with the host government: the cover-sheet of the formulation report is signed by both parties. For some donors the full formulation document is merely an annex or background report to a shorter summary agreement signed between the partners. For UNCDF the ProDoc becomes the agreement directly and is therefore particularly significant in guiding implementation.

Characteristics of the ProDoc Sample

- A7.3 ProDocs were sampled with a view to covering all instruments and with approval dates across the whole time period (January 1992 to October 1998 plus pipeline formulations). The characteristics of the ProDoc sample are as follows:

No. of Sampled ProDocs/All Approved Projects					
	Eco	Inf& Inf/RD	LDF	MF	All
1992-94	1/8	5/27	0/1	1/6	7/42
1995-98	3/5	5/21	9/13	2/5	19/44
Pipeline	0/2	0/2	2/3	1/3	3/10
All Sample	4/15	10/50	11/17	4/14	29/96

UNCDF Budget: Sampled ProDocs as % of All approved Projects					
	Eco	Inf & Inf/RD	LDF	MF	All
1992-94	1%	16%	0%	23%	12%
1995-98	66%	24%	87%	60%	57%
Pipeline	0%	0%	100%	26%	40%
All Sample	25%	19%	87%	37%	39%

Actual UNCDF

Budget (\$m)	16.5 /	25.7 /	65.1 /	14.5 /	121.8 /
Sample / All	65.1	137.0	74.5	39.0	315.5

Approvals

(Note: The pipeline Nicaragua LDF formulation has no budget to date. Hence LDF pipeline budget sample appears as 100%)

Key points:

- ProDocs were examined for 30 per cent of all projects approved or formulated since 1st January 1992 (29 out of 96)
- These 29 ProDocs account for almost two fifths of UNCDF budget commitments (\$121.8m out of a total of \$315.5m.)
- In view of the recent focus on the LDF instrument, two thirds of all LDFs were sampled, accounting for the majority of the UNCDF budget commitment to LDFs (\$65.1m out of \$74.5m).
- The sample of Eco-development and Micro-finance was 25 per cent of all projects, and infrastructure 20 per cent.
- In view of the need to examine how newer policy trends appear in formulations, three quarters of the sample are pipeline projects or approvals post 1st January 1995.
- It is important to note that with a median time from Project Identification to PAC approval at 22 months (average 30 months), and a median time from the Project Formulation Mission to PAC approval at 10 months (average 14 months), there is a substantial lag in new policies and approaches being reflected in project approvals.

General Observations on ProDocs

A7.4 The reading and analysis of ProDocs took longer than anticipated for three reasons:

- a) Although a model format for ProDocs is set out in the Programme Operations Manual this is not followed strictly. Further, no section length limits are specified. Some ProDocs are succinct and easy to grasp. The majority contain a level of detail in the body of the text which would normally be appropriate for a workplan or inception report. The POM does not include instructions on the information which should be in the body of the ProDoc and which should be confined to annexes.
- b) Because UNCDF formulations are not logframe based, the appraisal format used by the Team was not always readily applicable. For example, virtually all ProDocs specify several “immediate objectives” rather than a single project purpose; overlap between immediate objectives and outputs is common and indicators are normally rolled-up within the outputs; without a list of assumptions linked to each output, it is normally difficult to assess the specific project risks against the outputs indicated, even where a general statement of project risks is provided.
- c) Some of the criteria the Team wished to use in its appraisal - sustainability, gender and social/poverty analysis - are not separately specified headings in the POM format. To assess these issues fairly required reading much of the detail in the body of the ProDoc and in the annexes. Similarly, an implementation organogram is not specified and assessing the clarity of implementation responsibilities is time-consuming.

A7.5 Four members of the Team were responsible for reading and analysing the sampled ProDocs. Comparability checks amongst the four Team members to harmonise judgements and scoring were conducted on two ProDocs at the outset. The Team is confident that the analysis is consistent across the 29 ProDocs. In view of the small sample size, however, particularly in attempting to compare four instruments over three time period strata, it would be inappropriate to present overly strong conclusions, and some caution is advisable in interpreting the results. The following commentary seeks to reflect this.

ProDoc Analysis Results I: Impact of New Policies

A7.6 Strengthening local governance

No project has strengthening local governance as the sole objective with all resources devoted to it. None of the sample is a pure local governance development project. Infrastructure provision continues to be a major feature. Due to the growth in the share of LDF's in the portfolio, there has been a substantial growth over time in the planned share of projects and resources devoted to strengthening local governance. For all 11 LDFs except one, strengthening local governance is one of the major planned Immediate Objectives or Outputs. Only one other project gives the same prominence to local government: an earlier Uganda infrastructure project approved early in 1994. Three EcoDev projects, and the June 1997 Yemen Housing Project have strengthening local governance as a minor planned objective. For the remaining 13 Projects, including all MF, strengthening local governance is not a significant feature

A7.7 Local Government implementation responsibility

Again, mainly due to the growth in the share of LDF's in the portfolio, there has been a substantial growth in the implementation responsibility of local government. It is clearly possible for more traditional infrastructure projects to include local government implementation. In 11 ProDocs (including 8 LDFs), local government is planned to be almost entirely or significantly responsible for implementation. Two mainly infrastructure projects (Mozambique, Nampula, 9/1993 and Rehabilitation of District and Feeder Roads in Mwanza, Tanzania, 11/1995) also have significant local government implementation. In all other ProDocs, the local government role is either formally consultative or marginal.

A7.8 Link with upstream policy development

There has been a substantial growth in the inclusion of up-stream policy development components. The four LDF's assessed as not having such a component (in Ethiopia, Viet Nam, Tanzania, Palestine) are all older formulations, approved before October 1996. It is interesting that two very recent infrastructure projects, both in non-concentration countries, include upstream policy development features. Nine ProDocs (seven LDFs) include a clear policy development component funded by UNCDF, UNDP or another donor. Two recent infrastructure projects (Laos Paklay Road 12/1997 and

Yemen Housing 6/1997) also have strong policy development features. In all other ProDocs, upstream policy development is either not specifically included or not directly relevant.

A7.9 Congruence with government policy

There is a balance between project formulations, which aim to work within Government policy and practice, and those that aim to move beyond it. The latter are increasingly common. Ten ProDocs out of 29, including four LDFs, are clearly in line with existing Government policy. Thirteen ProDocs, including seven LDFs, clearly go beyond existing Government policy and/or practice. Twelve of these are pipeline or post-1995 projects.

A7.10 Significance of institution building

With over 80 per cent of ProDocs indicating some degree of attention to institution building, the UNCDF portfolio old and new, and across all instruments, is clearly rather more diverse than sometimes presented. The great majority of more recent formulations include an institutional development component. In six ProDocs (four LDFs) institutional strengthening is the primary purpose, and appears well addressed. The other two are a very recent infrastructure project in Laos (Nam Tan sustainable Watershed Management 9/98) and the pipeline micro-finance project in Bhutan. In another two projects, institutional strengthening is the primary purpose, but there appear to be design weaknesses. In 16 projects, from all periods and instruments, institutional strengthening is a minor objective. Institution building only appears to be negligible in the design of five projects: three Infrastructure and two Eco-development. These five ProDocs represent three of the seven 'old' projects and just two out of 22 of the post-1995 sample.

A7.11 UNDP involvement in formulation

UNDP involvement in project formulation appears to be increasingly the norm in recent years. UNDP was clearly involved in the formulation process in 22 of the 29 ProDocs analysed. In all but two, UNDP is a joint funder. There is no clear pattern in terms of project instrument to the 7 ProDocs in which UNDP is not involved. UNDP was involved in 18 out of the 22 more recent formulations, but only in four out of seven of the older ones

A7.12 Piloting status

Only just over half (12 of 22) of the newer projects indicate that piloting is part of the justification, nine of which are LDFs. The growth in 'pilots' is undoubtedly in part a result of the requirement to include such a justification in more recent formulations, especially for LDFs. The formulators of other projects may feel that the achievement of project objectives alone is sufficient justification, and that the additional justification of acting as a pilot for government or other donors is not required. Ten out of 29 ProDocs (five LDF, three Eco and two Infrastructure) specify that the projects is designed as is a pilot for a specified donor, follow-on project or government; and for national

government policy in general. Two ProDocs indicate that the Project is intended as a pilot for national government only and two that it is for donors only. All four are LDFs. The remaining 15 ProDocs, including all instruments, do not indicate that the project is intended as a pilot.

A7.13 Participation during preparation

Increased attention to participatory planning is seen to be an important recent change within UNCDF. There are two reasons why this may not be fully reflected in the ProDoc sample. First is the formulation-to-approval time-lag: the introduction of a more participatory formulation process has yet to feed through to the portfolio as a whole. Second, although major new projects are subject to KADRE and stakeholder workshops, the POM does not oblige all consultant formulators to use participatory planning methods or to report outcomes. With very limited own-staff resources, intensive participatory planning inputs to a small number of projects may not be sufficient to impact on the portfolio as a whole. The indications from the three pipeline projects, and from discussions with staff, are that there is a significant increase in consultation over project design in recent years. Eight ProDocs out of the sampled 29 indicate that all project partners made some contribution to the formulation. In a further nine formulations, some partners clearly contributed. In the remaining 12 ProDocs there was either no indication of participation, or it appears to have been minimal. Three out of four Ecos, six out of 10 Infrastructure and seven out of the 11 LDFs sampled indicated some degree of participation in formulation. The role of participation is different in the design of Micro-finance projects, and only one of the four formulations indicated that it had occurred. There is no clear change in the proportion of 'participatory planning' over time: from five out of seven of the older projects to 12 out of 22 of the newer. Of the three pipeline projects, the two LDF's do exhibit participatory planning. The MF project was also clearly subjected to full discussion with most partners.

A7.14 Participation during implementation

There is little trend change visible in the requirement for participatory project implementation. The two factors noted previously: the lag between formulation and approval dates and the absence of instructions or guidance in the POM are likely also to be significant factors in relation to participatory implementation methodologies. Seven ProDocs (LDF four, Eco two, Inf one) indicate that the project enables all or most project partners to be formally involved, with regular meetings and some decision-making power at local level. The majority of projects (17/29 including six LDFs) are to be run by a PMU/NPD with some form of regular consultation process. The remaining five are assessed as being run by a PMU/NPD with occasional consultation only. Approximately half of both the older and more recent ProDocs require higher levels of participation during implementation.

ProDoc Appraisal Results II: Formulation Quality

A7.15 *Development Objective*

The UNCDF Development Objective is equivalent to the Project Goal or Aim in conventional logframe terminology. The Aim describes why the project is being done and the development goal to which the project contributes. Best practice is for the Aim to be a single specific statement (e.g. “Increased efficiency and accountability of local government”.) The absence of logframe methodology in UNCDF means that there is a tendency for projects to be approved with Development Goals so broad and vague that they have little practical use or meaning. Five ProDocs out of 29 offer a single specific statement of the Development Objective and six give multiple specific statements. Five include a single broad multi-sector statement and 11 have multiple broad statements. Five out of 11 LDFs offer multiple broad statements (e.g. “*Improved participatory local governance for socio-economic development and poverty alleviation*”)

A7.16 *Immediate Objectives*

The central difference between the logical framework approach used by many donors and UNCDF project planning is that the logframe requires that a single project have a single purpose. However ambitious or difficult, the purpose is sharply defined and in the singular. A standard definition of the project purpose would be: “The outcome of the project provided that all the results are achieved and the assumptions at the results level hold true.” UNCDF’s use of multiple ‘Immediate Objectives’ makes it impossible to assess relative importance amongst them, and the consequences of some not being achieved. If all Immediate Objectives contribute directly to the Development Goal, presumably it is not too serious a matter if some are not achieved. With strict logframe planning, all results are necessary for the purpose to be achieved. The “multiple objective” problems noted by various commentators, particularly in relation to the LDF instrument, are one consequence of allowing multiple Immediate Objectives to co-exist. There are also concerns over the clarity of objectives. For example, despite having a single Immediate Objective, the analysis of one project found: “*A lengthy, supply driven statement that re-formulates outputs and does not explain changes in performance. A subsidiary paragraph sets out expected benefits to producers and consumers*”. The Team will wish to explore the consequences of the “Immediate Objective” planning approach in the field. Four ProDocs have a single Immediate Objective, either specific or more general. 14 have multiple specific objectives, and 11 have multiple broad, non-specific statements. All LDFs, MF and Eco projects have multiple Immediate Objectives.

A7.17 *Outputs*

The completeness and clarity of outputs presents a mixed picture. It is significantly stronger for the more traditional type of projects. Output clarity is a problem in a large minority of projects. For example, the Team analyst’s comment on a 1998-approved Eco-development project is “*The outputs are basically the same as the Immediate objectives. There is a logframe that is*

very badly structured.” Half the ProDocs (14/29) have clearly stated outputs that appear necessary and sufficient to achieve the Immediate Objectives. A significant minority of ProDocs (11/29) have outputs which are poorly stated, with necessary outputs missing or non-essential additions. These 11 include half of the LDFs (5/11), Eco (2/4) and MF (2/4) projects but only two of the 10 Infrastructure projects. There is no apparent trend over time in the quality of the specification of outputs.

A7.18 Indicators

The weakness of indicators was highlighted by the CAT Team. It appears that several projects have been approved since mid-1996 with poorly specified indicators. For example, the Team analyst’s comment on one March 1997 project is: *“Further confusion – indicators are in the annex, but here the Immediate Objectives have increased in number from 3 to 5. The indicators are not specific....just generic statements of activities to increase or improve”*. In several projects, performance targets and indicators are left to be formulated by the Project Team. The Team analyst’s comment on a 1997 infrastructure project is: *“¼no OVI’s yet drawn up. KPIs to be developed during project implementation¼ it seems too much is being left to once the project has got underway¼”*. On a 1997 LDF, the ProDoc says *“¼performance indicators will be developed for the core objectives¼”*. The Team’s analyst comments: *“How can \$275,000 of contingencies be justified when there is no quantified output?”* There appears to be a general trend towards formulations becoming less specific with regard to performance specification. This is not just the case in LDF’s. For example, a recent infrastructure-plus-policy-change project has an overall assessment as follows: *“This is a well-designed project so far¼ the difficulty with assessing the ProDoc is that much of the work (socio-economic survey, gender targeting, ¼KPIs and MoVs) is set to occur after implementation starts.”* Two ProDocs (the pipeline MF and a 1998 LDF) have tightly specified indicators for all outputs. Half the sample (14/29) has either no clear indicators for most outputs or the indicators are poorly specified. This includes five out of 11 LDFs and six out of 10 Infrastructure projects. No time trend is apparent in terms of indicator quality.

A7.19 Risk Analysis

Two thirds of ProDocs either have only a general statement of risks, or none at all. It is therefore difficult to assess which Immediate Objectives are considered particularly risky, and the attempts which the formulators have made to internalise and mitigate risks. The sophisticated formulation of the Uganda District Development Pilot Project is a model of itemising and examining risks by output. 5 ProDocs have a complete risk analysis, including some mitigating measures, for all or most Immediate Objectives. 10 ProDocs include a general statement of overall project risks (LDF four, Eco two, Inf two, MF two). Nine ProDocs have no or an inadequate risk statement (LDF two, Eco one, Inf one, MF one).

A7.20 Sustainability

The POM does not specifically require a separate section on sustainability. The Team analysts attempted to seek out the inclusion of measures to promote sustainability, even in the absence of the word ‘sustainability’. For example the analysis of a 1993 infrastructure project comments: “*Maintenance system includes creating management boards, signature of maintenance agreement & preventive maintenance training.*” The comment on a 1998 infrastructure project is: “*¼page 28 suggests some measures for sustainability without actually using the word. Pages 32-2 on risk reduction strategies also suggest some means for promoting sustainability¼*”. Nevertheless it is perhaps a matter of concern that neither formulators nor appraisers have sought greater clarity and specification in relation to the single most important characteristic that differentiates development projects from service provision or relief and rehabilitation. In 16 ProDocs (3/4 Eco, 6/11 LDF, 5/10 Infrastructure, 2/4 MF) sustainability is scarcely mentioned. In seven, there is a general overall statement of means of promoting sustainability. Three ProDocs included a stated means of promoting sustainability for some Immediate Objectives. In three ProDocs, the means of promoting sustainability is clear for all the Immediate Objectives. For example, for the pipeline Bhutan MF project, the Team’s analyst comments “*...a very professionally prepared, well thought out development project. Sustainability is at the fore-front¼*”.

A7.21 Institutional Analysis

Although Institutional Analysis overall presents a mixed picture, it is notably well done in three recent large LDFs in Uganda, Senegal and Mozambique. There are clear signs within headquarters of increasing work in this area, including a new draft guidance note. Nine ProDocs out of 29 describe the role, interests, strengths and weaknesses of most or all participants. Eight provide a partially complete description for most project participants. In 12 ProDocs, the institutional analysis is poor or only partly described for some participants. No pattern over time or in relation to instruments is discernible in the quality of Institutional Analysis.

A7.22 Implementation Arrangements

Although organograms are rare, implementation responsibilities are reasonably clear for two thirds of the projects. One analysis comments “*¼although there is an organogramme, it is superficial and does not detail lines of responsibility¼*”. Some ProDocs include Terms of Reference for project partners. The loose specification of responsibilities in the remaining third is a matter of concern. For one recent LDF, the analysis comments: “*Woefully inadequate – even for a pilot; 14 participants, no organogram; predict long delays whilst it’s all sorted out*”. Six ProDocs include an implementation organogram and specify clear and realistic responsibilities roles and reporting lines in relation to all or most outputs. Fourteen ProDocs do not have an organogram, but implementation responsibilities and relationships appear to be clearly specified. In nine ProDocs (3/11 LDFs, 3 /4 Ecos, 2/10 Infrastructure, 1/4 MFs) the relationship between participants is either poorly or only partly specified

A7.23 Poverty Targeting

The majority of UNCDF projects address poverty in the sense that they are normally located in rural areas of LDCs. However, this part of the analysis aimed to discover the extent to which formulators have conducted some level of social analysis to identify poorer segments within communities and planned to target project benefits accordingly. A typical comment from the analysis is: *“The whole project area is one where the conditions of life are very minimal, so there is geographical targeting, but no mention of poverty targeting”*. Probably because the allocation of resources is delegated to local authorities under the LDF model, very few LDFs include either a social analysis or a means of targeting benefits to the poor. It appears that one price of increased local autonomy is relaxed specification of poverty targeting. The Uganda District Development Pilot is the one example of an LDF with a sophisticated social analysis and associated means of poverty targeting. Four ProDocs have a full social analysis and some or all the outputs are clearly poverty-targeted. Thirteen ProDocs include a basic social analysis, six of which offer a clear means of poverty-targeting. Twelve ProDocs include only token poverty statements, with no social analysis or means of poverty targeting. This group includes eight of the 11 LDFs.

A7.24 Gender Targeting

Gender analysis and targeting of benefits are not required under the present POM format although the expected impact on beneficiaries should include a gender disaggregation. The ProDocs reflect this. The three formulations where gender issues are best addressed are a 1995 Tanzanian roads project, the 1997 Senegal Eco and the pipeline Senegal LDF. The following comment is an example of the middle tier - *‘basic gender analysis with some means of targeting’* - *“No gender analysis despite constant mention of women’s needs. No gender targeting at Immediate Objective or Output level, although some indicators are gender targeted”*. Gender targeting of beneficiaries is less appropriate in modern MF design, and this appears to be the case in practice. The pipeline MF includes the following comment: *“Sensible gender points, but without constraining objectives”*. As with poverty targeting, it may be difficult for the majority of the recent LDF formulations to incorporate gender targeting within a model based on autonomous local government decision-making. 3 ProDocs (1 Eco, 1 Infrastructure and the Senegal LDF) include a full gender analysis, with gender targeting for some outputs. 11 ProDocs have a basic gender analysis of which 8 display an intention and some means of targeting women. 15 ProDocs (6/11 LDFs, 7/10 Infrastructure and 2/4 MF) have no gender analysis or means of targeting women. Some include token gender statements.

A7.25 Use of TA

Although only 20 per cent of the 96 projects in the Team’s project database appear to have international TA directly funded by UNCDF (under Budget line 11), two thirds of the sampled ProDocs have an international TA presence, either short-or long-term. This is a result of the relationship with UNDP, which normally funds the majority of TA in joint projects, and the

inclusion of international TA within some project sub-contracts. In 17 ProDocs (Eco 2/4, Infrastructure 6/10, LDFs 6/11, MF 3/4) the main TA input in terms of time appears to be long-term international (mainly UNDP-funded) together with international, regional and local short-term inputs. Three projects are mainly long-term regional/national TA with other short-term inputs. Two projects are mainly short-term international TA with other local/regional short-term inputs and four are mainly short-term regional/local with some international short-term inputs. Three ProDocs do not appear to have international TA, either short or long-term. There is no discernible pattern of TA use in terms of project age or instrument.

Annex 8 Summary of Actions on the CAT Recommendations

A8.1 This Annex summarises the Team’s assessment of the actions taken or underway under Para.16b of the ToRs: “Review the *adequacy of actions taken with respect to the findings and recommendations contained in the Capacity Assessment...*”. Further information is available in the referenced paragraphs.

RECOMMENDATION (from “Capacity Assessment of UNCDF” 1996)	ITAD Assessment	Para.Ref
Mandate, Policy & Comparative Advantage 1. Become more risk-taking, innovative, catalytic 2. Clarify goal (improved Loc.Gov’ce) with gov’ts & partners 3. Internalise policy - UNCDF, UNDP, gov’ts 4. Strengthen Policy Analysis capacity	LDF and MF projects score highly on innovation. Reasonable success in replication. Good progress in visited countries. Good UNCDF and government internalisation. Mixed results in UNDP. Very extensive work on policy development.	4.17 <i>et seq.</i> Ch.4 5.25 3.46
Mode of Operation 5. Strengthen Institutional Assessment capacity 6. Develop a single intervention 7. Delegate implementation to country offices 8. Strengthen nat’l exec’n incl. mon’g, accounting & auditing 9. Increase national/regional TA & reduce OECD TA 10. UNCDF to manage TA & backstopping	East Africa RTA: positive. Local institutions TA hired 1999. Not desirable. Good so far. Scope for more. NEX is the norm for LDFs and most other projects New projects require more TA. Country visits found many examples of insufficient TA support. UNOPS execution now rare. Identification of appropriate TA now a priority.	5.7 5.20 <i>et seq.</i> 4.15 5.29 <i>et seq.</i> 4.14 & 5.29 <i>et seq.</i>
Relationship with UNDP 11. (Missing) 12. Joint efforts with BPPS & MDGD 13. Synchronise programming with UNDP, including CCF 14. Work in LDCs where local governance is prioritised	MoUs being signed with UNDP specialist units. Better links with operational bureaux important. Good progress Concentration Policy finalised early 1998 with pro-decentralisation a major criterion. Good liaison with UNDP/governance focus.	5.25 5.25 4.6 & A5.13 <i>et seq.</i>
Strengthen UNCDF Capacity at Country Level 15a Sensitise RRs & staff to new policy 15b RRs responsible for all UNCDF activities 16. Develop FIO capacities through’ workshops 17a Outpost ‘a few’ Country Officers to UNDP	Mixed progress - depends on individuals. Better links with UNDP regional bureaux would help Administratively yes, but new policies require more TA guidance Very good progress Two outpostings tried; little benefit; contradicts up-graded PO role. Outposted Regional TA more useful.	5.25 4.15 & 5.32 5.20 <i>et seq.</i> 5.10

17b Combine National FIO with a JPO	In a few places. Scope to increase.	5.20
17c Hire s-t Programme Advisors to support FIOs	RTA (4 countries in E.Africa) has played this role well.	5.30
17d Recommend longer JPO contracts to donors	Difficult for UNCDF to progress this directly.	
Role of UNCDF HQ		
18a Become centre of excellence on local governance	UNCDF rejected initially, but becoming a CofE in the <i>planning and implementation of local governance projects</i> is feasible.	5.34
18b Less involved in project micro-management	NEX is the norm. POs have more back-stopping authority, but devolution could still go further.	4.15 & 5.21 <i>et seq.</i>
18c Improved documentation of project lessons learned	Evaluation summaries are published, but little evidence of impact on formulation or implementation.	5.13
19. Clarify staff responsibilities & implications of '95 Policy Paper	Largely achieved	5.3
20a TAU: Strengthen policy, IA, finance, capacity building & training	Achieved	5.7
20b PU: Strengthen COs in policy & project approval process	TAU, POU, PPEU staff 'triangles' for all new projects	5.8
20c PPEU: Add evaluation & information dissemination	Monitoring and communications specialists hired.	5.11
20d PSU: Review implementation cost-efficiency	UNOPS much less involved. Overlap of PSU & POU roles has increased.	5.12
21. Budget flexibility for rec.20 achieved	Funding made available through INT/97/CO1 project - but under-spent on competence development.	5.17 <i>et seq.</i>
Base-line & Indicators for the 1999 Evaluation		
22. PPEU: Develop KPIs for use in the management information system.	KPIs developed are over-ambitious, impractical and not used.	5.14
23. PPEU: KPIs, baseline & reporting data used in management information system.	No Project data-base or portfolio management to date: a significant weakness.	4.2