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Report to the Chairman, Committee on
Foreign Relations, U.S. Senate

April 1997

INTERNATIONAL ORGANIZATIONS

U.S. Participation in the United Nations Development Program





United States
General Accounting Office
Washington, D.C. 20548

**National Security and
International Affairs Division**

B-270949

April 17, 1997

The Honorable Jesse A. Helms
Chairman, Committee on Foreign Relations
United States Senate

Dear Mr. Chairman:

This report responds to your request that we conduct a follow-up to our 1990 review of U.S. participation in the United Nations Development Program (UNDP). As agreed with your office, this report provides an assessment of the progress that UNDP has made in reducing its administrative costs and improving its ability to coordinate and assess the impact of U.N. development assistance activities.

We are sending copies of this report to the Administrator of UNDP, the Secretary of State, the Administrator of the U.S. Agency for International Development, and appropriate congressional committees. We will also send copies to other interested parties upon request.

This report was prepared under the direction of Benjamin F. Nelson, Director, International Relations and Trade Issues. He can be reached at (202) 512-4128 if you or your staff have any questions concerning this report. Other major contributors to this report are listed in appendix VI.

Sincerely yours,

Henry L. Hinton, Jr.
Assistant Comptroller General

Executive Summary

Purpose

The United Nations Development Program's (UNDP) core mission is to help countries achieve sustainable human development. It is the central financing and coordinating mechanism for development assistance within the U.N. system. UNDP works to achieve its mission by providing advisory services, training, and equipment across a variety of sectors, including agriculture and international trade, to developing countries.

In 1990, GAO reported on (1) weaknesses in UNDP's coordination of U.N. development assistance at the country level, (2) problems with UNDP's evaluation of project results, and (3) deficiencies in the level of resources UNDP focused on the priority needs of the least developed countries.¹ In addition, the U.N. Board of Auditors and donor nations have raised concerns over these issues and others such as the cost of UNDP administrative operations and the adequacy of UNDP's internal audit organization. GAO's specific objectives in this report were to provide information and analysis of (1) actions taken in response to recommendations in our 1990 report to improve coordination, project evaluation, and the allocation of resources; (2) the amounts and sources of UNDP budget support; (3) the cost of administering UNDP's headquarters and overseas operations and the extent to which UNDP has reduced these costs, including a comparison of UNDP and U.S. Agency for International Development (USAID) compensation expenditures; (4) the system of audit and internal control UNDP employs to oversee its operations; (5) the criteria UNDP employs to graduate recipient countries from assistance; and (6) the extent to which UNDP projects coincide with U.S. national security and foreign policy objectives.

Background

UNDP is an independently administered program of the United Nations that operates under the direction of the Economic and Social Council. UNDP's policies, programs, and budgets are approved by an executive board, composed of 36 government representatives elected by the Council. The board reports to the U.N. General Assembly through the Council. UNDP is headed by an Administrator who serves a 4-year term. UNDP has about 5,000 employees located at its headquarters in New York and 132 field offices around the world.

UNDP's core budget is funded through voluntary contributions from member states. The core budget finances UNDP's general programs and operations. Member states can also earmark additional contributions for

¹See United Nations: U.S. Participation in the U.N. Development Program (GAO/NSIAD-90-64, Feb. 22, 1990).

specific trust funds or projects. UNDP administered approximately \$6.4 billion in ongoing development assistance projects in 1995. UNDP-funded projects are generally implemented by recipient governments or other U.N. agencies such as the International Labor Organization and the U.N. Food and Agriculture Organization. In addition, UNDP is responsible for coordinating the development assistance activities of other U.N. agencies.

Results in Brief

Since the publication of GAO's 1990 report, UNDP has strengthened its coordination of U.N. programs and activities, begun to improve its project evaluation system, and increased funding to the world's least developed countries. Among other things, UNDP has been assigned new coordination responsibilities, has strengthened the role of the U.N. resident coordinator in country offices, and has begun to enforce requirements to conduct project evaluations. However, these efforts have not fully addressed all problems in the areas of coordination and evaluation. First, there are limits to what UNDP can do to coordinate U.N. activities. Despite being designated as the coordinator of U.N. development assistance by the U.N. Secretary General, UNDP's Administrator lacks specific authority to require actions to improve coordination of development assistance activities implemented by the various funds, programs, and specialized agencies of the United Nations. Also, the program evaluation system still does not provide information to determine the impact of UNDP-funded projects.

UNDP's total budget was approximately \$1.9 billion in 1995 and was funded primarily by donor nations' voluntary contributions. Although contributions to UNDP's budget have grown since 1966, the U.S. contribution to UNDP has declined as a percentage of the total budget. GAO also noted that since 1992, UNDP has decreased its administrative expenses, primarily through reductions in staff. GAO found that relative differences in UNDP and USAID compensation expenditures varied by location and grade level, but UNDP's expenditures were generally greater than USAID's for comparable grade levels, except at the higher grade levels. Nonetheless, UNDP's average compensation cost per employee was less than USAID's average cost, because UNDP had a different mix of staff—it employed a greater percentage of lower-paid support staff than USAID and used more locally hired staff in its field offices. UNDP also provided fewer benefits to its overseas professional staff than USAID. In addition, UNDP compensation expenditures generally did not include monies to cover taxes due to the tax-exempt status of most employees.

UNDP's operations and programs are audited by its internal Division for Audit and Management Review and biennially by the U.N. Board of Auditors. Although UNDP has increased the size of its internal audit staff, the number of internal audits conducted annually, and has sought to improve its internal controls, the U.N. Board of Auditors has continued to raise concerns over audit coverage. The board has reported that the internal audit staff is still too small to provide adequate audit coverage, strategic audit planning is insufficient, and not enough projects executed by recipient governments are being audited. As a result of the latter, the Board of Auditors expressed a qualified opinion on UNDP's financial statements for the bienniums ending December 31, 1993, and 1995. In addition, GAO found that the internal audit division could not readily determine the extent to which its audit recommendations had been implemented.

UNDP's single criterion for graduating countries from being a net recipient of assistance is based on per capita gross national product (GNP). According to UNDP documents, this basis is problematic because per capita GNP assumes an exactitude that does not actually exist. With respect to resource allocation, UNDP is implementing a new method for allocating resources based, in part, on country performance.

UNDP's mission is consistent with U.S. national security and foreign policy objectives, and its projects promote many of the same goals in developing countries that the U.S. government tries to advance. However, UNDP does fund projects in countries that are covered by U.S. statutory funding restrictions. In accordance with these restrictions, the State Department withholds from the U.S. contribution to UNDP the U.S.' proportionate share for projects in these countries. Because the amount withheld does not account for the administrative costs of UNDP field offices in these countries, some U.S. funds may indirectly help support these projects.

Principal Findings

UNDP Efforts to Coordinate U.N. Assistance

In response to long-standing concerns about the lack of coordination of U.N. development assistance activities, in 1994 the Secretary General officially designated the UNDP Administrator as the coordinator of development assistance to ensure that development policies are consistent among U.N. departments, funds and programs, and regional commissions.

Accordingly, UNDP has strengthened the resident coordinator position at the country level. Among other things, 1.7 percent, or approximately \$34 million per biennium, of core resources has been allocated to fund coordination improvement initiatives in the field. In addition, UNDP has taken the lead in administering U.N. initiatives specifically designed to enhance coordination among U.N. agencies. These initiatives include helping recipient countries implement actions mandated at recent worldwide U.N. conferences. Nonetheless, UNDP has no authority to require actions to improve coordination among U.N. entities providing development assistance within the highly fragmented U.N. system.

UNDP's Monitoring and Evaluation Systems

UNDP recognizes that it has had problems monitoring and evaluating projects—particularly that its evaluations focus too narrowly on project output instead of development impact. Also, not all projects that should receive a mandatory evaluation are evaluated. UNDP's March 1996 compliance report indicated that only 62 percent of these projects are evaluated. Furthermore, the U.N. Board of Auditors has found that project monitoring is carried out to satisfy administrative requirements rather than to encourage remedial action. UNDP has no system to track the implementation of recommendations contained in project evaluation reports, and it cannot readily determine how many of its projects are completed on time and within budget. These problems limit UNDP's ability to determine the impact of its projects on developing countries.

To address these and other evaluation-related problems, UNDP is, among other things, developing a new evaluation process. The new process seeks to establish an objective basis, such as changes in baseline data, for measuring project impact. UNDP believes this will enable staff to perform results-oriented monitoring and evaluation. UNDP has also begun to track compliance with evaluation requirements. In addition, quantifiable targets for all mandatory evaluations have been set in the agency's organizational plan, and managers at all levels are now being held accountable for meeting the targets.

Allocation of Funds to Least Developed Countries

To focus UNDP's resources more on the priority needs of least developed countries, UNDP has increased the percentage of its funding dedicated to these countries from 55 percent in 1990 to 60 percent in 1996.

Amount and Sources of UNDP Funding

Voluntary contributions from member states to UNDP's total budget grew by an average annual rate of 2.9 percent between 1966 and 1995, but the

U.S. contribution declined an average of 3 percent annually during these years. From 1966 to 1995, the United States contributed approximately \$6.3 billion, measured in 1995 dollars, to the program. The U.S. contribution to UNDP's total budget has ranged from a high of 41 percent in 1968 to a low of 6.8 percent in 1995. The 1996 U.S. contribution continued the downward trend. Due to overall decreases in funds appropriated for international organizations in 1996, the 1996 U.S. contribution of \$49.6 million to the core budget represents a 56-percent decrease from the 1995 core budget contribution of \$113.5 million.²

Since 1990, contributions to UNDP's core budget fell while contributions to the noncore budget rose over the same period. Contributions to the core budget totaled \$1.2 billion in 1990, but by 1995 had decreased 23 percent, to \$928 million. This trend contrasts sharply with the trend in noncore contributions, which were about \$203 million in 1990 but by 1995 had risen 370 percent, to \$951 million. The increase in noncore resources has been attributed primarily to cost-sharing agreements with Latin American countries.³

UNDP Administrative Costs

Between the 1992/1993 and 1996/1997 bienniums, UNDP decreased the administrative portion of its core budget by \$46.6 million (in constant 1995 dollars), or 11.5 percent. The savings were primarily achieved through core-funded staff reductions in both the headquarters and field offices from 4,319 to 3,660, or 15 percent. UNDP's administrative expenses (for example, salaries, benefits, travel, and rent), measured in constant 1995 dollars, totaled approximately \$385 million and \$369 million in the 1992/1993 and 1994/1995 bienniums, respectively. Over this period, administrative expenditures were reduced by 4.2 percent.

The relative difference between USAID and UNDP employee compensation expenditures varied by location and grade level.⁴ Overall, in 1995, UNDP spent an average of 17.7 percent less than USAID on salaries, benefits, and allowances per employee. For all staff located at its headquarters in New York, UNDP spent 25.5 percent more on average than USAID spent for its

²All contributions and growth rates are presented in 1995 constant dollars. Information pertaining to the 1996 U.S. contribution to the noncore budget was not available.

³Cost-sharing agreements allow recipient governments or other donors to allocate a contribution to a specific project in a specific country.

⁴UNDP's staff in New York includes professionals of different nationalities that serve in an international status. They receive benefits and allowances similar to those of UNDP staff located in UNDP offices around the world. USAID staff serving in Washington, D.C., are not entitled to overseas allowances.

headquarters staff in Washington, D.C. Grade level comparisons revealed that UNDP's salary expenditures for lower-level professional staff were greater than USAID's. However, as professional grade levels increased, USAID's salary expenditures approximated and then exceeded UNDP's. UNDP's average compensation expenditures for its locally hired staff in the field exceeded USAID's compensation expenditures by 14.9 percent. However, overall UNDP spent 31 percent less than USAID for all staff located in the field. This was because UNDP used a higher proportion of lower-paid, locally hired staff overseas, and UNDP professionals overseas received fewer benefits than their USAID counterparts. In addition, UNDP compensation expenditures generally do not include monies to cover taxes due to the tax-exempt status of most employees.

Audit Oversight of UNDP

UNDP's Division for Audit and Management Review increased its staff from 23 to 41 positions between 1988 and 1995. In 1993, the division began using private accounting firms to increase the number of audits conducted annually. As a result, the number of internal audits conducted rose from 35 in 1990 to 114 in 1995. According to UNDP, the internal audit staff will be further strengthened during the 1998/1999 biennium.

Despite the increases in audit staff, the U.N. Board of Auditors has repeatedly raised concerns that UNDP's internal audit staff was too small to provide adequate audit coverage of UNDP operations. The U.N. Board of Auditors also reported that the planning methods used by UNDP's internal audit division are inadequate. Specifically, the audit plans are not linked to available resources.

In addition, the U.N. Board of Auditors' reports for the bienniums ending December 31, 1993, and 1995 express qualified opinions on UNDP's financial statements. The qualified opinions were due to the insufficient level of expenditures audited for projects executed by recipient governments. For the 1994/1995 biennium, UNDP reported expenditures of about \$1.1 billion for nationally executed projects, but it did not receive independent audit certifications, prepared by recipient government auditors, for about \$366 million of this amount.⁶ The U.N. Board of Auditors bases its opinion on these certificates. GAO did not validate the Board of Auditors' findings.

In December 1995, UNDP's internal audit division began using an automated system to track and verify the implementation of recommendations

⁶Nationally executed projects are implemented by recipient governments and audited by either their national audit agencies or local accounting firms, without direct oversight by the internal audit division.

contained in its audit reports. Prior to the implementation of the system, UNDP had not analyzed its recommendations to determine trends or report on overall compliance. UNDP officials told GAO they plan to produce annual reports on compliance with audit recommendations in the future.

Internal Control and Personal Accountability

In response to concerns about the need to focus on results and accountability for resource management, UNDP has increased emphasis on its internal control and personal accountability procedures.

- UNDP has issued a series of circulars on accountability both for managers and staff to increase awareness of their responsibility for prudent resource management.
- UNDP has established a standing committee on personal accountability and financial liability to adjudicate cases involving violations of financial regulations and rules that also may involve financial loss to the organization.
- UNDP has commissioned a study of its current accountability system to identify areas where improvements are needed.

During the last 2 bienniums, there were 29 documented cases of fraud or presumptive fraud involving \$379,000. According to UNDP, over 80 percent of the funds was recovered and disciplinary action was taken or staff were separated from the organization.

Graduation From UNDP Assistance

To date, 20 countries have graduated from UNDP assistance. UNDP's allocation methodology is structured so that countries receive less aid as their per capita GNP increases. UNDP's criterion for graduating countries from being a net recipient of assistance is the achievement of a per capita GNP of \$3,000 or more measured in 1989 dollars. Graduated countries may continue to participate in UNDP projects, but they must reimburse UNDP for the assistance it provides. According to UNDP documents, its graduation criterion is somewhat problematic since per capita GNP fluctuates over time. Consequently, a country may be considered a graduate in 1 year and return to recipient status the following year.

UNDP has designed and begun to implement a performance-based system to determine the level of resources allocated to recipient countries. Specifically, beginning in 1997, UNDP will earmark funds that will be distributed to countries where development assistance projects are experiencing greater success.

Support of U.S. Policy Objectives

UNDP's mission and objectives are generally consistent with U.S. national security and foreign policy objectives, particularly sustainable human development—a central objective of many USAID projects.⁶ To accomplish its mission of helping countries achieve sustainable human development and target its efforts, UNDP focuses its programs on (1) poverty elimination, (2) job creation and sustainable human livelihoods, (3) advancement of women, and (4) protection and regeneration of the environment—areas similarly targeted by U.S. foreign assistance efforts.

Although all U.N. member nations can request assistance from UNDP, U.S. law requires the State Department to withhold the U.S.' proportionate share for projects in certain countries. These countries include Burma, Cuba, Iran, Iraq, Libya, North Korea, and Syria. In 1994, UNDP's project expenditures in these countries totaled \$22.2 million. The U.S. contribution to UNDP's core budget in that year represented 12.7 percent of the total. Accordingly, the Department of State withheld a proportionate amount (that is, 12.7 percent of \$22.2 million, or \$2.8 million) from UNDP. However, the State Department formula for withholding funds does not take into account all administrative costs associated with the operation of UNDP field offices in these countries. GAO found that the U.S. proportionate share of administrative costs associated with field offices in these countries was about \$585,000 in 1994. According to State, the same formula is also used in making voluntary contributions to other U.N. agencies.

Recommendations

Although UNDP has taken steps to address problems with its project evaluation system, GAO recommends that, to further improve UNDP's ability to assess development impact, the Secretary of State seek the support of other major donor countries to require that UNDP (1) adopt a system to identify all projects that require a mandatory evaluation and track whether the evaluations are conducted, (2) establish a system to track whether evaluation recommendations are addressed, and (3) conduct periodic assessments of the recently implemented evaluation system improvements to determine their effectiveness in helping UNDP measure the impact of its development assistance projects.

⁶See *International Affairs Budget Request, Fiscal Year 1996*, U.S. Department of State (Washington, D.C.) and *A National Security Strategy of Engagement and Enlargement*, The White House (Washington, D.C., Feb. 1995).

Matter for Congressional Consideration

If Congress wishes to ensure that no U.S. contributions to UNDP will be used for overhead expenses in countries covered by section 307 of the Foreign Affairs Act of 1961 (22 U.S.C. 2227), it may wish to explicitly require that the State Department include field office administrative costs when calculating the amount of the U.S. withholdings.

Agency Comments and GAO's Evaluation

In commenting on a draft of this report, UNDP, the Department of State, and USAID generally agreed that the report provides a balanced assessment of UNDP operations and U.S. participation in UNDP. UNDP acknowledged that although it had made progress in the areas of coordination and evaluation, more work needed to be done. State said that it would bring GAO's recommendations regarding the strengthening of UNDP's project evaluation system to the attention of UNDP's senior management and executive board to ensure that they are addressed.

State disagreed with GAO that administrative expenses be included in the formula for calculating the amount of money to be withheld from international organizations that assist countries subject to U.S. legislative restrictions. State said that it believes section 307 of the Foreign Affairs Act of 1961 relates only to project costs and not to overhead expenses in those countries subject to legislative restrictions. Moreover, State said it would not seek to impose a method of calculating the withholding that could reduce the U.S. contribution because it does not like legislative restrictions that invite politicization and contradict the principle of universality for participation in U.N. organizations. GAO is not advocating the inclusion of UNDP headquarters general overhead expenses, but only those related to the operation of field offices in the specific countries. These costs can be easily identified.

In light of State's comments, GAO has deleted its recommendation and instead added a Matter for Congressional Consideration regarding the inclusion of field office administrative costs in the formula used to calculate the amount of money withheld from international organizations that assist certain countries.

UNDP said that while it does maintain programs in some countries that may have policies that are inconsistent with those of the United States, this does not mean that the programs themselves are at odds with U.S. foreign policy objectives. UNDP emphasized that in no case does it subsidize or promote antidemocratic policies.

USAID commented that the comparison of average UNDP and USAID compensation costs does not consider the possible differences in the size and complexity of the development assistance programs managed by each agency, the duties performed by employees of the two agencies, the mix of employees used—that is, personal services contractors, permanent expatriate employees, and locally hired employees—or other differing factors. State also suggested that a further explanation of the reason for the differences would be useful. GAO recognized these differences may affect the average compensation costs of the agencies. However, in analyzing average compensation costs for various categories of personnel (that is, professional or support staff), a grade level equivalency chart was used to reflect the comparability of positions between the two agencies. GAO's analysis indicated that the factors causing compensation costs to differ between agencies was the mix of employees used, the level of benefits provided to professional staff overseas, and the tax-exempt status of most UNDP employees.

Each agency also provided technical comments that have been incorporated into the report as appropriate.

Contents

Executive Summary		2
Chapter 1		16
Introduction		
	UNDP Activities and Programs	17
	UNDP Does Not Implement Projects	18
	UNDP Helps Governments Plan and Manage Their Development Assistance	18
	Our Previous Work	19
	Objectives, Scope, and Methodology	20
	Agency Comments	22
Chapter 2		24
Role of UNDP in Coordinating U.N. Development Assistance		
	The Fragmented U.N. Structure Inhibits Coordination and Integration of Activities	24
	Efforts to Improve Coordination	25
	The Administrator Cannot Require Coordination	28
Chapter 3		30
Project Monitoring and Evaluation		
	UNDP's Project Monitoring Procedures	30
	UNDP's Project Evaluation System	32
	Actions to Improve Evaluation Processes and Information	37
	Recommendations	38
	Agency Comments	38
Chapter 4		39
U.S. Contributions and UNDP's Budget and Administrative Cost Reductions		
	U.S. Contributions Have Declined Over Time	39
	UNDP's Budget	40
	Contributions to UNDP's Noncore Budget Have Increased	42
	UNDP Has Reduced Its Administrative Budget and Expenditures	43
	Relative Differences in UNDP and USAID Compensation Expenditures Varied by Grade and Location	45
	Agency Comments and Our Evaluation	46
Chapter 5		48
Audit and Internal Control		
	UNDP's Audit Organizations	48
	Increases in Internal Audit Staff	49
	Use of Accounting Firms Has Increased the Number of Audits Conducted	50

Contents

	Board of Auditors Finds DAMR's Audit Planning Inadequate	51
	The Board Expressed Qualified Opinions on UNDP's Financial Statements	51
	Recommendation Tracking System Has Not Been Used	52
	Actions Taken to Improve Internal Controls and Personal Accountability	52
	Agency Comments	57
Chapter 6		58
Graduation From UNDP Assistance	UNDP's Allocation Methodology Incorporates the Concept of Graduation	58
	UNDP's New Allocation Methodology Focuses Resources	61
Chapter 7		62
The United States and UNDP Have Common Objectives	The U.S. Role in UNDP	62
	UNDP's Projects Are Consistent With U.S. Objectives	63
	UNDP's Work in Countries That Are Subject to U.S. Legislative Restrictions	65
	Matter for Congressional Consideration	67
	Agency Comments and Our Evaluation	67
Appendixes	Appendix I: Methodology Used to Calculate Growth in UNDP's Administrative Budget	70
	Appendix II: Comparison of UNDP and USAID Compensation Expenditures	72
	Appendix III: Comments From the Department of State	85
	Appendix IV: Comments From USAID	89
	Appendix V: Comments From UNDP	94
	Appendix VI: Major Contributors to This Report	101
Tables	Table 1.1: UNDP Project-implementing Organizations, Percentage Share of Total Ongoing Projects, and Project Cost, 1995	18
	Table 4.1: Real Growth Rates in Contributions to UNDP's Budget	43
	Table 4.2: Administrative Portion of UNDP's Core Budget, 1990-97	44
	Table 4.3: UNDP's 1992/93 and 1994/95 Headquarters and Field Office Administrative Expenditures	44
	Table 4.4: UNDP Core-funded Personnel Reductions, 1990-97	45
	Table 5.1: Audits Conducted by DAMR, by Type of Audit, 1990-95	51

Contents

Table 6.1: Twenty Countries Considered to Be Graduates of UNDP Assistance, 1992-1996	60
Table 7.1: UNDP Project Expenditures in Countries Subject to Legislative Restrictions, 1992-94	66
Table II.1: U.N. and U.S. Government Grade Equivalents	73
Table II.2: Comparison of UNDP's and USAID's Average Compensation Costs for 1995 and Relative Distribution of Employees	77
Table II.3: Comparison of UNDP and USAID Average Compensation Expenditures, by Comparable Grade Group, for Locally Recruited Staff in Six Countries, 1995	84

Figures

Figure 4.1: U.S. Contributions to UNDP, 1966-95	40
Figure 4.2: U.S. and Other Donor Nation Contributions to UNDP, 1966-95	42
Figure II.1: Comparison by Grade Level of UNDP and USAID Average Expenditures on Professional Salaries, 1995	79

Abbreviations

DAMR	Division for Audit and Management Review
FS	foreign service
FSN	foreign service national
FTE	full-time equivalent
GNP	gross national product
GS	general schedule
LDC	least developed countries
UNDP	United Nations Development Program
USAID	U.S. Agency for International Development

2025

Page 11

Introduction

The United Nations Development Program (UNDP), the largest U.N. program for providing development assistance to developing countries, administered over \$6.4 billion of development assistance projects in 1995. UNDP's mission is to help developing countries achieve sustainable human development.¹ UNDP works to achieve its mission in developing countries by (1) funding development assistance projects and (2) assisting countries plan and implement their development strategies. In addition to funding and planning development assistance efforts, UNDP also coordinates the development assistance activities of other U.N. agencies. UNDP focuses its programs on the alleviation of poverty, creation of jobs, empowerment of women, and protection of the environment. UNDP-funded projects are generally implemented by other U.N. agencies or recipient governments and address development issues in a variety of sectors. All U.N. member countries can request assistance from UNDP, although countries whose per capita income exceeds \$3,000—measured in 1989 dollars—must reimburse UNDP for the assistance it provides.

UNDP is an independently administered agency within the U.N. system that operates under the direction of the Economic and Social Council. UNDP's operating policies are established and its programs and budgets are approved by an executive board, comprised of 36 government representatives elected by the Council, which reports to the U.N. General Assembly.

UNDP is headed by an Administrator who serves a 4-year term. UNDP's system is comprised of a Secretariat in New York, which employs over 800 people, and 132 field offices located around the world that employ approximately 4,200 people. These employees carry out the general management and administration of the organization's activities and provide support to U.N. activities in the field. Sixty-seven percent of the headquarters staff is financed through general contributions (core resources); the remaining 32 percent is financed through contributions made for a specific purpose or project (noncore resources). In the field, 82 percent of the staff is financed through core resources, and the remaining 18 percent is financed through noncore resources. Although employees design, evaluate, and manage projects and work with host

¹The UNDP Administrator defines "sustainable human development" as development that not only generates economic growth but also distributes its benefits equitably, that regenerates the environment rather than destroying it, and that empowers people rather than marginalizing them. It gives priority to the poor, enlarging their choices and opportunities, and provides for their participation in decisions affecting them. It is development that is pro-poor, pro-nature, pro-jobs, pro-democracy, pro-women, and pro-children.

nations to construct development plans, most are not engaged in the actual delivery of development assistance.

UNDP Activities and Programs

Although UNDP is the largest provider of U.N. development assistance, according to the Organization for Economic Cooperation and Development, UNDP contributed just 1.7 percent of the average annual official development assistance worldwide between 1985 and 1994.² By comparison, the United States provided 20.4 percent of average annual worldwide official development assistance over the same period. For this and other reasons, UNDP and U.S. officials have stated that UNDP's development assistance cannot be expected to have made major impacts in all of the countries where UNDP works.

UNDP, U.S., and recipient government officials we spoke to characterized UNDP projects as "seed" or "catalyst" projects that are designed to attract further investment by recipient governments, donor governments, or development banks. In fact, some projects, referred to as "investment-related projects," are specifically designed to attract further investment.³ In its last report on investment-related projects, UNDP said that in the 10-year period between 1985 and 1994, the number of investment-related projects implemented ranged between 2.8 and 4.6 percent of all projects implemented in those years. UNDP estimates that for every dollar spent on investment-related projects, \$73 in investment commitments are generated. UNDP no longer attempts to estimate the follow-up investment that its projects attract.⁴

UNDP's development assistance includes the provision of advisory services, training, and equipment to developing countries across a variety of sectors, including agriculture, international trade, population, and human rights. In 1995, UNDP contributed funds to 4,763 projects in 20 sectors valued at about \$6.4 billion.

²The Organization for Economic Cooperation and Development is a forum permitting governments of industrialized democracies to study and formulate policies in all economic and social spheres.

³UNDP investment-related projects fall into three categories, including (1) small preinvestment studies such as feasibility studies that present information that facilitates investments; (2) larger, investment-oriented studies such as general area or regional planning studies; and (3) technical activities supporting capital investment such as assistance in the supervision of an investment-related project.

⁴UNDP officials stated that UNDP no longer tracks follow-up investment because of the difficulties encountered in linking follow-up investment to preinvestment studies conducted by UNDP years before investments are made.

UNDP Does Not Implement Projects

As table 1.1 shows, projects, financed through grants made by UNDP to recipient governments, are implemented by recipient governments or 1 or more of 32 multilateral organizations, including the U.N. Food and Agriculture Organization, the World Health Organization, and the U.N. Volunteers. In 1995, these multilateral organizations implemented 2,620 projects in 175 developing countries. Increasingly, UNDP is financing projects that are implemented directly by recipient governments. UNDP refers to these projects as "nationally executed projects." The 2,143 nationally executed projects ongoing in 1995 represented approximately 45 percent of UNDP's 4,763 projects in that year. The number of these projects grew rapidly between 1988 and 1995. In 1988, nationally executed projects accounted for only 13 percent of all projects.

Table 1.1: UNDP Project-implementing Organizations, Percentage Share of Total Ongoing Projects, and Project Cost, 1995

Agency	Percentage of projects	Percentage of cost
Host governments	44.8	51.9
U.N. Office of Project Services	18.7	16.0
U.N. Food and Agriculture Organization	7.4	6.5
U.N. Department for Development Support and Management Services	6.6	4.7
International Labor Organization	4.4	2.7
U.N. Industrial Development Organization	5.0	2.9
U.N. Education, Scientific, and Cultural Organization	1.7	0.9
World Bank	1.5	2.9
World Health Organization	1.1	1.2
Subtotal	91.2	89.7
UNDP and 24 other multilateral organizations	8.8	10.3
Total	100.0	100.0

Source: UNDP Compendium of Ongoing Projects as of 31 December 1995, UNDP/Series A/Number 26, Documentation and Statistics Office, Bureau for Policy and Program Support, UNDP, United Nations Publications, Sept. 1996.

UNDP Helps Governments Plan and Manage Their Development Assistance

The U.N. General Assembly charged UNDP with helping recipient governments, at their request, determine and meet their development assistance needs. As part of this work, UNDP helps recipient governments to organize meetings with donors and to conduct assessments of their national development assistance requirements. UNDP works with recipient governments to prepare several documents that are intended to help them determine their development assistance needs and help the United Nations

respond to those needs. The documents include the (1) "country strategy note," which serves as a framework for all U.N. agencies working within a country;⁵ (2) "advisory note," which initiates the dialogue between UNDP and the recipient government and explains UNDP's views on how its assistance can support a nation's development goals; and (3) "country cooperation framework," which outlines the intended nature, focus, and financial scope of UNDP assistance within a given country.

To focus its projects and further assist recipient governments in their efforts to plan their development, UNDP introduced the "program approach" in 1992. This is a method of implementing projects that stresses broad recipient country-driven initiatives and sector strategies rather than scattering UNDP resources into many small projects. The total number of projects supported by UNDP decreased by 23 percent between 1991 and 1995, from 6,189 to 4,763.

Our Previous Work

In 1990, we reported the following:⁶

- UNDP had not fulfilled its role as the central funding channel and coordinating body for U.N. development assistance.
- Member nations believed that UNDP performed a number of useful functions. However, U.S. and other donor officials were concerned about the ability of UNDP's projects to make an impact.
- U.S. officials believed that more evaluative information on the impact of UNDP's projects was needed to determine how to use UNDP's resources effectively.
- U.S. officials believed a greater percentage of UNDP's funds should be used in the least developed countries (LDC) and should be focused on areas where UNDP offers advantages over other funding sources.⁷
- The U.N. Board of Auditors, UNDP's independent external auditor, had issued qualified audit opinions on UNDP's 1987 and 1988 financial statements because a substantial portion of the expenditures reported by U.N. implementing agencies had not been audited.

⁵The country strategy note provides guidelines for all development initiatives the United Nations implements with the cooperation of a recipient government.

⁶See United Nations: U.S. Participation in the U.N. Development Program (GAO/NSIAD-90-64, Feb. 22, 1990).

⁷LDCs currently comprise 48 countries with a total population of more than 655 million. These countries are the poorest of the developing countries, with formidable economic, institutional, and human resource problems. Currently, 60 percent of UNDP's core resources are dedicated to projects in LDC's.

We recommended that the Secretary of State seek the support of other major donor countries to (1) strengthen the UNDP representatives' role in coordinating all U.N. system development assistance activities at the country level, (2) increase the evaluation of project results to determine their impact on the priority needs of recipient countries, and (3) ensure that UNDP concentrates on the priority needs of LDCs and on activities where UNDP offers advantages compared to other funding sources.

In response to these recommendations, the State Department took the lead in organizing a major effort to improve the coordinating role of UNDP. A U.N. General Assembly resolution was adopted calling for significantly improved coordination, and resources have been earmarked for this purpose. Chapter 2 discusses these and other efforts to improve coordination within the U.N. system. In the area of evaluation, a decision was passed by UNDP's governing body that directed UNDP to strengthen its evaluation of projects and their impact. Since 1990, UNDP has improved its project evaluation processes by measuring the agency's compliance with evaluation requirements, but further improvements are needed in this area, particularly in measuring project impact. (See ch. 3 of this report.) Finally, to focus the organization's resources on the priority needs of LDCs, UNDP has increased the percentage of its funding dedicated to LDCs from 55 percent in 1990 to 60 percent in 1997.

Objectives, Scope, and Methodology

The Chairman of the Senate Committee on Foreign Relations requested that we follow up on our 1990 review of U.S. participation in UNDP. Specifically, we obtained information on and analyzed (1) actions taken in response to recommendations in our 1990 report to improve coordination, project evaluation, and the allocation of resources; (2) the amounts and sources of UNDP budget support; (3) the cost of administering UNDP's headquarters and overseas operations and the extent to which UNDP has reduced these costs, including a comparison of UNDP and U.S. Agency for International Development (USAID) compensation costs; (4) the system of audit and internal control UNDP employs to provide oversight of its operations; (5) the criteria UNDP employs to graduate recipient countries from assistance; and (6) the extent to which UNDP projects coincide with U.S. national security and foreign policy objectives.

We conducted our review primarily at UNDP headquarters in New York City and at the Department of State and USAID in Washington, D.C. We also visited selected UNDP field offices and projects and interviewed UNDP, U.S.

Chapter 1
Introduction

government, other donor nations, U.N. technical agency, World Bank, International Monetary Fund, recipient government, and project beneficiary officials in Indonesia, Laos, Malaysia, and Vietnam. These four countries were selected because of their geographic proximity to each other and their ability to provide us with examples of UNDP's assistance to countries (1) with a variety of income levels, (2) at different stages of development, (3) in transition from centrally planned economies to market economies, (4) that implement nationally executed projects, and (5) where governance and administrative reform projects are being implemented. Malaysia was also selected because UNDP's country office there is the site of the regional service center for the Asia and Pacific Region. In addition, Vietnam was also selected because UNDP's country office in Hanoi is working on an improved performance assessment system for UNDP.

To assess the mechanisms UNDP uses to coordinate U.N. development assistance, we reviewed UNDP documentation related to coordination, including country strategy notes in the countries we visited. In addition, we met with UNDP field staff responsible for coordination, U.S. officials, other donor nation representatives, and U.N. technical agency and multilateral financial institution staff in the countries we visited to obtain their opinions on UNDP's coordination efforts. We also met with officials from the U.N. Secretariat in New York.

To determine the methods UNDP uses to monitor and evaluate the impact of its projects, we reviewed UNDP policies and procedures and evaluation reports. In addition, we met with personnel responsible for evaluations both in headquarters and in the field and reviewed the operation of UNDP's Central Evaluation Data Base, which is used to record the results of evaluations.

To assess UNDP's budget support, the cost of administering UNDP's headquarters and overseas operations, and the extent to which UNDP has reduced these costs, we reviewed UNDP budget documents and audit reports prepared by the U.N. Board of Auditors and met with UNDP's management and administrative officers responsible for these areas. In addition, we compared UNDP's headquarters and field personnel compensation expenditures with those of USAID's headquarters in Washington, D.C., and field offices in six countries (Bangladesh, Benin, Honduras, Mali, Nicaragua, and Zambia) where both UNDP and USAID have field offices. Our methodology for making these comparisons is described in appendix II.

To determine the systems of audit and accountability UNDP uses to provide oversight and control for its operations, we met with UNDP managers in headquarters and field offices, the Board of Auditors' staff, auditors from UNDP's internal audit office and representatives from accounting firms that work for the office, and evaluation staff. In addition, we read audit reports and related documents prepared by the Board of Auditors and UNDP's internal audit staff; however, we did not validate their findings or evaluate the adequacy or quality of their work. We also reviewed the operation of UNDP's Internal Project Services Audit Information System.

To determine the criteria UNDP employs to graduate recipient countries from assistance, we examined UNDP policy documents and interviewed UNDP officials responsible for applying the criteria.

To determine the extent to which UNDP's projects coincide with U.S. national security and foreign policy goals, we examined UNDP policy and project documents. We also reviewed documents reflecting U.S. national security and foreign policy goals, including the executive branch's national security strategy and the State Department's 1996 budget request for UNDP funding. In addition, we interviewed U.S. officials, including chiefs of mission in the countries we visited, to determine their views on the extent to which UNDP's mission and projects coincide with U.S. objectives.

We conducted our review from December 1995 to December 1996 in accordance with generally accepted government auditing standards.

As an agency of the United States, we have no direct authority to review the operations of multilateral institutions such as UNDP. Our review of UNDP documents and reports included those that are generally available to member states and others that are internal to the organization. However, we did not test internal controls or verify all of the data provided by UNDP. We received full cooperation from and broad access to UNDP officials, including the Administrator.

Agency Comments

UNDP, the Department of State, and USAID provided comments on a draft of this report. The agencies generally agreed with our assessment of UNDP's operations. UNDP and USAID stated that the report provides a fair evaluation of U.S. participation in the organization, and State observed that the report is consistent with the administration's view that UNDP promotes many U.S. foreign policy goals. The agencies also raised some specific issues of

Chapter 1
Introduction

concern that are discussed at the end of chapters 3, 4, 5, and 7. The agencies' comments are reprinted in appendixes III through V.

Role of UNDP in Coordinating U.N. Development Assistance

How well the United Nations coordinates development assistance has been a long-standing concern. A variety of mechanisms have been established over the years to help ensure that policy and program coordination occurs among U.N. agencies at both headquarters and the field level. In 1990, we reported that UNDP did not coordinate the majority of U.N. development assistance and recommended strengthening the U.N. resident coordinator position. Since then, in an effort to improve coordination, the United Nations has introduced the country strategy note, the Secretary General has officially designated UNDP's Administrator as the coordinator of all U.N. development assistance, and the program cycles of U.N. agencies have been harmonized in some countries. Likewise, to strengthen the role of the resident coordinator, UNDP has, among other things, earmarked additional resources to fund coordination initiatives in the field. However, UNDP does not have the authority to require the U.N.'s diverse and strongly independent agencies to coordinate their development assistance activities. The U.N. system remains highly fragmented, and the social and economic development programs and activities of the United Nations and its affiliated agencies are not fully integrated.

The Fragmented U.N. Structure Inhibits Coordination and Integration of Activities

The need for coordinating U.N. development assistance at all levels is widely acknowledged. In such areas as common administrative services and joint programming, several agency representatives in the field told us that separate governing bodies, mandates, funds, and programs for a number of major organizations—each with its own program and budgeting cycles, management and administrative procedures, and priorities—make effective coordination and integration of U.N. activities at the country level difficult.

Many of the agency representatives we interviewed acknowledged the need for better coordination at the highest levels—in New York, Geneva, or a regional headquarters location, as the case may be. They told us that the ability of U.N. agencies to cooperate depended, to a large extent, on guidance from their respective headquarters organizations. For example, according to UNDP officials in Indonesia, the International Labor Organization has, in effect, delayed the establishment of a common U.N. library because its headquarters in Geneva declined to participate in this initiative due to concerns about losing its identity.

In February 1996, the U.S. mission to the United Nations submitted a compendium of proposals for U.N. reform designed to move the United

Nations from a fragmented system of competing structures into a fully integrated system.¹ Among the structural reforms that the U.S. mission proposed was the consolidation of many activities throughout the U.N. system that provide technical cooperation for sustainable development, with UNDP as the core. Further, it sought to incorporate into UNDP smaller, currently independent activities such as the U.N. Development Fund for Women, the U.N. Environment Program, the U.N. Industrial Development Organization, and the U.N. Center for Human Settlements (Habitat). As of December 1996, the high-level working group looking at U.N. reform proposals had not completed its work, and the General Assembly extended the group's mandate for another year. According to State Department officials, the group has identified several areas of convergence and will work on identifying additional areas in the months ahead. A report to the General Assembly is expected in 1997.

In June 1996, the UNDP Administrator also offered reform proposals that called for the regrouping of the U.N. Secretariat and the transformation of UNDP as the integrating and coordinating structure for U.N. development and humanitarian assistance. Led by a chief executive for development and humanitarian operations, a newly created U.N. Alliance for People—consisting of agencies such as the U.N. Children's Fund, the U.N. Population Fund, and the World Food Program—would be responsible for U.N. development and humanitarian work. To make the U.N. system more effective, heads of funds and programs within this cluster would report to the chief executive; similarly, at the country level, country directors of funds, programs, and agencies would report to the resident coordinator. Moreover, integrated U.N. programming at the country level, common premises and administrative services, and harmonized budgeting and programming cycles would be made mandatory. As of December 1996, this proposal had not been acted on.

Efforts to Improve Coordination

Since our 1990 report, both the United Nations and UNDP have taken steps to improve coordination and development assistance. One of the key instruments that the United Nations introduced in 1992 to ensure the effective integration of assistance provided by the U.N. system is the country strategy note. A country strategy note is developed by interested recipient governments, on a voluntary basis, with the assistance of and in cooperation with the agencies that are part of the U.N. system, under the leadership of the U.N. resident coordinator. However, whether or not a

¹U.S. Views on Reform Measures Necessary for Strengthening the United Nations System," a presentation to the Open-Ended High-Level Working Group on the Strengthening of the United Nations System (New York: Feb. 1990).

country strategy note is prepared is the prerogative of a recipient government, and devising one is not considered a priority in some countries. As of September 1996, 13 of the 175 countries that receive UNDP assistance had decided not to prepare country strategy notes. In 87 countries, an active process for the development of a country strategy note has been established.

In 1994, the U.N. Secretary General recognized the need to make the U.N. system operate more effectively in the development and international economic cooperation arenas and to improve coordination at the field level. Thus, in July 1994, he requested the UNDP Administrator to assist him in ensuring that development policies were logical and consistent and that coordination was improved among the organization's departments, funds and programs, and regional commissions. These responsibilities were in addition to, and distinct from, the Administrator's functions as head of UNDP. To support the Administrator in this role, in October 1994, UNDP established the Office of U.N. System Support and Services responsible for the management and support of the U.N. resident coordinator system. In December 1995, the Secretary General named the UNDP Administrator as the Special Coordinator for Economic and Social Development. The Administrator was to assume the lead role within the United Nations in enhancing the coordination of development activities and in promoting an effective and integrated follow-up at the operational level of global conferences and agreements and arrangements between U.N. agencies.

As part of the effort to improve coordination among U.N. programs and agencies, an initiative to harmonize the program cycles of U.N. funds and programs at the country level was implemented in cooperation with the Joint Consultative Group on Policy.² As of February 1996, UNDP reported that U.N. funds and programs had harmonized programming cycles in 27 countries. In addition, as of September 1996, U.N. offices shared common facilities in 52 countries; 15 more countries are expected to do so by 1997.

At the country level, UNDP's network of 132 field offices worldwide serves as the mechanism for supporting the U.N. resident coordinator system that was formally established in 1981 to (1) ensure consistency of the U.N. system's operational activities with the plans, priorities, and strategies of

²The Joint Consultative Group on Policy is an intersectoral grouping of funding agencies—UNDP, the U.N. Children's Fund, the U.N. Population Fund, the World Food Program, and the International Fund for Agriculture Development—that work to simplify and harmonize operational procedures and work on major issues such as decentralization, field premises and services, and new approaches to development assistance.

the country and (2) improve the efficiency and effectiveness of U.N. system interventions. In all countries, the UNDP resident representative is the designated U.N. resident coordinator.

UNDP has taken steps to improve the coordination of U.N. development assistance and provide U.N. resident coordinators with stronger support at the field level. For example, in 1996, UNDP provided every resident coordinator with a budget of \$50,000 to fund local aid coordination activities and provided them with the opportunity to submit special requests to fund aid coordination initiatives. In addition, UNDP has earmarked 1.7 percent of core resources for resident coordinators to support and develop aid coordination activities. This is in addition to the regular allocation for support to U.N. operational activities, including assistance to governments in aid coordination efforts, which is budgeted for 4.3 percent. Thus, based on biennial core resources of about \$2 billion, a total of 6 percent of UNDP's core resources, or approximately \$120 million, is earmarked for various coordination activities.

In addition, to widen the pool from which resident coordinators are selected, UNDP has looked to other U.N. agencies for applicants for the positions. In September 1996, there were 11 resident coordinators selected from other agencies, such as the U.N. Children's Fund, the World Food Program, the U.N. Industrial Development Organization, and the U.N. Conference on Trade and Development. Moreover, since 1994, UNDP has provided comprehensive training specifically designed for resident coordinators and advanced workshops for experienced resident coordinators. As of September 1996, about 60 first-time and 60 experienced resident coordinators had completed the training. Joint training of U.N. agency representatives and resident coordinators has been stepped up; as of April 1995, more than 60 UNDP staff and over 300 staff from other U.N. agencies had participated in 13 country team workshops. Since 1992, nine national workshops have been conducted to provide training for local government officials as well.

In the last 2 years, the UNDP Administrator helped launch two major joint initiatives—the U.N. System Conference Action Plan, organized to help recipient governments and U.N. agencies follow-up and implement decisions made at several major U.N. global conferences; and the Special Initiative on Africa, which is intended to mobilize and integrate the efforts

of the Bretton Woods institutions and U.N. agencies to accelerate the development of that region.³

Other collaborative efforts under way include strengthening the relationship between the U.N. system and the Bretton Woods institutions. In early 1996, agreements were reached with the World Bank and the International Monetary Fund to further specify their respective roles in the development process. Moreover, in many countries, resident coordinators are establishing interagency theme working groups or sectoral subcommittees to ensure coordination in areas of common concern such as poverty elimination, disaster preparedness, and sustainable development. Most of these efforts have just begun; consequently, it is too early to assess their effectiveness.

The Administrator Cannot Require Coordination

Although the UNDP Administrator is responsible for improving coordination, he told us that he has no authority to require coordination other than the power of persuasion. He stated that the success of the coordination effort is dependent upon the individual UNDP resident representatives/U.N. resident coordinators in the field. Several U.N. officials in the field shared similar views, noting that the success and extent of coordination efforts at the country level are affected by the personality, leadership, and management style of the resident coordinator, as well as the willingness of U.N. agencies to coordinate and be coordinated. For example, the resident coordinator in Laos told us that he viewed his coordination role as a special responsibility—one that he characterized as supportive, rather than intrusive, of other U.N. agencies. Other resident coordinators and several agency representatives agreed and told us that, in trying to achieve interagency cooperation and collaboration, a participatory style of management was more effective than an authoritarian approach.

The extent to which UNDP coordinates development assistance varies from country to country. A senior official estimated that UNDP's coordination role is sufficiently institutionalized in 60 percent of the countries, and progress is under way in another 20 percent of the countries. In the remaining 20 percent, UNDP has made very little progress, and there is little hope for progress in the short term. To a large extent, the scope of UNDP's

³Representatives of 44 nations assembled at the U.N. Monetary and Financial Conference held in July 1944 in Bretton Woods, New Hampshire, conceived and established two complementary financial institutions—the World Bank and the International Monetary Fund (also referred to as the “Bretton Woods institutions”).

Chapter 2
Role of UNDP in Coordinating U.N.
Development Assistance

role depends upon a country's reliance on external aid and its need for aid coordination services.

Project Monitoring and Evaluation

UNDP has two distinct processes for measuring project performance, results, and impact. First, during implementation, UNDP monitors the progress projects are making toward achieving their stated goals and objectives. This is an ongoing process and includes both annual and end-of-project assessments. UNDP and its external auditor, the U.N. Board of Auditors, have reported that project monitoring has not been fully effective and that some monitoring activities have been conducted in a perfunctory manner.

Second, UNDP has instituted a formal evaluation system that requires all projects meeting certain specified criteria as to size and/or complexity to undergo an independent, systematic, and objective evaluation. These evaluations, conducted in most cases by external consultants, are intended to assess whether the project's immediate development objectives were met and to endeavor to measure the project's impact, that is, to assess whether the project made a difference in addressing the condition it was intended to affect. UNDP has made progress in improving its evaluation system since 1990, but problems remain. For example, (1) not all projects that meet the criteria for receiving a formal evaluation are being evaluated; (2) UNDP has no automated system to track the implementation of evaluation recommendations, and follow-up procedures are often not complied with; and (3) the evaluation data base used to catalogue evaluation results is incomplete. However, the most significant of the remaining problems—and the most difficult for UNDP to address—is that evaluations do not measure the impact projects have had on development objectives.

UNDP has recently taken some steps designed to improve its monitoring and evaluation procedures and related information systems. Specifically, a new system to address the quality and impact of program results was introduced in 1995, evaluation compliance reports are now being prepared, and actions to ensure that the results of evaluations are recorded have been initiated.

UNDP's Project Monitoring Procedures

UNDP's monitoring procedures are intended to provide continuous oversight of current projects. UNDP seeks to ensure that input deliveries, work schedules, targeted outputs, and other required actions are proceeding according to plan. UNDP project monitoring is a tripartite responsibility. The recipient government, executing agency, and UNDP are each responsible for monitoring all aspects of a project's design and implementation.

UNDP's project monitoring procedures include the following:

- **providing annual reports on project performance, prepared by project managers who record the results and analysis of monitoring efforts;¹**
- **holding periodic and terminal tripartite review meetings, conducted by the parties directly involved in project implementation, designed to assess progress toward achieving objectives; and making joint decisions about the design and implementation of the project;**
- **preparing tripartite terminal reports, written by the parties directly involved in project implementation, intended to convey to the recipient government and UNDP whether the project achieved or is likely to achieve its immediate objective and whether it will make an important contribution to the achievement of the development objective;² and**
- **making terminal assessments, prepared by the UNDP resident representative at the end of a project, which provide UNDP headquarters, the recipient government, and the executing agency with the resident representative's personal assessment of the project.³**

In addition, UNDP's policy states that resident representatives are to conduct post-project monitoring efforts that include the preparation of brief annual reports.

Both UNDP's Office of Evaluation and Strategic Planning and the U.N. Board of Auditors have identified several concerns related to UNDP's project monitoring systems. For example, in its July 1992 report, the board reported that some project files contained no monitoring reports. Again, in its July 1994 report, the board concluded that the monitoring of projects had become highly mechanistic and was carried out to satisfy an administrative requirement rather than to encourage remedial action. In 23 (40 percent) of the projects it examined, the board concluded that monitoring had not been carried out effectively. Finally, the Board of Auditors found a lack of any system to follow up and ensure that recommendations from monitoring reviews had been addressed. The board noted in its report that project monitoring was not always given priority attention. Board findings agree with a UNDP report that found that

¹Project performance reports and terminal reports are the only monitoring reports UNDP requires project managers to produce.

²A terminal report is required for each project except where it is agreed in advance by the parties concerned and specified in the project document that other documentation will serve the same purpose. Terminal reviews are not considered independent evaluations, and terminal reports are not centrally catalogued by UNDP's Office of Evaluation and Strategic Planning.

³For projects where UNDP's contribution is \$1 million or more, a written assessment is required. A written report is not required when UNDP's contribution is less than \$1 million.

the majority (56 percent) of the UNDP field staff that were expected to spend 60 percent of their time monitoring projects had actually spent less than 20 percent engaged in monitoring activities.

In 1995, UNDP's Office of Evaluation and Strategic Planning reported that (1) performance reviews at the country level focus almost exclusively on the status of activities at the project output level, (2) UNDP staff are not adequately equipped to manage and modify the projects they are responsible for, and (3) monitoring reviews focus on low-level activities and their immediate results instead of determining whether development objectives have been achieved.⁴

UNDP's Project Evaluation System

UNDP defines evaluation as "a process which attempts to determine, as systematically and objectively as possible, the relevance, effectiveness, and impact of activities in light of their objectives. In the case of a UNDP project, this involves determining whether the immediate and development objectives were realized, thus endeavoring to measure the impact of the project."⁵

All UNDP-funded projects that meet certain criteria (discussed later) are required to be evaluated, but UNDP, the executing agency, or the recipient government can call for an evaluation of any project at any time. UNDP evaluations are tripartite exercises involving the recipient government, the U.N. executing agency concerned with implementing the project, and UNDP.⁶ Each of these organizations nominates a consultant to conduct the evaluation.⁷

UNDP uses in-depth project evaluations to determine the status or impact of its projects. These evaluations may be initiated during project implementation, at the time a project is completed, or at some time after a project is completed. In-depth evaluations may be used as a basis for decisions on corrective actions to improve the effectiveness of an ongoing

⁴The Office of Evaluation and Strategic Planning does not conduct most of UNDP's project evaluations but, instead, it is responsible for the (1) development and monitoring of evaluation policy within UNDP, (2) analysis and improvement of program effectiveness, (3) initiation of collaborative efforts with agencies and governments on evaluation policies, and (4) preparation of reports on program effectiveness and impact.

⁵Program and Projects Manual, UNDP, "Project Monitoring, Reporting, and Evaluation," chapter VI, section 30608 (New York: Feb. 1988).

⁶In the case of nationally executed projects, evaluations involve only the recipient government and UNDP.

⁷The cost of an evaluation is estimated to be \$35,000-\$40,000.

project or to continue, revise, extend, or terminate a project. In addition, this type of evaluation is used to assess the effectiveness, impact, and relevance of the project; obtain lessons learned; or respond to concerns of policymakers, program managers, and other interested parties.⁸

UNDP's evaluations score projects "high," "satisfactory," or "low" in two rating categories—performance and success. Performance measures are comprised of seven components, including personnel, training, equipment, management, government contribution, outputs, and achievement of immediate objectives. Success measures are comprised of four components, including effectiveness, building the technical capacities of recipient countries, impact, and sustainability. Each evaluated project is rated "unsuccessful," "partially successful," or "successful."

Weaknesses in Evaluation Have Been Long-standing

Over the past 26 years, we have reported on weaknesses in UNDP's evaluation systems. In 1970, we said that the evaluations that were being performed were not sufficient in scope and coverage to be of much assistance in ascertaining the accomplishments of UNDP.⁹ In 1975, we reported that UNDP considered its evaluations not results-oriented evaluations of project performance based on preset goals.¹⁰ We concluded from our 1990 review that more evaluative information on the impact of UNDP projects was needed to determine how UNDP funds can be spent more effectively. We recommended that the Secretary of State seek the support of other major donor countries to focus evaluations more on project results to determine their impact on the priority needs of recipient countries.

UNDP's governing bodies have also recognized the need for improved evaluation. In 1989, the Governing Council decided that UNDP evaluation should move beyond management concerns and strongly encouraged UNDP

⁸UNDP also conducts thematic evaluations that examine the design, implementation, and impact of an ongoing or completed program or group of projects. The evaluation is conducted to help governments, executing agencies, and UNDP improve the planning and implementation of future activities involving technical cooperation in the subject area. In addition, UNDP monitors and evaluates its activities from a country program perspective. The country program, which covers a 5-year period, is the system UNDP has used for planning and managing the projects it funds. In 1997, the 5-year country program will be replaced by a 3-year country cooperation framework—developed by recipient governments in consultation with UNDP.

⁹See Management Improvements Needed in U.S. Financial Participation in the United Nations Development Program (GAO/B-168767, Mar. 18, 1970).

¹⁰See Actions Required to Improve Management of United Nations Development Assistance Activities (GAO/ID-75-73, July 3, 1975).

to focus more on program and project impact.¹¹ In 1990, the Council requested the Administrator to concentrate resources on priority areas, as well as strengthen monitoring and evaluation mechanisms.

Despite these actions to improve the evaluation system, problems remain. For example, according to UNDP, its evaluation systems are not achieving their potential because of the following:

- Clear information about the degree to which UNDP projects produce improvements in host country capacities that lead to verifiable economic and social improvements is absent.
- Midterm, terminal, and ex-post evaluations tend not to reach clear, substantive conclusions about the effectiveness and impact of projects.
- Staff do not have the information they need to determine if the achievement of program outputs is appropriate given changing circumstances or whether the outputs are sufficient enough to bring about desirable higher-level results such as changes in the social and economic development of the country.

The Board of Auditors reported problems with project evaluation in 1992 and 1994. In 1992, it reported that, in some cases, the results of evaluations had little practical meaning for the project and reflected findings that would have been realized without an evaluation, provided the projects had been monitored properly. In cases where evaluation reports contained material recommendations, the board found that the recommendations had not been appropriately addressed. In 1994, it reported that there is limited facility at headquarters for effective financial monitoring of projects and UNDP could not provide information on how many projects were delivered on time and within budget. We found that UNDP still cannot provide this information.

All Mandatory Evaluations Are Not Completed

UNDP policy states that a project with any of the following characteristics should be "verified" for evaluation. Explicit justification is needed if no in-depth evaluation is recommended for projects that (1) have budgets exceeding \$1 million; (2) are innovative, critical, particularly complex, or have unusual features; (3) have revisions requiring an addition of \$700,000 or more; or (4) have serious difficulties.¹² Most of UNDP's projects do not

¹¹The Governing Council was the predecessor to UNDP's current executive board.

¹²In 1994, approximately 30 percent of UNDP's ongoing projects were valued at over \$1 million. However, the percentage of new projects approved with a value of over \$1 million between 1988 and 1994 was 16 percent.

meet these criteria; consequently, thousands of projects are not formally evaluated. A 1996 analysis by the Office of Evaluation and Strategic Planning indicated that many mandatory evaluations have not been conducted. The analysis was based on evaluations of projects approved in 1988 and 1989.

Evaluation and Strategic Planning officials stated that generally they can only apply the first criterion when they try to determine whether a project should be evaluated because they lack the information to apply the remaining three criteria. Only the implementing organizations, regional bureaus, and UNDP resident representatives have sufficient knowledge to apply the other criteria. Consequently, it is up to officials in these organizations to determine whether a project requires an evaluation. In March 1996, the Office of Evaluation and Strategic Planning reported that 86 percent of the 3,231 projects approved in 1988 and 1989 had not been evaluated and that only 62 percent of the 470 projects that met the criteria for a mandatory evaluation were evaluated.¹³ The report indicated that in one region, compliance with mandatory evaluation requirements was only 29 percent. In commenting on our draft report, UNDP said that while only 14 percent of the projects required a mandatory evaluation, the projects covered 69 percent of all project funding. Consequently, although most projects are not evaluated (that is, 86 percent), the majority of project funding was subject to evaluation. The March 1996 compliance report was the first such report UNDP had published.

Evaluation Recommendations Are Not Tracked

Although evaluation reports may contain recommendations to correct identified problems, UNDP has no centralized system to determine whether those recommendations have been addressed. UNDP's Policy and Procedures Manual requires evaluation recommendations to be followed up 12 months after an evaluation is completed. The follow-up procedures require completing a form designed to capture the results of the follow-up exercise. Office of Evaluation and Strategic Planning officials stated that the procedures pertaining to following up evaluation recommendations are not complied with, and UNDP has no system to track what actions have been taken on evaluation recommendations. Consequently, UNDP does not

¹³In its analysis, the Office of Evaluation and Strategic Planning only had baseline data on the number of projects with budgets exceeding \$1 million. Evaluations received for projects that did not exhibit this criterion were assumed to exhibit one of the other three criteria. Consequently, evaluation compliance for the projects exhibiting the three remaining criteria was assumed to be 100 percent. If only the first criterion is considered, the rate of compliance is 52 percent. The March 1996 analysis was based on projects approved in 1988 and 1989. These years were selected because they provide the most current data. According to UNDP, it has taken 7 to 8 years from the time of project approval to complete the full cycle of evaluations.

know, on an organizationwide basis, to what extent evaluation recommendations have been addressed.

UNDP's field office in Indonesia conducted a study to determine the extent to which evaluation recommendations were implemented in that country. The study reviewed 19 projects evaluated between 1991 and 1994 and found that the recommendations of 12 of 19 projects were completely implemented and recommendations were partially implemented for the remaining 7 projects. Partial implementation of recommendations was attributed to several factors, including (1) lack of funding, (2) unrealistic recommendations, (3) lack of acceptance of the recommendations by recipient governments, and (4) negligence on the part of UNDP or project staff.

Evaluation Data Base Is Incomplete

Information stored in UNDP's Central Evaluation Data Base is incomplete. The results of evaluations are supposed to be entered into the data base by evaluation team leaders but, according to UNDP officials, team leaders have not fully complied with this requirement. Between 1987 and 1995, approximately 2,000 project evaluations were completed; however, only 1,200, or 60 percent, of the evaluations were processed and entered in the data base. Furthermore, performance measures have only been recorded since 1994. Consequently, UNDP has both performance and success scores in its data base for only 176 projects. UNDP officials told us that 47 of the 1,200 evaluated projects were rated unsuccessful and 19 of these were recommended for termination. None of the 19 is still operating. An additional 378 projects were rated partially successful, and 104 of these were recommended for termination or received a recommendation of "no further assistance." Of the 104, 98 are no longer being implemented.

Although a number of projects that were recommended for termination have been discontinued, UNDP has no way of showing that a project was terminated as a result of an evaluation recommendation. Projects are discontinued for a variety of reasons other than poor performance. For example, UNDP may decide to end a project because the sector the project addressed was covered by other donors. Furthermore, the data indicating whether a project has been terminated are not stored in the Central Evaluation Data Base and are not readily available for analysis by UNDP officials.

Actions to Improve Evaluation Processes and Information

UNDP has, over the years, taken steps to improve evaluation processes and evaluation information systems. One initiative taken since 1990 was the combining of UNDP's strategic planning and evaluation functions into one office that reports directly to the Administrator. The Administrator made this change in November 1994 in an effort to strengthen the evaluation function by linking it directly to corporate decision-making. Another initiative was the introduction in 1995 of the Program Impact and Performance Assessment system to address the quality and impact of program results throughout the organization. Its aim was to establish, at the program planning/design stage, an objective basis for measuring performance. It was expected that this would, in turn, enable results-oriented monitoring during implementation and value-added evaluations at the end of the project. UNDP hopes that this will help it better understand program impact.

A pilot of the new system has been implemented in 5 UNDP country offices, and UNDP plans to implement the system in another 30 country offices in 1997 before an organizationwide rollout. In addition, country-level human development reports containing a wide variety of development-related statistics have been completed in more than 62 countries. According to UNDP officials, the information contained in these reports can be used as a baseline against which to measure project impact.

To improve evaluation compliance, the Office of Evaluation and Strategic Planning intends to submit an evaluation compliance report to the executive board annually. Also, UNDP's Associate Administrator has informed UNDP managers that they will be held accountable for ensuring that mandatory project evaluations are conducted. UNDP officials also said that steps have been taken to ensure that information in the Central Evaluation Data Base is complete, accessible, and used. For example, to improve the completeness of the data base, the Office of Evaluation and Strategic Planning is making arrangements to charge the cost of extracting evaluation data to project budgets if evaluation team leaders do not extract evaluation data from their evaluations so it can be entered into the data base.

To improve accessibility to information, field offices will have access to the data base by the end of 1996. Further, to ensure that the information is used, project proposal reviews are required to document how the lessons learned from prior evaluations were employed in the design of new projects. UNDP is also enhancing its automated financial management system to allow it to identify projects that have been terminated and the

reasons for the termination. Finally, in an effort to capture and disseminate information pertaining to evaluation findings, the Office of Evaluation and Strategic Planning began producing a series of documents, entitled "Lessons Learned," that focus on various aspects of the evaluation function in UNDP and also provide an analysis of selected evaluation findings.

Recommendations

Although UNDP has taken steps to address problems with its project evaluation system, we recommend that, to further improve UNDP's ability to assess development impact, the Secretary of State seek the support of other major donor countries to require that UNDP (1) adopt a system to identify all projects that require a mandatory evaluation and track whether the evaluations are conducted, (2) establish a system to track whether evaluation recommendations are addressed, and (3) conduct periodic assessments of the recently implemented evaluation system improvements to determine their effectiveness in helping UNDP measure the impact of its development assistance projects.

Agency Comments

The Department of State agreed with our recommendations concerning the need to strengthen UNDP's project evaluation system. State said that it would bring the recommendations to the attention of UNDP's senior management and executive board to ensure that they are addressed.

UNDP said that the report presents a fair assessment of the state of project monitoring and evaluation at UNDP from an accountability perspective, and it also agreed with our recommendations for improvement. UNDP acknowledged the difficulty of performing evaluations that measure a project's or program's impact on the development process. It said that to determine impact, improvements must be made not only in evaluation itself, but also in other stages of the project cycle. These include the collection of baseline data at the project design stage, the development and selection of performance indicators, and the collection and analysis of time-series data for those indicators through regular monitoring. This, UNDP said, is necessary to have a basis for evaluating the impact at a later stage. UNDP said that these issues are being worked on but acknowledged that project designers and managers need guidance and reinforcement. UNDP said that the new Guiding Principles on Monitoring and Evaluation will be issued shortly and will emphasize these prerequisites.

U.S. Contributions and UNDP's Budget and Administrative Cost Reductions

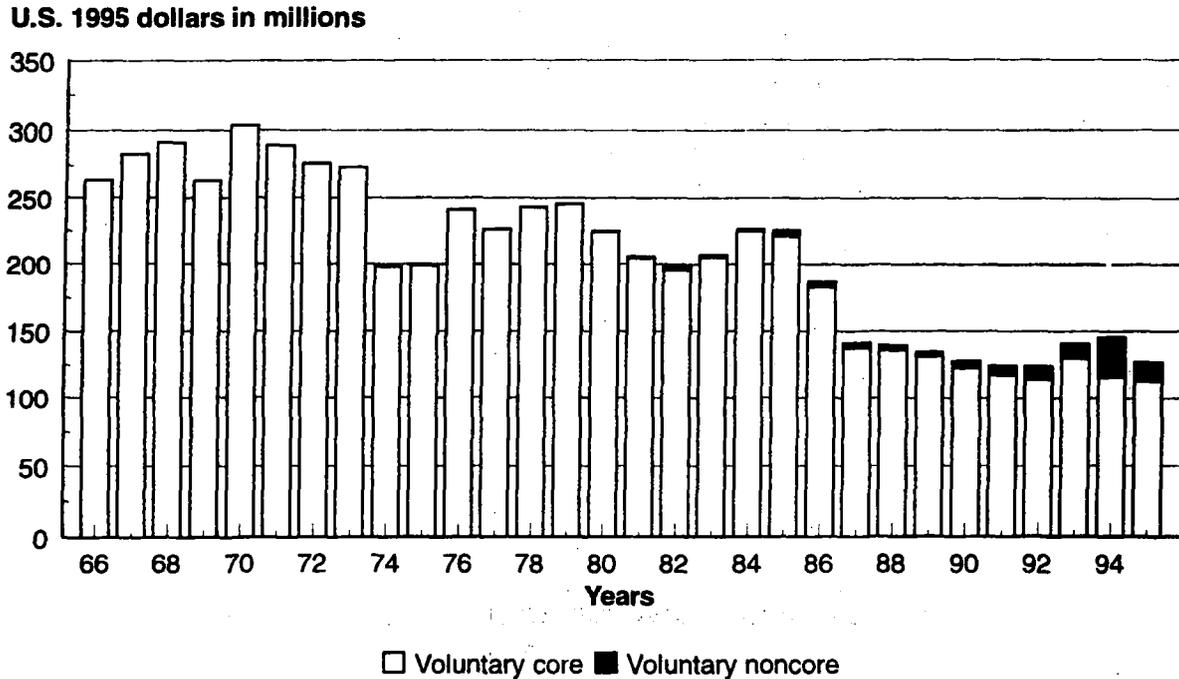
Over the 30-year period 1966-95, the U.S. contribution to UNDP as a percentage of all contributions has decreased. However, contributions to UNDP's total budget grew by an average annual real rate of 2.9 percent during the same period. In recent years, UNDP has reduced its administrative core budget by approximately 11.5 percent, although the reduction in actual expenditures was approximately 30 percent less than the reduction in this budget. The reductions were accomplished primarily through a cut in core budget-funded personnel. UNDP's average annual administrative expenditures were approximately \$188 million, measured in 1995 dollars, between 1992 and 1995. Personnel costs are a major component of UNDP's administrative budget. In comparing UNDP and USAID employee compensation costs, we found that the relative differences between the two agencies' average compensation expenditures varied by grade and location. While UNDP generally spent more than USAID for comparable grade levels, except at the higher executive grade levels, UNDP's average compensation cost per employee was nonetheless lower than USAID's average cost. This was primarily because UNDP had a different mix of employees; it engaged, for example, a greater percentage of lower-paid indigenous staff in the field than USAID. In addition, UNDP compensation expenditures generally did not include monies to cover taxes due to the tax-exempt status of most employees.

U.S. Contributions Have Declined Over Time

The total U.S. contribution to UNDP between 1966 and 1995 was \$6.3 billion measured in 1995 dollars. While there were variations from year to year, the U.S. contribution declined an average of 3 percent per year over the 30-year period. (See fig. 4.1.) The U.S. contribution to UNDP's total budget ranged from a high of 41 percent in 1968 to a low of 6.8 percent in 1995. (See fig. 4.2.) U.S. contributions to the budget continued to decline in 1996, dropping to \$49.6 million, or 6 percent of the UNDP budget. Due to overall decreases in the funds appropriated by Congress for international organizations, the U.S. contribution to the 1996 core budget represented a 56-percent decrease from the 1995 contribution of \$113.5 million. The 1996 U.S. contribution moved the United States from being UNDP's largest contributor (a position it held for 30 years) to being UNDP's 7th largest contributor.¹

¹Noncore contribution data in 1996 for all nations were not available at the time this report was produced.

Figure 4.1: U.S. Contributions to UNDP, 1966-95



Source: Based on data provided by UNDP's Bureau for Resources and External Affairs.

UNDP's Budget

UNDP's biennial \$3.8 billion budget is financed by annual voluntary contributions from donor governments to the regular "core budget."² Countries also contribute to trust funds established by the Administrator.³ In addition, funding for specific projects may be provided by international development banks, recipient countries, or donor nations through

²For the purposes of this report, the term "core budget" refers to the budget used to fund UNDP's administrative operations and projects in the field.

³Trust funds established by the Administrator address a specific issue.

**Chapter 4
U.S. Contributions and UNDP's Budget and
Administrative Cost Reductions**

cost-sharing agreements.⁴ Trust funds and cost-sharing agreements are considered to constitute UNDP's "noncore budget."⁵

Between 1966 and 1995, total contributions to UNDP's budget grew by an average annual rate of 2.9 percent. During this 30-year period, donor nations contributed approximately \$30.2 billion, measured in 1995 dollars, to UNDP's core budget and \$5.3 billion to the noncore budget (see fig. 4.2). The U.S. contribution represented 17.7 percent (\$6.3 billion) of the total (\$35.5 billion) over the 30-year period.⁶ Other major donor nations include Denmark, Germany, Japan, the Netherlands, Norway, Sweden, and Switzerland. Each of these countries contributed more than \$45 million to UNDP's \$923 million core budget for 1995. The contributions to the core budget from the United States and these seven nations represented approximately 76 percent of all contributions in 1995; recipient countries contributed approximately \$39 million, or 4.3 percent, of UNDP's 1995 core budget.

⁴Cost-sharing agreements are designed to allow donors to contribute to specific projects within a country at their discretion.

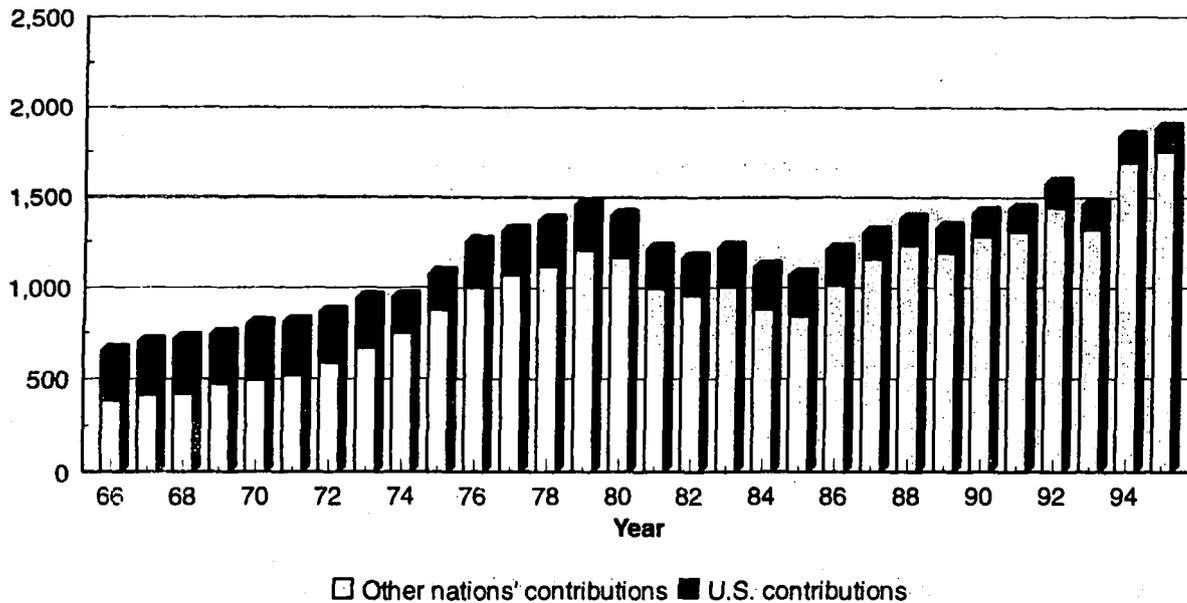
⁵Other sources of budget support include cash counterpart contributions from recipient governments, interest income, exchange rate gains, contributions by host governments to cover local office costs, miscellaneous income, the Special Measures Fund for LDCs, and private donations. These other sources of income totaled \$137 million (measured in 1995 dollars) in 1994. Private donations are generally made by foundations and totaled \$281,000 measured in 1995 dollars (\$162,000 in then-year dollars) between 1972 and 1995.

In 1990, we reported that as of December 1988 UNDP had an unexpended core budget balance of \$581 million in general resources. At that time, UNDP officials expected the balance to decrease rapidly as planned projects were implemented. As of September 1996, the balance was \$462 million. The current positive balance resulted primarily from slower than expected project delivery in 16 countries.

⁶In then-year dollars, donor nations contributed \$18.3 billion to the core budget and \$4.5 billion to the noncore budget for a total of \$22.8 billion. The U.S. contribution measured in then-year dollars was \$3.3 billion.

Figure 4.2: U.S. and Other Donor Nation Contributions to UNDP, 1966-95

U.S. 1995 dollars in millions



Source: Based on data provided by UNDP's Bureau for Resources and External Affairs.

Contributions to UNDP's Noncore Budget Have Increased

Contributions to the core budget generally decreased in the 1990s; however, contributions to the noncore budget rose substantially over the same period. Measured in 1995 dollars, contributions to the core budget totaled \$1.2 billion in 1990; by 1995, core budget contributions had decreased to approximately \$928 million. This represents an annual average decrease of 5.6 percent (see table 4.1). Contributions to the noncore budget, measured in 1995 dollars, were \$203 million in 1990; by 1995, noncore budget contributions had risen to \$951 million. This represents an average annual growth rate of 37.7 percent. U.S. contributions to the noncore budget increased from approximately \$5.3 million in 1990 to \$29 million in 1994 before decreasing to \$14 million in 1995.

**Chapter 4
U.S. Contributions and UNDP's Budget and
Administrative Cost Reductions**

The substantial increase in noncore resources has been attributed primarily to cost-sharing agreements in Latin American countries. According to UNDP, as greater shares of UNDP's core budget are dedicated to LDCs, there are fewer core resources available for the primarily middle-income countries of Latin America. Consequently, in an effort to continue UNDP projects, Latin American governments have chosen to have credits granted by international financial institutions administered through UNDP. According to UNDP, countries choose to use UNDP in this manner because UNDP provides a framework for the delivery of assistance and allows politically sensitive projects to be administered by a neutral organization.

Table 4.1: Real Growth Rates in Contributions to UNDP's Budget

Percent						
Budget	Core 1966-95	Noncore 1973-95	Total 1966-95	Core 1990-95	Noncore 1990-95	Total 1990-95
Average annual growth rate	1.3	18.7	2.9	-5.6	37.7	6.3

Source: Based on data provided by UNDP's Bureau for Resources and External Affairs.

UNDP believes contributions to the noncore budget will remain constant for the rest of the decade. UNDP officials stated that the use of noncore resources by developing countries demonstrates the willingness of these countries to guide their own development and use UNDP for assistance in implementing their development plans.

UNDP Has Reduced Its Administrative Budget and Expenditures

UNDP has reduced both its administrative budget and its actual expenditures. UNDP reduced the portion of its core budget that funds administrative expenses between the 1992/1993 biennium and the 1996/1997 biennium by \$46.6 million (measured in 1995 dollars), or 11.5 percent. (See table 4.2.) Administrative expenses include salaries, benefits, travel, contractual services, rent and maintenance of facilities, furniture, equipment, and supplies.

Chapter 4
U.S. Contributions and UNDP's Budget and
Administrative Cost Reductions

Table 4.2: Administrative Portion of UNDP's Core Budget, 1990-97

U.S. dollars in millions

Biennium	1990/91	1992/93	1994/95	1996/97	Percentage change 1992/93-1996/97
Actual core budget ^a	\$357.7	\$383.5	\$378.2	\$375.3	-2.1
Core budget in 1995 dollars ^a	403.4	407.5	382.9	360.9	-11.5
Percentage of real growth	N/A	1.0	-6.0	-5.8	N/A

Legend

N/A = Not applicable.

Note: See appendix I for an explanation of the methodology we used to calculate the growth rate in UNDP's budget.

^aBudgets include only administrative expenditures associated with UNDP headquarters and field offices.

Source: Based on data provided by UNDP's Bureau for Finance and Administration.

Although UNDP reduced its administrative budget by 6 percent between the 1992/93 and 1994/95 bienniums, the percentage reduction in actual expenditures was not as great. Nonetheless, its actual administrative expenditures remained below the budgeted amount for both bienniums. The reduction in expenditures varied by category of expenditure. However, as table 4.3 shows, the reduction in total expenditures over the 2 bienniums was 4.2 percent.

Table 4.3: UNDP's 1992/93 and 1994/95
Headquarters and Field Office
Administrative Expenditures

U.S. 1995 dollars in millions

Biennium	1992/93	1994/95	Percentage change
Total headquarters and field office administrative budget	\$407.5	\$382.9	-6.0
Total headquarters and field office administrative expenditures	385.3	369.0	-4.2
Difference	\$22.2	\$13.9	N/A

Legend

N/A = Not applicable.

Source: Based on data provided by UNDP's Bureau for Finance and Administration.

Personnel costs represent approximately 70 percent of UNDP's administrative expenses, and we found that the budget adjustments were

Chapter 4
U.S. Contributions and UNDP's Budget and
Administrative Cost Reductions

primarily achieved through staff reductions both in the headquarters and field offices. Between the 1990/1991 and 1996/1997 bienniums, UNDP removed 659 staff positions, reducing its total core-funded staff positions from 4,319 to 3,660. Headquarters staff positions were reduced by 32 percent and field office posts by 12 percent. As table 4.4 shows, UNDP has cut the number of employees funded through its core budget during the last 4 bienniums by 15.3 percent.

Table 4.4: UNDP Core-funded Personnel Reductions, 1990-97

Biennium	1990/91	1996/97
Employees	4,319	3,660
Percentage change	N/A	-15.3

Legend

N/A = Not applicable.

Source: Based on data provided by UNDP's Bureau for Finance and Administration.

Relative Differences in UNDP and USAID Compensation Expenditures Varied by Grade and Location

Because personnel costs represent approximately 70 percent of UNDP's administrative expenses, we compared UNDP compensation expenditures with USAID's. The comparison showed that in 1995, UNDP spent an average of 17.7 percent less than USAID on salaries, benefits, and allowances (that is, compensation) per employee, or \$39,400 compared to \$47,900, respectively. For all staff located at its headquarters in New York, UNDP spent 25.5 percent more than USAID spent for its Washington, D.C., headquarters staff—\$88,600 compared to \$70,600—and 31.0 percent less than USAID, or \$27,600 compared to \$40,000, for all staff located in the field. (See table II.2.) UNDP's overall compensation expenditures were lower than USAID's primarily because UNDP employed a greater number of lower-paid, support staff in its headquarters and a greater number lower-paid, locally hired staff in its field offices. In addition, since most U.N. member states have agreed not to tax their citizens employed by the United Nations, UNDP compensation expenditures generally do not include monies to cover these exempted tax obligations of employees.

The two agencies differ in the amount that they spent to compensate their professional employees located in headquarters and in country offices. UNDP spent more to compensate its professional employees in its New York headquarters than USAID spent on its Washington, D.C., staff. UNDP's average compensation expenditures were approximately \$119,200, as

compared with USAID's expenditures of \$82,100.⁷ Conversely, UNDP spent less to compensate its overseas international professional staff than USAID spent for its U.S. professional staff overseas. On average, UNDP's expenses were approximately \$132,200, as compared with \$177,700 for USAID. UNDP's compensation expenses for its overseas international professional staff were lower than USAID's because UNDP's staff were entitled to fewer benefits, such as housing allowances, than their USAID counterparts.

UNDP salary expenditures for lower-level professionals were higher than USAID's. However, as professional grade levels increased, USAID salary expenditures approximated and then exceeded UNDP's at the senior grade levels. UNDP's salary expenditures for employees at the lowest grade level (P-1), were approximately 26.8 percent higher than USAID's expenditures for civil service (general schedule [GS])-9 and foreign service (FS)-5 employees. The average expenditures for UNDP P-1 professionals was approximately \$44,700 as compared with \$35,300 for USAID. At the P-5 level, UNDP's expenditures were approximately 14 percent higher than USAID's. However, UNDP's salary expenditures were on average 3 percent lower than USAID's at the senior executive and senior FS officer grade levels. (See fig. II.1.) The average expenditure for UNDP employees at the Director levels ranged from \$104,100 to \$110,600 as compared with \$105,200 to \$114,100 for their counterparts at USAID.

UNDP's compensation expenditures for its locally hired staff was higher than USAID's, approximately \$16,200 and \$14,100, respectively. We compared the salaries and benefits paid to locally recruited staff in six countries, five of which used the U.S. embassy as a comparator for setting local compensation. We found that in three of the six countries, UNDP spent more to compensate its locally recruited staff than USAID spent to compensate its foreign service national (FSN) staff. However, in the remaining three countries, UNDP spent less to compensate its staff than USAID spent. (See table II.3.)

Agency Comments and Our Evaluation

USAID said that in its opinion, a valid comparison of UNDP and USAID compensation expenditures cannot be made. USAID said that such comparisons do not consider the possible differences in the size and complexity of the development assistance programs managed by each

⁷There are two primary reasons why UNDP's compensation costs for professional staff in New York was higher than their USAID counterparts in Washington. First, the cost of living in New York is higher than that in Washington. Second, UNDP's professional headquarters staff are considered international professionals (that is, they are serving outside their country of origin); consequently, they are entitled to a post adjustment allowance similar to the allowance U.S. foreign service personnel receive when serving overseas.

agency; the comparability of duties performed by the employees of the two agencies; the mix of staff used, for example professional versus clerical, direct-hires versus personal services contractors, and indigenous staff versus expatriate staff; the degree of accountability required; and other factors. State also pointed out that differences exist between the two agencies. We recognize these differences may affect the average compensation costs of the agencies. However, in analyzing average compensation costs for various categories of personnel (that is, professional or support staff) we used a grade-level equivalency chart to reflect the comparability of positions between the two agencies. Our analysis indicated that the factors causing compensation costs to differ between agencies is the mix of employees used, the level of benefits provided to overseas professional staff, and the tax-exempt status of most UNDP employees. Appendix II discusses in detail the methodology we used to make the comparison and the results of our analysis.

Audit and Internal Control

Since 1990, UNDP has taken steps to improve its internal audit organization, the Division for Audit and Management Review (DAMR); internal controls; and personal accountability among staff. These efforts include increasing the number of audit staff and audits conducted. In addition, UNDP management established a committee to adjudicate cases of wrongdoing by staff. However, despite these efforts, the U.N. Board of Auditors has found that DAMR's staff is too small and its audit planning efforts are inadequate.¹ In addition, the board issued qualified audit opinions on UNDP's financial statements for the 1992/1993 and 1994/1995 bienniums because it believed the level of nationally executed project expenditures audited was too low. Moreover, our own examination found that UNDP could not readily determine the extent to which its internal audit recommendations had been implemented.

A number of incidents in which staff circumvented internal controls or committed acts of fraud have been identified. These cases have been adjudicated by UNDP's Standing Committee on Personal Responsibility and Financial Liability and Disciplinary Committee.

UNDP's Audit Organizations

The U.N. Board of Auditors and DAMR are responsible for conducting audits of UNDP's headquarters and field operations.² The board, UNDP's independent external auditor, conducts biennial financial and performance audits and is composed of the national audit offices of selected U.N. members. Representatives of these offices audit the United Nations and its technical agencies on a rotating basis.

The board's audits are to include examining evidence supporting the amounts and disclosures in the financial statements. The examination is to be based on an assessment of UNDP's accounting systems and controls and an audit in which all areas of UNDP's financial statements are to be subject to direct substantive testing of transactions. The board's reports include a

¹The board is currently comprised of representatives from Ghana, India, and the United Kingdom. Staff from the United Kingdom's National Audit Office were assigned to carry out biennial audits of UNDP for the 1992/1993 and 1994/1995 bienniums. Germany's Federal Court of Audit conducted the audit for the 1991/1992 biennium.

²The U.N. Joint Inspection Unit and the U.N. Office of Internal Oversight Services have authority to examine UNDP activities; however, these agencies have not conducted any specific evaluations of UNDP. The Joint Inspection Unit is the only organization that has the authority to review, investigate, and evaluate the U.N. system's organizations both on an individual and a systemwide basis. The Office of Internal Oversight Services has authority to audit the U.N. Secretariat, regional commissions, and U.N. funds and programs, including UNDP.

review of previous audit recommendations and are submitted to the President of the General Assembly.³

DAMR, UNDP's internal auditor, is independent of all of the operations that it is responsible for auditing but is subordinate to the Administrator.⁴ In executing its responsibilities, DAMR (1) ascertains that operations are in compliance with existing legislation and internal controls are in place and (2) conducts internal audits of UNDP's financial, managerial, and operational activities. The audit reports prepared by DAMR are to be provided to all concerned units and resident representatives for appropriate action and follow-up on audit recommendations.

DAMR conducts three types of audits: management audits, compliance audits, and special audits. Management audits include an evaluation of an organization's financial, administrative, management, and program operations. These audits may involve an examination of the organization's use of resources, internal controls, performance, and achievement of objectives. Compliance audits are designed to determine whether an organization is complying with UNDP's rules, regulations, procedures, and policies. Compliance audits include a review of internal controls. Special audits are an examination of a particular aspect of an organization's performance or operations. Special audits may also involve the investigation of allegations of fraud, presumptive fraud, loss, mismanagement, or negligence on the part of an employee or other party with respect to UNDP.

Increases in Internal Audit Staff

According to the Board of Auditors' reports, DAMR has had insufficient staff to carry out its duties. In 1988, DAMR had 23 positions, 13 of which were professional auditors or managers. By 1995, the number of DAMR positions had increased to 41, 25 of which were for professional staff. However, excluding the Director, who devotes professional services to 3 organizations (UNDP, U.N. Population Fund, and U.N. Office of Project Services), only 15 professional positions are dedicated to performing audits of UNDP operations, including management audits; audit planning; quality control and supervision of contracted audits; management reviews

³Board audits are to be conducted in conformity with article XII of the Financial Regulations and Rules of the United Nations and the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies, and the International Atomic Energy Agency. These standards require the board to perform its audits to obtain reasonable assurance that UNDP's financial statements are free of material mismanagement.

⁴DAMR's work is governed by the General and Specific Standards for the Professional Practice of Internal Auditing in United Nations Organizations.

of nationally executed projects; and assessments of audits of nationally executed projects conducted by recipient governments. The remaining nine positions are dedicated to audits of the U.N. Population Fund and the U.N. Office of Project Services. A UNDP official told us DAMR does not work strictly on a section-by-section basis; staff from one section may participate in audits conducted by another section.

According to DAMR's Director, the size of the audit staff responsible for conducting audits of UNDP operations limits visits to 10 to 20 of UNDP's 132 field offices each year. He added that most of the audits of UNDP have been audits of field operations; historically, DAMR has done very little work at UNDP headquarters.

Use of Accounting Firms Has Increased the Number of Audits Conducted

In 1993, DAMR began using private chartered accounting firms to perform annual compliance audits of UNDP's 68 field offices in Africa and Asia. UNDP believes the increase in the number and frequency of audits conducted in field offices has been beneficial. Staff in the field offices we visited stated that having the auditors visit on an annual basis was helpful because problems are identified sooner, and corrective actions taken in response to audit recommendations are tracked by the auditors more closely than in the past, although we did not verify this. UNDP is considering hiring private accounting firms to provide audit services for its offices in Latin America, the Arab States, and the former Soviet Union.

In its report on the 1992/1993 biennium, the Board of Auditors stated that the use of accounting firms had increased DAMR's internal audit coverage in a cost-effective manner. However, the report noted that the resources devoted to internal audit were insufficient to provide comprehensive audit coverage, particularly in headquarters functions. In its 1994/1995 biennial audit report, the board said DAMR was still understaffed, noting that DAMR had five vacant professional positions and was unable to complete the audits contained in its work plan. Nonetheless, as shown in table 5.1, the number of audits conducted in 1995 alone was almost half as many as those conducted in the previous 5-year period. We did not independently assess the adequacy of DAMR's audit coverage or evaluate the quality of its audits.

Table 5.1: Audits Conducted by DAMR, by Type of Audit, 1990-95

Type of audit	1990	1991	1992	1993	1994	Total 1990-94	1995
Management	30	26	35	41	33	165	48
Compliance	0	0	0	30	52	82	60
Special	5	6	3	2	4	20	6
Total	35	32	38	73	89	267	114

Source: UNDP Division for Audit and Management Review.

Board of Auditors Finds DAMR's Audit Planning Inadequate

In 1990/1991, the Board of Auditors reported several problems with DAMR's audit planning, specifically that (1) the work plans did not show how potential audit areas were identified or how priorities were determined, (2) the work plans were updated two to three times a year without documenting the reasons for changes, and (3) only about one-third of the planned internal audits were actually completed. According to the board's 1994/1995 audit, problems with audit planning persisted. For example, DAMR's work plans were not linked to available resources and did not consider the impact of the additional unplanned audits that DAMR conducts during the course of the year.

The Board Expressed Qualified Opinions on UNDP's Financial Statements

The Board of Auditors' report for UNDP's biennium ending December 31, 1995, expressed a qualified opinion on UNDP's financial statements based on certain scope limitations of the audit. According to the board's report, UNDP included in its financial statements details of program expenditures incurred on its behalf by executing agencies or recipient governments. This information was based on quarterly expenditure statements that the recipient governments and agencies certified and submitted to UNDP to report how they used advances received from UNDP. For each nationally executed project, UNDP prepared a combined delivery report showing expenditures for the year, which it presented to the recipient government for certification by their independent auditors. According to the board, the audit certificates are intended to provide assurance that the recipient governments have properly expended and accurately reported the funds provided by UNDP. Because the board does not have access to the expenditure records of recipient governments, it relies on the audit certificates.

UNDP reported expenditures of about \$1.1 billion for nationally executed projects, which represented about 56 percent of the total project-related

expenditures for the 1994/1995 biennium. UNDP did not receive independent audit certificates for about \$366 million of this amount; therefore, according to the board's report, it restricted the scope of its audit opinion to exclude these expenditures. The board reported a similar situation in its audit report for the biennium ending December 31, 1993.

During the 1994/1995 biennium, DAMR examined nationally executed projects in 20 countries. DAMR found a lack of familiarity with UNDP requirements, poor audit compliance, and inadequate information to monitor expenditures. In its review of the audit reports produced by independent auditors, DAMR found that, in many cases, the auditors limited the scope of their work to financial operations. Likewise, in its visits to field offices, the Board of Auditors found that many audits did not satisfy UNDP's requirement that the adequacy of project management, monitoring, and evaluation be examined. The board also found little evidence that country offices regularly reviewed the scope of auditors' reports or their findings and conclusions. Nor was there evidence that audit recommendations were addressed. Consequently, UNDP did not have enough information to determine how well projects were being implemented.

Recommendation Tracking System Has Not Been Used

In 1993, DAMR installed an automated system to record and catalog the results of its audits and facilitate the tracking of audit recommendations; however, staff only began using the system in December 1995. Before 1995, DAMR attempted to implement the automated follow-up system but failed because of a lack of personnel, according to one official. Consequently, the system had not been used to track recommendations; instead, individual auditors used their own manual tracking systems. In addition, before 1996, DAMR did not analyze its recommendations to determine trends or report on overall compliance. DAMR's Director stated that in the future, DAMR plans to produce an annual report on compliance with audit recommendations.

Actions Taken to Improve Internal Controls and Personal Accountability

UNDP has instituted a variety of mechanisms to maintain and improve its internal controls and the personal accountability of its staff. UNDP's management and financial systems operate in an environment that is characterized by the complexities of conducting work in 132 countries. Field offices in these countries must work with differing local currencies and recipient government procedures for the importation and disposal of equipment. They also must provide support to other U.N. development

assistance agencies, each with its own unique operating procedures. At the same time, UNDP must work in a cost-effective manner in order to ensure the economical use of voluntary contributions and maximize the level of funds dedicated to project financing.

UNDP's financial system includes a variety of internal control and accountability mechanisms. For example, UNDP's financial rules and regulations require a minimum of two persons (that is, a certifying officer and an approving officer) to execute all financial transactions. The officers are individually accountable to the organization and are required to sign relevant financial documents before a transaction is executed. In addition, field office accounts are examined on a quarterly basis by headquarters personnel or by private accounting firms to ensure that all transactions and accounts are accurate and comply with UNDP's regulations. Further, each contract valued at \$100,000 or more is reviewed by a "contracts committee" to ensure it is in compliance with UNDP's procurement procedures prior to receiving an approval from the Chief Procurement Officer. Similar committees in the field review contracts valued at \$30,000-\$99,999.

Since 1993, UNDP has taken additional steps to improve internal control and accountability of staff. Specifically, it has (1) issued instructions on accountability, (2) commissioned a study of current accountability procedures, (3) adopted a new framework for accountability, (4) established a management review and oversight committee to provide the Administrator some assurance that the accountability framework is operating effectively, and (5) established a Standing Committee on Personal Responsibility and Financial Liability. Although a system of internal controls has been established, breakdowns in internal controls have occurred. One notable case involved UNDP's reserve for field accommodation.⁵ In addition to breakdowns in internal controls, 29 cases of fraud were documented during the last 2 bienniums.

The instructions issued on accountability explain the Administrator's expectations for managers and staff and the actions that will be taken in cases of suspected wrongdoing. The management review and oversight committee established to provide the Administrator with some assurance that UNDP's accountability framework is operating effectively is to include senior UNDP managers and the Under-Secretary General for the U.N. Office of Internal Oversight Services. The committee is to meet four times a year

⁵The reserve for field accommodation was established in 1979 at a maximum level of \$25 million to construct housing for U.N. international staff in the field. In 1989, the use of the reserve was expanded to include financing for the common premises of U.N. field offices.

to review internal audit and self-assessment plans; the results of previous audits, assessments, and special investigations; and the actions taken in response to these efforts. The committee is also to review staff instructions on accountability and the effectiveness of UNDP's accountability framework. Finally, the committee is to make recommendations to the Administrator on all of the plans, reports, and actions taken.

At the time our review, the study commissioned to review UNDP's current accountability procedures and recommend improvements had not been completed. However, UNDP had used the study's preliminary results to develop a new framework for accountability. The framework is based on a control and risk self-assessment approach, modeled after the Criteria of Control framework developed by the Canadian Institute of Chartered Accountants. According to U.S. Department of State officials, the recently adopted framework is too general. At the September 1996 meeting of UNDP's executive board, the United States requested UNDP to publish a formal annual report on accountability, including specific actions UNDP is taking to improve accountability. Currently, the Administrator reports on the status of the implementation of the accountability framework at each session of the executive board. In the future, UNDP will also provide an annual report on oversight and accountability.

The Standing Committee on Personal Responsibility and Financial Liability

During the 1992/1993 biennium, the U.N. Board of Auditors reviewed a number of cases in which serious breaches of financial rules and regulations had been brought to the attention of UNDP's ad hoc Committee on Personal Responsibility and Financial Liability. The cases reviewed involved procurement irregularities, misappropriation of funds or equipment, and various unauthorized transactions. According to the board, in the cases it examined, no formal disciplinary proceedings had been taken against the staff involved. In addition, only modest financial recovery of losses had been made.

UNDP established the Standing Committee on Personal Responsibility and Financial Liability in October 1993 to review cases of violations of UNDP's financial rules and regulations that result in financial loss.⁶ The committee

⁶The standing committee was preceded by an ad hoc committee, established in 1990, which dealt with the same types of issues. The work of the standing committee was suspended in 1996 pending the results of the study commissioned to examine UNDP's accountability system. The committee operates in the context of UNDP financial rule 103.2, which states all officials of UNDP are responsible to the Administrator for the regularity of actions taken by them in the course of their duties. Any official who takes action contrary to these financial rules or to instructions that may be issued in connection with them may be held personally responsible and financially liable for the consequences of such action.

acts as an advisory body to UNDP's Assistant Administrator for Finance and Administration, is comprised of senior managers, and only convenes as needed. The last case reviewed was in June 1995. Before the committee takes any action, DAMR initiates a special investigation of the case in question. If the investigation determines that financial loss has occurred, the case is brought before the committee. According to UNDP, between 1990 and 1995 the committee reviewed nine cases involving approximately \$135,000 in losses, of which about \$18,000 has been recovered. The actions taken in these cases ranged from letters of reprimand sent to the individuals involved to the separation of a resident representative from UNDP.

If it is decided that disciplinary action will be taken, the case is referred to UNDP's disciplinary committee, which is responsible for determining what type of punitive action to take. The disciplinary committee is composed of UNDP/U.N. Population Fund staff members. The disciplinary actions that may be implemented are governed by UNDP and U.N. staff regulations and rules. A UNDP management official told us that the actions taken in response to cases of wrongdoing have been constrained by U.N. personnel regulations. Specifically, the financial recovery actions attempted in some cases by UNDP are not allowable under U.N. personnel rules. According to UNDP, the role of the standing committee and the ability of UNDP to recover financial losses from staff is "a key focus" in the accountability framework under development. The framework is expected to address the difficulty UNDP has experienced, pursuant to staff rules and regulations, in recovering losses.

Breakdowns in Internal Controls for the Reserve for Field Accommodation

A recent case of a breakdown in internal controls, involving UNDP's reserve for field accommodation, was identified by the U.N. Board of Auditors and investigated by DAMR. In its 1992/1993 audit report, the Board of Auditors indicated its concerns pertaining to the overexpenditure of the reserve for field accommodation. In its 1994/1995 audit report, the board reported internal control breakdowns in the management of the reserve. Specifically, the board reported that (1) UNDP paid \$39.3 million against fixed-priced construction contracts of \$27.9 million; (2) the architect responsible for overseeing many of the construction projects was hired without proper verification of his qualifications; (3) UNDP paid the architect on the basis of a percentage of construction costs instead of contracted costs for several projects;⁷ (4) payments made to contractors were

⁷The architect was paid approximately \$4.1 million against contracts valued at \$1.4 million—an overpayment of approximately \$2.7 million.

certified based on information provided by the architect without adequate, independent supporting documents; and (5) the authority for certifying payments for construction projects rested with one individual within UNDP. The board had serious concerns about the breakdown in financial control over the reserve. However, a board official told us that the internal control breakdowns that occurred in this case are not indicative of UNDP's overall internal controls.

UNDP began to identify the extent of the reserve's problems in 1995. In April 1996, DAMR initiated an investigation of the management of the reserve. Although the investigation was still in progress as of March 1997, the investigation had found between \$3 million and \$6 million in overpayments to firms associated with construction projects funded by the reserve. The investigation also revealed that there were irregularities in the process used to select the project architect and a number of internal controls failed repeatedly. As of March 1997, a total of 16 current and former UNDP employees were referred to appropriate disciplinary or management review mechanisms. Two of the employees had been suspended. In DAMR's opinion, the cases involved a range of infractions due to gross negligence, misconduct, incompetence, and lack of appropriate oversight by a number of UNDP senior managers.

UNDP has initiated several actions in an effort to fully determine the extent of the problem and prevent further problems from occurring. Some of these actions were begun prior to DAMR's investigation. The actions included (1) appointing a new manager with professional accounting qualifications to manage the reserve, (2) hiring an international accounting firm to review and analyze all of the reserve's transactions, (3) introducing better monitoring and control procedures, (4) hiring a consulting firm to assess the fair market value of UNDP housing projects, and (5) addressing problems in the expenditure certifying and approving process.

Cases of Fraud

Cases that involve fraud or presumptive fraud are to be reviewed by UNDP's Disciplinary Committee. During the 1992/1993 and 1994/1995 bienniums, the Board of Auditors was informed of a total of 29 cases of fraud involving \$378,852. As of September 1996, \$308,102 had been recovered. In 18 of the cases, disciplinary actions were taken and/or separation of staff from UNDP occurred. In two of the cases, no perpetrator was identified; in two others, no UNDP staff were involved. Seven cases remain under review.

Agency Comments

In commenting on this report, UNDP said that DAMR has now implemented a revised audit planning methodology that includes linking available resources with the organization's audit priorities. Moreover, the UNDP Administrator committed to making additional resources available to DAMR as part of the 1998/1999 budget submission, which he said would substantially strengthen the unit. UNDP said that action has also been taken to increase audit coverage of nationally executed projects and that a manual is being prepared to help facilitate the process.

Graduation From UNDP Assistance

Although UNDP has no comprehensive policy on when countries should graduate from receiving assistance, its allocation methodology does incorporate such a concept. This methodology takes into account various country characteristics such as population to determine the level of assistance each country will receive; nonetheless, the single graduation criterion used by UNDP is per capita gross national product (GNP).¹ However, according to UNDP, the use of this single graduation criterion is flawed.

UNDP has designed a new resource allocation methodology to distribute project resources from its core budget. According to UNDP officials, the new allocation methodology is intended to change UNDP's allocation system from one based on entitlement to one based on performance incentives.

UNDP's Allocation Methodology Incorporates the Concept of Graduation

UNDP's methodology for allocating resources from its core budget incorporates the concept of graduation from assistance. For the past 15 years, resources from UNDP's core budget have been distributed among recipient countries on the basis of their per capita GNP and population size. These factors are weighted such that countries with lower per capita GNPs receive a greater share of UNDP's core resources than countries with higher per capita GNPs, and countries with larger populations receive more than those with smaller populations. Seventy-five percent of the resources are allocated in this manner; the remaining 25 percent are allocated on the basis of 10 supplementary criteria, including a country's geography, susceptibility to disaster, and World Bank indebtedness classification. UNDP refers to the resources allocated to each country under this methodology as the country's "indicative planning figure." Each country's indicative planning figure covers a 5-year period.

Although UNDP documents indicate that it has not developed a comprehensive policy on the graduation of countries from development assistance, its system for allocating resources from its core budget contains some elements of such a concept.² For example, the weight coefficient of a country with a per capita GNP of \$375 is 20 times higher than that of a country with a per capita GNP of \$1,464. Thus, if the resources were allocated solely on per capita GNP, the resources the poorer country would receive would be 20 times larger than the richer

¹GNP is the total market value of all final goods and services produced by a nation during a specific time period.

²General Council of the United Nations Development Program, DP/1991/24, May 3, 1991.

country's. Consequently, as the per capita GNP of a country increases, the share of UNDP's resources that it receives decreases.

Although UNDP uses population, per capita GNP, and other supplementary criteria for allocating resources, it employs only one criterion, per capita GNP, for determining when a country has graduated from assistance. Countries that have achieved a per capita GNP of \$3,000 or more, measured in 1989 U.S. dollars, are considered to have graduated.³ Countries that have graduated can still participate in UNDP projects; however, they must reimburse UNDP for the cost.

The current methodology for allocating resources ends in 1996. Under a new system to begin in 1997, the threshold for graduation will be raised to a per capita GNP of \$4,700—measured in 1994 dollars. No distinction will be made for small island countries. An additional eight countries are expected to graduate by early 1997. Table 6.1 shows the 20 countries that were considered graduates between 1992 and 1996.

³For small island nations, the graduation criterion is a per capita GNP of \$4,200 in 1989 U.S. dollars.

Table 6.1: Twenty Countries
Considered to Be Graduates of UNDP
Assistance, 1992-1996

Country

Aruba
Bahamas
Bahrain
Barbados
Bermuda
British Virgin Islands
Brunei Darussalam
Cyprus
Hong Kong
Kuwait
Libya
Malta
Nauru
Netherlands Antilles
Oman
Qatar
Republic of Korea
Saudi Arabia
Singapore
United Arab Emirates

According to UNDP, the use of per capita GNP as the single criterion to determine graduation status has proven "conceptually flawed." According to UNDP, the single-criterion methodology (1) assumes an exactitude that does not exist, (2) distorts economic output without considering the consequences of monetary policy, and (3) captures economic events at a single point in time. Economic output measures such as per capita GNP are imprecise and subject to frequent, significant revisions. Consequently, during 1987-91, three countries moved out of the group of graduates as a result of the revision of per capita GNP estimates; another country would have been considered a graduate if its per capita GNP had not been underestimated.⁴

⁴According to UNDP officials, alternative graduation criteria, such as purchasing power parity and other development indicators, have been considered. However, these criteria were viewed as "less appropriate."

UNDP's New Allocation Methodology Focuses Resources

While not directly addressing the issue of graduation or the criteria used to determine graduate status, UNDP has designed a new resource allocation methodology to distribute project resources from its core budget at the country level. The allocation methodology is intended to focus UNDP resources on the countries that can make the best use of them. Under this methodology, 70 percent of UNDP's core budget will be dedicated to funding projects and 30 percent to program development and technical services, support to the United Nations, technical assistance coordination, and administrative expenses. The 70 percent will be divided as follows: 25 percent will go immediately to recipient countries; 25 percent will be earmarked for each region for subsequent distribution at the country level; 5 percent will be set aside for development in countries facing special situations; and 15 percent will be allocated to global projects, evaluation, and other activities. UNDP will implement the new system in 1997.⁵

The resources that are earmarked for each region for subsequent distribution at the country level are intended to provide special incentives to improve project quality, achieve focus, and further UNDP's objectives. The criteria for the level of resources allocated to a given country will be based on assessments of project quality, including the degree to which proposals are aimed at promoting high-leverage activities in UNDP's sustainable human development focus areas (for example, poverty elimination, and environmental protection) and the existence of an environment conducive to achieving success in these areas. The assessments will also consider the special needs and opportunities for capacity building in host governments and the potential for the mobilization of external resources to support UNDP's work.

According to UNDP officials, this new allocation methodology will allow UNDP to shift resources to countries where its projects have the greatest potential for success. The new allocation methodology is intended to change UNDP's allocation system from one based on entitlement to one based on incentives.

⁵UNDP plans to continue to use per capita GNP as the criterion for graduation after the new allocation methodology is implemented.

The United States and UNDP Have Common Objectives

U.S. national security and foreign policy objectives include promoting sustainable development—UNDP's core mission. The United States has always been an important member of UNDP. The Administrator has always been a U.S. citizen and, over the past 30 years, the United States has contributed more than any other nation.¹ UNDP's projects advance many of the same issues the U.S. government promotes in the countries where UNDP operates.

Nevertheless, because of the U.N.'s principle of universality of presence and participation, UNDP implements a small percentage of its projects in countries that are subject to legislative restrictions. U.S. law requires that the U.S.' proportionate share for programs in these countries be withheld from the U.S. contribution to UNDP. We found that a portion of the U.S. contribution to UNDP helps to pay for the in-country administrative costs of UNDP operations in these countries.

The U.S. Role in UNDP

The United States has played a central role in UNDP since it was established. The United States has always held a seat on UNDP's governing body; UNDP's offices are in New York; a relatively high number (122) of UNDP's professional employees, especially those in key positions, are U.S. citizens; and, until 1996, the United States had always been the largest contributor to UNDP. Furthermore, UNDP makes extensive use of U.S. expertise, training facilities, and equipment. For example, between 1986 and 1994, the amount of money UNDP spent in the United States ranged from \$181 million to \$302 million a year. This is equivalent to a 133-percent to 268-percent return on the U.S. contribution during those years. In absolute dollar terms, the United States receives a greater return on its investment than any other major donor nation.

UNDP has been receptive to U.S. reform initiatives. For example, because of U.S. and other donor nation proposals, UNDP has increased the level of program funds earmarked for LDCs from 55 percent to 60 percent since 1990. In addition, between 1992 and 1996, UNDP reduced its budget, personnel, and the number of projects it implements. All of these measures are reforms promoted by the United States.

¹The Administrator of UNDP is currently the highest-ranking U.S. citizen in the U.N. system.

UNDP's Projects Are Consistent With U.S. Objectives

UNDP's mission and projects are generally consistent with U.S. national security and foreign policy objectives. The 1996 U.S. national security strategy focused on three primary objectives: (1) enhancing U.S. security, (2) promoting prosperity at home, and (3) furthering democracy.² Subobjectives include fighting drug trafficking and organized crime, protecting the environment, promoting sustainable development abroad, and maintaining and enlarging the community of democratic states.

U.S. foreign policy goals include (1) promoting U.S. prosperity (that is, opening markets to U.S. exports and promoting trade and investment); (2) building democracy (that is, encouraging good governance, supporting the rule of law, and furthering credible elections); (3) promoting sustainable development (that is, alleviating poverty, promoting economic growth and free markets, improving education and child survival, and addressing environmental problems); (4) promoting peace (that is, building strong alliances; preventing and resolving regional conflicts; curbing the proliferation of weapons of mass destruction; and combating drug trafficking, terrorism, and crime); (5) providing humanitarian assistance (that is, responding to famine, natural disasters, and the displacement of people from their homes); and (6) advancing diplomacy (that is, supporting the State Department's infrastructure and work in the areas of foreign policy; promoting commerce; and combating drug trafficking, terrorism, and crime).³

UNDP's core mission is to help recipient countries achieve sustainable human development. Sustainable human development is also a component of U.S. national security and foreign policy objectives. In its fiscal year 1996 congressional presentation, the State Department stated that

"UNDP's program priority areas and emphasis on sustainable development are fully consistent with U.S. foreign policy goals in the economic, social, and political fields and include programs emphasizing the promotion of economic and market reform, privatization, job creation, democracy, and peace building. These programs also serve U.S. national security interests, including economic interests, insofar as they lead to the creation of dynamic growing economies and stable open civil societies, resistant to conflict and receptive to U.S. trade and investment. . . . UNDP's focus on sustainable human development fully complements USAID's core mission in ensuring that economic and social growth, inter alia, builds indigenous self-sustaining capacities at the human and

²See A National Security Strategy of Engagement and Enlargement, The White House (Washington, D.C.: Feb. 1996).

³See International Affairs Budget Request, Fiscal Year 1996, U.S. Department of State (Washington, D.C.: Mar. 1995).

Chapter 7
The United States and UNDP Have Common
Objectives

institutional level. . . . In sum, UNDP is a cost-effective tool in our development arsenal. Full funding of UNDP by the U.S. is the best way of stretching our development dollar to promote U.S. interests—UNDP's and [its Administrator's] objectives are fully supportive of our own."

USAID's strategy document, Strategies for Sustainable Development, states that to address the problems of developing countries in a meaningful way, the United States must articulate a strategy for sustainable development.⁴ USAID's strategy includes such things as including recipient nation citizens and institutions in the development process, building the development capacity of recipient countries, developing integrated country strategies, and addressing the specific needs of women. In addition, the strategy paper indicates USAID's development projects will concentrate on areas that are "fundamental to sustainable development," including population and health, broad-based economic growth, the environment, and democracy.

As described in chapter 1, UNDP's mission, objectives, practices, and projects include the components articulated in USAID's strategy and address the same areas that USAID believes are fundamental to sustainable development.

In a February 1996 letter to the Chairman of the U.N.'s High-Level Working Group on Strengthening the U.N. System, the U.S. Permanent Representative to the United Nations stated that "currently, the U.N. tries to do too much and, as a result, does too little well. It should focus its efforts and resources on four core functions." One of the four core functions presented was promoting sustainable human development—UNDP's core mission.

U.S. officials in Laos and Vietnam had high praise for UNDP efforts in these countries. Specifically, the U.S. Ambassador to Laos told us that "without any qualification that if UNDP wasn't here, my job would [be] a lot harder. In terms of opening this society to the outside world, the U.N. does a lot of good work and does work the U.S. can't do." Likewise, the U.S. Charge d'Affaires in Vietnam told us that "UNDP's work is exactly what we hoped they would do here." He added that the issues UNDP promotes are the same issues the U.S. government tries to promote in Vietnam. He said that "[i]f you constructed a model to move Vietnam from a centrally controlled system to an open system, UNDP's program would be that model. UNDP's projects 'absolutely' support U.S. foreign policy objectives in Vietnam."

⁴See Strategies for Sustainable Development, USAID (Washington, D.C.: Mar. 1994).

In both Laos and Vietnam, the U.S. government has relied on UNDP to help it provide assistance to the people of those nations. For example, in Laos the United States wanted to use U.S. funds to assist the Laotian government in its efforts to remove unexploded ordnance (that is, live explosives left over from the wars in Southeast Asia).⁵ According to the U.S. Ambassador to Laos, the embassy presented its proposal to the government of Laos in 1994. The U.S. proposal was rejected because it would have been implemented by the U.S. Department of Defense. UNDP officials stated that in order for its development strategy in Laos to be successful, it had to include a component to remove unexploded ordnance. UNDP also determined that unless the United States participated in the program, other donors would not do so. The United States decided to be a part of the UNDP-led effort. In 1996, the United States made a \$2.7 million in-kind contribution of training and equipment to the unexploded ordnance project. To emphasize the importance of UNDP's involvement, the U.S. Ambassador to Laos told us that without UNDP's efforts, the United States would not have been able to carry out the congressionally supported effort to clear the ordnance.

In Vietnam, UNDP was directly involved with a U.S. embassy effort to provide humanitarian assistance. In May 1996, a typhoon hit Vietnam south of Hanoi. The U.S. embassy wanted to supply \$25,000 in humanitarian assistance for the rehabilitation of a village affected by the typhoon. To assist the embassy, UNDP sent an expert to the village to assess the situation, work out logistics, distribute the money, and monitor how the money was spent. Embassy officials told us the embassy could not have provided the assistance without UNDP's involvement because it would have been impossible for the embassy to monitor how the money was used.

UNDP's Work in Countries That Are Subject to U.S. Legislative Restrictions

All countries are eligible to participate in UNDP. Therefore, some of the countries with UNDP projects are subject to legislative restrictions prohibiting the use of U.S. funds. The countries subject to legislative restrictions have varied over time; however, between 1992 and 1994 they included Afghanistan, Burma, Cuba, Iran, Iraq, Libya, North Korea, and Syria (see table 7.1). UNDP expended approximately \$22 million in these countries, or 4 percent of the total project expenditures, funded through the core budget, in 1994.

⁵Unexploded ordnance are an impediment to development because they limit the mobility of populations and make arable land uninhabitable due to the danger posed to farmers and their families.

Chapter 7
The United States and UNDP Have Common
Objectives

**Table 7.1: UNDP Project Expenditures
 In Countries Subject to Legislative
 Restrictions, 1992-94**

U.S. dollars in thousands				
Country	1992	1993	1994	Total
Afghanistan ^a	\$14,811	N/A	N/A	\$14,811
Burma ^c	N/A	N/A	\$10,710	10,710
Cuba ^{abc}	2,700	\$2,183	2,013	6,896
Iran ^{abc}	2,491	2,054	1,673	6,218
Iraq ^c	N/A	N/A	930	930
Libya ^{abcd}	162	1,001	2,277	3,440
North Korea ^c	N/A	N/A	2,878	2,878
Syria ^c	N/A	N/A	1,683	1,683
Total	\$20,164	\$5,238	\$22,164	\$47,566

Legend

N/A = Not applicable.

^aCountries subject to legislative restrictions in 1992.

^bCountries subject to legislative restrictions in 1993.

^cCountries subject to legislative restrictions in 1994.

^dLibya is considered a UNDP graduate; consequently, it is required to fully reimburse UNDP for the cost of the assistance provided. According to UNDP officials, the Libyan program is financed through cost-sharing contributions, and no new projects have been approved since 1992.

Source: UNDP Bureau for Resources and External Affairs, Division for Resource Mobilization.

According to UNDP, projects in these countries are aimed at providing basic human needs and protecting the environment. Moreover, UNDP characterizes the projects in these countries as "extremely limited." UNDP and the Department of State also contend that UNDP democracy-building projects in these countries help establish democratic institutions and societies that are inhospitable to terrorism and international criminal activities.

Although UNDP provides assistance to these countries, no portion of the U.S. contribution to UNDP is used for projects in these countries. The U.S. government withholds the proportionate share of funding for the activities of international organizations with projects in countries subject to legislative restrictions. According to State Department guidelines, the percentage of funds withheld is based on the level of project expenditures UNDP makes in specified countries, calculated as a percentage of UNDP's total core budget. For example, in 1994, UNDP's project expenditures in these countries totaled approximately \$22.2 million. Contributions to the

core budget in that year equaled \$915.5 million. The U.S. contribution represented 12.7 percent of the total core budget; the U.S. proportionate share of the \$22.2 million in project expenditures was \$2.8 million (that is, 12.7 percent). Consequently, the United States reduced its contribution to the core budget by \$2.8 million.

We noted that UNDP's core budget funds both project and administrative expenditures. The formula State uses to calculate the funds it withholds only considers project expenditures; it does not include administrative expenditures associated with the operation of UNDP field offices in these countries. Consequently, a portion of the U.S. contribution to the core budget pays for the operation of UNDP field offices in these countries. If field office administrative expenses had been included in State's 1994 calculation, the U.S. contribution would have been reduced by an additional \$585,216. A State official told us that this same formula has been employed for calculating the U.S. withholding for all U.N. organizations that are subject to section 307 of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2227).⁶

Matter for Congressional Consideration

If Congress wishes to ensure that no U.S. contributions to UNDP will be used for overhead expenses in countries covered by section 307 of the Foreign Affairs Act of 1961, it may wish to explicitly require that the State Department include field office administrative costs when calculating the amount of the U.S. withholdings.

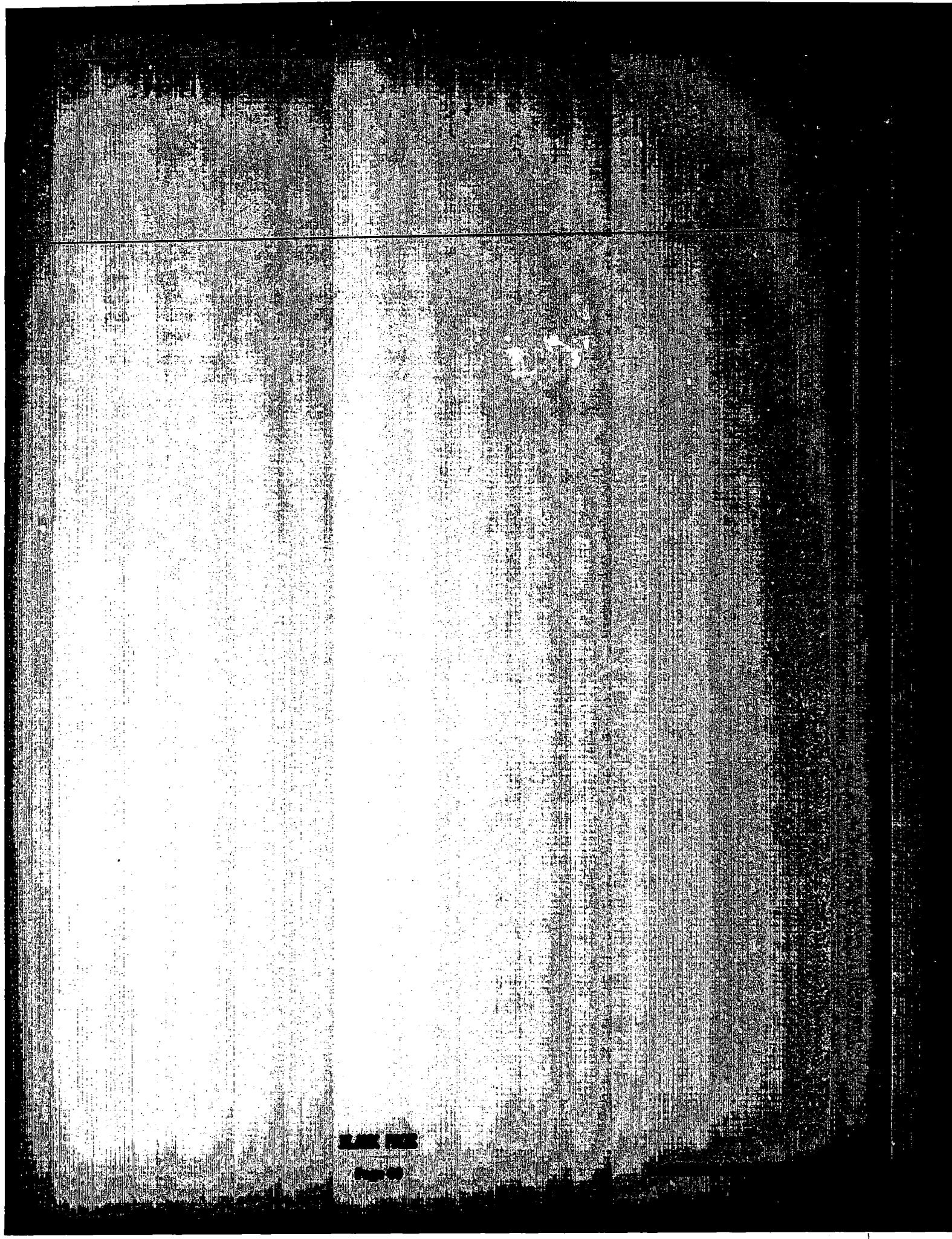
Agency Comments and Our Evaluation

The Department of State disagreed with our assessment that field office administrative expenditures be included in the withholding formula. State said that it interprets section 307 of the Foreign Affairs Act of 1961 to mean the actual cost of a project, not the associated general overhead expenses. Moreover, State said that it would be difficult to assign general overhead expenses to a specific project or program. State also said that it would not, as a matter of policy, seek to impose a method of calculating the withholding that could reduce the U.S. contribution because it does not like legislative restrictions that invite politicization and contradict the principle of universality for participation in U.N. organizations.

⁶These organizations include all organizations funded by voluntary contributions made from the State Department's International Organizations and Programs Account. We did not calculate what the additional 1994 withholding would have been for all of these organizations if administrative expenditures were included.

Chapter 7
The United States and UNDP Have Common
Objectives

We are not advocating the allocation of UNDP headquarters general overhead expenses. The administrative expenses referred to in this chapter are only those that relate to the operation of field offices in specific countries and are not directly attributable to a specific project. These costs can be easily identified. In light of State's comments, we have deleted our recommendation and instead added a matter for congressional consideration regarding the inclusion of field office administrative costs in the formula used to calculate the amount of money withheld from international organizations that assist certain countries.



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Methodology Used to Calculate Growth in UNDP's Administrative Budget

The methodology we used to calculate real budgetary growth differs from UNDP's. According to UNDP's calculations, UNDP reduced the administrative portion of its core budget by \$104.8 million (measured in 1995 dollars) between the 1992/1993 and 1996/1997 bienniums. Our calculations indicate the reduction was only \$46.6 million. The difference between our calculation and UNDP's is primarily due to the different rates of inflation used. UNDP officials said they used a higher rate of inflation than we did because most of UNDP's expenditures are made in countries where the rate of inflation is much higher than in the United States.

We defined real growth from one period to the next as "growth that exceeds inflation." When we calculate budget growth for U.S. agencies, the calculation of real growth is straightforward. We take a series of budgets and remove any increases due to inflation by converting the budgets into constant dollars. We then determine the growth rate of the constant dollar budgets; this gives us real growth.

In the case of UNDP, there are two complications to that approach. First, UNDP makes expenditures in currencies other than in dollars. Consequently, if the prices of those foreign goods and services rise faster than U.S. prices, our approach would appear to understate inflation. However, an intervening factor would be changes in exchange rates. In general, higher overseas inflation rates would be expected to correspond to the depreciation of foreign currencies relative to the dollar.¹ Therefore, if the exchange rate depreciation just offsets the difference between the foreign and U.S. inflation rates, the result would be the same as using U.S. inflation to convert UNDP expenditures into constant dollars. This is because the greater purchasing power of dollars caused by the depreciation of the foreign currency exactly offsets the loss of purchasing power of the foreign currency caused by higher foreign inflation. To the extent that the actual exchange rate does not reflect the relative differences in the inflation rates, our methodology would yield faulty results that would depend on how much the exchange rate adjustment differed from the relative inflation rates.

The second factor concerns what we and UNDP include in real growth. We considered real growth as all increases that exceeded the amount necessary to maintain constant purchasing power. Specifically, in our calculations we counted as real growth all budgetary increases above the

¹This concept is known as "purchasing power parity." The exchange rate adjusts according to differences in relative inflation rates.

Appendix I
Methodology Used to Calculate Growth in
UNDP's Administrative Budget

growth of the U.S. gross domestic product price index.² UNDP, however, includes wage and benefit increases set forth by the International Civil Service Commission, such as increases in salary step increments, in constructing its inflation rate. UNDP reasoned that since personnel cost increases are mandated by its agreements with the United Nations, they should not be counted as part of inflation. In our approach, personnel cost increases above the inflation rate were counted as real growth.

²Gross domestic product is the sum of the money values of all goods and services produced in the domestic economy during a specified period of time, usually 1 year. The gross domestic product price index is a broad measure of inflation.

Comparison of UNDP and USAID Compensation Expenditures

UNDP and USAID administer programs that are designed to promote sustainable development in developing countries. Each agency employs a cadre of professional staff who work in their respective headquarters and field offices, as well as staff who are local to areas in which they serve. Similarly, the majority of each organization's staff manage, monitor, and coordinate programs through the administration of grant and contractor assistance. For these reasons, the Committee on Foreign Relations requested that we determine how USAID's average costs for compensating its staff compare to UNDP's.¹

The U.S. Civil Service Is a Comparator for U.N. Compensation

The United Nations has used the U.S. Civil Service as a comparator for establishing U.N. standards of remuneration since it was established. The International Civil Service Commission periodically compares the salary levels (that is, net salary plus post adjustment) and benefits for U.N. international professionals working in New York to those of U.S. federal civil servants in Washington, D.C. This comparison covers a broad range of jobs and grade levels having similar degrees of responsibility.

UNDP follows the standards of remuneration established by the United Nations for its professional staff. However, it also conducts in-depth comparative surveys of job classification standards in the labor market of countries where UNDP provides development assistance. These surveys establish equivalent grade levels for their locally recruited personnel. On behalf of the United Nations, UNDP conducts periodic salary and benefit surveys for its local personnel by using a mix of the presumed best local employers as comparators. In approximately 82 countries, UNDP has used the U.S. embassy as a comparator.

In accordance with the U.N. personnel system, UNDP's personnel system is comprised of internationally recruited professionals, general service employees, locally recruited national professional officers, and field service officers. As shown in table II.1, the personnel system consists of five professional grades (P-1 to P-5), two director levels (D-1 and D-2), an Assistant Secretary General, an Under-Secretary General, seven general service grades (G-1 through G-7), and four national officer grades.² These U.N. grade levels have equivalent grades in the U.S. civil service general schedule (GS), foreign service (FS), and foreign service national (FSN) personnel systems.

¹In our analysis, "compensation" refers to salaries, benefits, and allowances.

²U.N. Common System of Salaries, Allowances, and Benefits, U.N. International Civil Service Commission (New York, N.Y.: 1994), p. 1

**Appendix II
Comparison of UNDP and USAID
Compensation Expenditures**

**Table II.1: U.N. and U.S. Government
Grade Equivalents**

UNDP grade	U.S. civil service	U.S. foreign service
Professionals		
P-1	GS-9	FS-5
P-2	GS-11	FS-4
P-3	GS-12 (50%) ^a GS-13 (50%)	FS-3 (50%), FS-2 (50%)
P-4	GS-13 (33.3%), GS-14 (66.6%)	FS-2
P-5	GS-14 (15%), GS-15 (85%)	FS-1
D-1	SES-1 (29%), SES-2 (14%), SES-3 (36%), SES-4 (21%)	SFS-1 (29%), SFS-2(14%), SFS-3 (36%), SFS-4(21%)
D-2	SES-2 (13%), SES-4 (50%), SES-5 (25%), SES-6 (12%)	SFS-2 (13%), SFS-4(50%), SFS-5 (25%), SFS-6 (12%)
Locally recruited staff		
G-1	N/A	N/A
G-2	N/A	FSN-3
G-3	N/A	FSN-4
G-4	N/A	FSN-6
G-5	N/A	FSN-7
G-6	N/A	FSN-8 (50%), FSN-9 (50%)
G-7	N/A	FSN-9
NOA	N/A	FSN-10
NOB	N/A	FSN-11
NOC	N/A	FSN-12
NOD	N/A	N/A

Legend

SES = Senior Executive Service.

SFS = Senior Foreign Service.

NOA-NOD = National (Professional) Officer level A-D.

N/A = Not applicable.

^aPercentages listed in the table indicate the weights used by the International Civil Service Commission in making salary comparisons.

Source: GAO adaptation of a UNDP grade level equivalency chart.

UNDP's compensation plan is based on the U.N. common system—" . . . a single, coordinated set of salaries and allowances . . ."—for internationally

**Appendix II
Comparison of UNDP and USAID
Compensation Expenditures**

recruited professionals.³ Professional salaries contain a base amount.⁴ The net base salary is an amount that already reflects the deduction of a staff assessment or internal income tax.⁵ Staff are paid a net base salary at the single or dependent rate, depending on family status.⁶ To this is added, if applicable, a post adjustment or cost-of-living differential to ensure that professional salaries at all duty stations have purchasing power parity with New York. By General Assembly agreement, the professional salaries in New York (base salary plus post adjustment) are established at a level that is, on average, 15 percent higher than the after-tax equivalent of U.S. federal civil service salaries in Washington for equivalent grade levels (after due account is made of the cost of living differential between New York and Washington.)

In addition to receiving net remuneration, internationally recruited professionals are entitled to a range of benefits and allowances that may include rental subsidies or deductions; mobility and hardship allowances; dependency allowances; education grants and travel allowances; assignment grant arrangements; shipping and insurance entitlement; separation benefits, annual leave, and home leave provisions; retirement and disability provisions; and hazard pay.⁷ Medical insurance, language allowances, merit awards, and business class travel are excluded under the common system and are provided at the discretion of the U.N. agency. In the case of UNDP, staff are covered by contributory medical insurance.

³Personnel Manual Internationally Recruited Staff, UNDP (New York, N.Y.: 1995), p. 1.

⁴The U.N.'s base salary is established on the assumption that it will not be taxed by the government of the employee since the United Nations deducts an internal tax or staff assessment. Gross salaries shown on U.N. salary schedules indicate what staff members' salaries might equate to on a taxable basis outside the agency. These gross salaries are never paid to employees.

⁵The staff assessment is an internal tax administered by the United Nations and is analogous to a national income tax. The United Nations levies the tax to avoid the inequalities in the level of taxation between staff members of different nationalities. Personnel Manual Internationally Recruited Staff, UNDP, p. 20401-2. For UNDP, the staff assessment is only used as an internal accounting procedure; no taxes are collected from staff.

⁶The U.S. government requires its citizens and permanent residents to pay income taxes on their salaries. However, the United Nations refunds the amount paid in federal, state, and local taxes and a portion of social security. In 1995, UNDP reimbursed its U.S. citizen employees in the amount of \$8.1 million. We included the U.S. tax reimbursement expenditure in our calculations.

⁷Under the U.N. compensation plan, base salaries reflect the average level of rent for the duty station. Professional staff may be entitled to a rental subsidy not to exceed 40 percent of actual rent, if the actual rent exceeds a threshold percentage. The United Nations may also deduct an amount for rent if free housing is provided.

Methodology Used to Compare UNDP and USAID Compensation Expenditures

We developed a three-pronged approach to determine the average cost of compensating UNDP and USAID employees posted at their respective headquarters and field offices. First, we determined each agency's (1) overall average compensation costs, (2) average compensation costs for headquarters staff and field staff, (3) average compensation costs for professional staff and support staff posted at headquarters, and (4) average compensation costs for professional staff and locally recruited staff in field offices.⁸ Second, we determined the average salaries for professional staff posted at each agency's headquarters by grade. We could not determine USAID's average compensation cost for its professional employees by grade level because USAID was unable to provide grade level expenditures for benefits and allowances. Third, we determined the weighted average compensation expenditures for staff hired locally for countries in which UNDP and USAID were co-located—Bangladesh, Benin, Honduras, Mali, Nicaragua, and Zambia—to examine the differences in compensation expenditures between the two agencies.⁹

Relative Differences in UNDP's and USAID's Average Compensation Costs Varied by Location and Grade Level

We obtained 1995 expenditures for salaries, benefits, and allowances from both agencies and their respective number of full-time equivalent employees (FTE) to determine how UNDP's average compensation costs compared with USAID's. We found that UNDP's 1995 expenditures for compensation were on average 17.7 percent lower than USAID's. As shown in table II.2, UNDP spent an average of \$39,400 on compensation per employee, as compared with \$47,900 by USAID. For all staff posted at UNDP's headquarters office in New York, UNDP spent an average of 25.5 percent more than USAID spent on its headquarters staff in Washington, D.C., or \$88,600 compared with \$70,600. However, UNDP spent 31 percent less than USAID for all staff posted in the field—an average of \$27,600 as compared with \$40,000 spent by USAID.

We also determined the average compensation costs for professionals posted at each agency's headquarters offices and posted in the field. As previously discussed, UNDP's categories of professional and support employees are clearly divided into professional and general service pay grades, unlike USAID's. To determine USAID's average expenditures for

⁸USAID's compensation expenditures include pretax salaries plus benefits and allowances. Unlike UNDP, USAID does not reimburse taxes paid by its staff.

⁹Professional staff were excluded from our analysis of grade level expenditures because of the previously mentioned limitations. These data would have enabled us to determine average compensation costs per employee for each of the six countries.

**Appendix II
Comparison of UNDP and USAID
Compensation Expenditures**

professional compensation, we had to approximate the FTE utilization for professional staff.¹⁰

As shown in table II.2, UNDP and USAID differed in how much they spent to compensate their professional staff posted in headquarters and in their country offices in 1995. UNDP spent an average of 45.2 percent more than USAID to compensate its professionals posted at its headquarters in New York. UNDP spent an average of \$119,200 as compared with \$82,100 spent by USAID for its counterparts in Washington, D.C.¹¹ Conversely, UNDP spent 25.6 percent less than USAID to compensate its professional staff posted in country offices. On average, UNDP spent approximately \$132,200 for its professional staff compared to \$177,700 spent by USAID. For headquarters support staff, UNDP spent an average of 106.4 percent more than USAID. UNDP spent an average of \$61,300 as compared with \$29,700 spent by USAID for support staff in Washington.¹²

¹⁰We obtained the total number of FTEs in Washington headquarters and overseas during fiscal year 1995 based on actual number of hours worked. We also obtained a breakdown of overseas staffing as of September 30, 1995, and monthly data on agencywide full-time and part-time employment for professional and support staff. A USAID official recommended that the number of part-time employees be converted to FTEs using an 80-percent conversion factor. We used the average relative proportions of professional (GS-9 and RS-5 and above) at headquarters and overseas, respectively, to estimate the number of FTE professional staff.

¹¹Our analysis showed that of the 45.2-percent difference in professional staff compensation expenditures, 25.1 percentage points were due to differences in salaries, 6.3 percentage points to differences in pensions, and the remaining 13.8 percentage points to differences in benefits and allowances.

¹²Our analysis showed that of the 106.4-percent difference in support staff compensation expenditures, 78.8 percentage points were due to differences in salaries, 13.8 percentage points to differences in pensions, and the remaining 13.8 percentage points to differences in benefits and allowances.

**Appendix II
Comparison of UNDP and USAID
Compensation Expenditures**

Table II.2: Comparison of UNDP's and USAID's Average Compensation Costs for 1995 and Relative Distribution of Employees

U.S. dollars in thousands

	Compensation				Difference in compensation as percentage of USAID	Distribution	
	UNDP FTEs	UNDP average compensation	USAID FTEs	USAID average compensation		UNDP Percentage of total FTEs	USAID Percentage of total FTEs
All staff	5,172	\$39.4	7,482	\$47.9	-17.7%	100%	100%
Staff at headquarters and liaison offices ^a	939	92.4	N/A	N/A	N/A	18.2	25.8
Staff at headquarters only^b	822	88.6	1,927	70.6	25.5	15.9	25.8
Professional staff	387	119.2	1,505	82.1	45.2	7.5	20.1
Support staff	435	61.3	422	29.7	106.4	8.4	5.7
Staff at field offices	4,233	27.6	5,555	40.0	-31.0	81.8	74.2
Professional staff	417	132.2	876	177.7	-25.6	8.0	11.7
Locally recruited staff	3,816	16.2	4,674	14.1	14.9	73.8	62.5

(Table notes on next page)

**Appendix II
Comparison of UNDP and USAID
Compensation Expenditures**

Legend

N/A = Not applicable.

Notes:

1. All personnel numbers refer to the FTE number of employees. UNDP does not use the concept of FTEs. The FTE figures presented were estimated based on personnel data provided by UNDP.
2. Average compensation costs include salaries, benefits, and allowances for UNDP and USAID employees. UNDP costs include tax reimbursements provided to U.S. citizens. USAID costs implicitly include taxes paid by staff.
3. The staff and cost figures above do not include USAID personal service contractors nor UNDP staff activities of limited duration.
4. UNDP headquarters is located in New York City; USAID headquarters is located in Washington, D.C. UNDP has liaison offices in Bonn, Germany; Brussels, Belgium; Copenhagen, Denmark; Geneva, Switzerland; Tokyo, Japan; and Washington, D.C.
5. Professional staff in field offices include UNDP international professionals and their USAID counterparts. Locally recruited staff include UNDP general service and national officers and their FSN counterparts at USAID.
6. USAID provided aggregated data on compensation for overseas and headquarters staff separately. We allocated the compensation costs to professional and support staff in proportion to their salaries.
7. Total USAID staff FTEs include five USAID FS support staff posted overseas. These USAID support staff were not included in the professional or locally hired categories.

*USAID does not have any liaison offices.

¹³Includes UNDP's headquarters in New York and USAID's headquarters in Washington, D.C., only.

Comparison of UNDP and USAID Average Salary Expenditures for Headquarters Professionals

We determined the average annualized salaries paid by UNDP to its professional level staff posted at its New York headquarters offices using actual average salary expenditures for each grade level for September 1995.¹³ We compared these grade level salary expenditures to those incurred by USAID for its professional civil service and FS employees posted in Washington, after converting USAID grades to their professional grade level equivalents at UNDP. (See table II.1.)

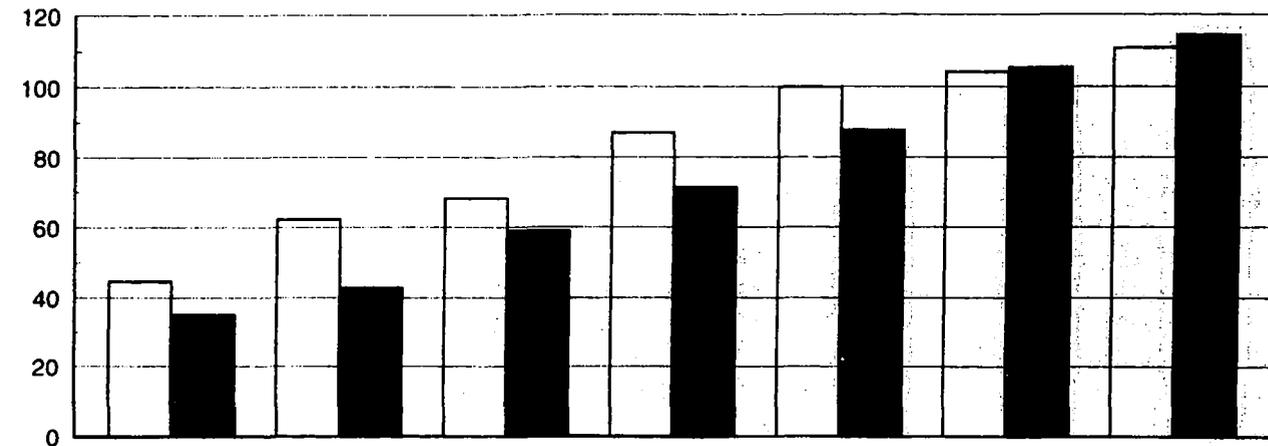
¹³We annualized UNDP's average monthly salaries to arrive at approximate annual grade level salary expenditures for 1995. We added to this, UNDP's expenditures for reimbursing taxes on U.S. citizen's salaries. USAID GS and FS grades were converted to UNDP equivalents using an equivalency chart provided by UNDP. Average salaries were weighted by the relative number of employees in each agency's personnel classification system. These figures do not include any bonuses that may have accrued during the year. USAID could not provide average costs for benefits and allowances by grade level for staff posted at its headquarters. As a result, expenditures for benefits and allowances were not added to the average annualized salaries by grade.

**Appendix II
Comparison of UNDP and USAID
Compensation Expenditures**

Our analysis showed that UNDP's average salary expenditures for professionals were greater than USAID's. However, as grade levels increase, USAID's salary expenditures approximate and then exceed UNDP's at the senior grades. Our analysis of average annualized salary expenses for 1995 shows that UNDP salary expenditures for employees at the P-1 level were approximately 26.8 percent greater than USAID's at equivalent GS-9 and FS-5 grades.¹⁴ At the P-5 level, which is roughly equivalent to the GS-15 and FS-1 levels, UNDP's expenditures were approximately 14 percent higher than USAID's. However, UNDP's salaries were on average 3 percent lower at the senior executive and senior FS officer levels than USAID's. (See fig. II.1.)

Figure II.1: Comparison by Grade Level of UNDP and USAID Average Expenditures on Professional Salaries, 1995

U.S. dollars in thousands



	P1/GS9/FS5	P2/GS11/FS4	P3/GS12-13/FS2-3	P4/GS13-14/FS2	P5/GS14-15/FS1	D1/SES1-4/SFS1-4	D2/SES2-6/SFS2-6
UNDP □	\$44,694	\$62,186	\$68,150	\$87,012	\$99,849	\$104,096	\$110,654
USAID ■	\$35,261	\$42,600	\$58,813	\$71,356	\$87,765	\$105,225	\$114,073

Source: Calculated from data provided by UNDP and USAID.

¹⁴ UNDP employed a total of 15 people at the P-1 and P-2 levels in 1995 while USAID employed 290 at their equivalent GS and FS levels.

Lower Average Expenditures Attributed to Several Factors

UNDP's lower overall average expenditures for staff compensation may be attributed in part to four factors: (1) UNDP professionals posted in country offices are entitled to fewer benefits than their USAID counterparts, (2) UNDP hires a greater proportion of locally recruited staff than USAID, (3) UNDP has a higher proportion of support staff than USAID and (4) UNDP compensation costs generally do not include income tax payments.

According to a 1996 Department of State comparative study of salaries, benefits, and allowances paid to U.N. professionals and to U.S. Foreign Service personnel, "Each system includes allowances and benefits that are not provided for in the other, and where there are similarities under both systems, the levels of compensation frequently differ." The Department of State's comparison also revealed that there is no comparable U.N. allowance to the foreign transfer, home service transfer, and separate maintenance allowance for the U.S. Foreign Service. Likewise, there is no comparable termination indemnity, repatriation grant, or dependency allowance paid to U.S. Foreign Service employees.

U.N. personnel working in country offices generally receive fewer benefits than their U.S. government employee (GS and FS) counterparts. According to the State Department's study, "The relative advantage in income of overseas U.S. government employees over U.N. personnel is attributable mainly to two allowances—housing and education—and the hardship differential, when applicable, which are all substantially more generous than their U.N. equivalents."¹⁵

According to our analysis of 1995 expenditures by each agency, UNDP spent an average of \$3,000 per employee in rental subsidies for its professionals posted in country offices, as compared with \$34,400 in housing costs paid by USAID. Unlike the housing allowances provided by USAID, UNDP includes as part of net remuneration (that is, net base salary plus a post adjustment) the average level of rent for the country in which its professional staff are posted. If rents exceed the amount factored into the net base salary, personnel may be entitled to a rent subsidy, which cannot exceed 40 percent of the actual rent. U.S. Foreign Service employees, on the other hand, may receive free housing or an allowance that substantially covers rental costs.

UNDP officials attribute their lower average compensation costs in part to employing a greater proportion of lower-paid, locally recruited staff within

¹⁵Summary of the United Nations and the U.S. Foreign Service Allowance & Benefit Systems (1995-1996), Department of State, Bureau of International Organization Affairs, Office of U.N. Employment Information Assistance (Internal unpublished document), p. 1.

**Appendix II
Comparison of UNDP and USAID
Compensation Expenditures**

their work force than USAID. Locally recruited personnel are paid according to local prevailing customs and perform duties that are comparable to USAID's FSN employees. As shown previously in table II.2, approximately 74 percent (3,816) of all UNDP's staff is comprised of locally hired national officers and general service staff, (530 and 3,286, respectively) as compared with 62.5 percent (4,674) for USAID. These locally recruited personnel comprise approximately 90 percent (3,816 of 4,233) of UNDP's personnel posted in country offices as compared with 84 percent (4,674 of 5,555) of USAID personnel.

UNDP's lower overall compensation expenditures may also be attributed to the mix of its headquarters professional and support staff. As table II.2 shows, UNDP hires a greater percentage of support staff than USAID. Specifically, the ratio of professional staff to support staff in UNDP's headquarters is approximately 1:1, while for USAID it is approximately 4:1. In other words, for every support staff person hired, USAID hires four professionals. Consequently, UNDP is able to lower its overall compensation expenditures by utilizing a greater number of lower-paid support staff and relatively fewer higher-paid professionals.

Most U.N. member countries have agreed not to require their citizens to pay income taxes on compensation received as U.N. employees. UNDP's compensation costs are lower to the extent that they do not include money to cover these tax payments. However, since the United States requires its citizens to pay taxes, UNDP reimburses the U.S. citizens it employs for these taxes. In 1995, the reimbursement to all U.S. citizens employed by UNDP totaled \$8.1 million.

UNDP's Compensation Expenditures for Local Hires Exceeds USAID's

Both UNDP and USAID employ locally recruited staff to carry out a variety of duties in their respective country offices. UNDP's staff are employed in general service (G-1 through G-7) and national professional officers (NOA through NOD) categories. General service staff are employed as "messengers, clerk typists, secretaries, and administrative support."¹⁶ This category also includes employees with specialized and technical skills, such as building maintenance, security guards, and laboratory technicians. National officers (NOA through NOD) perform professional duties that require knowledge and experience at the national level.¹⁷ USAID has grade

¹⁶Common System of Salaries, Allowances, and Benefits, p. 13.

¹⁷The job classification standards for national officers generally equate with professional level work done by UNDP's international professional category (see Common System of Salaries, Allowances, and Benefits, p. 19).

**Appendix II
Comparison of UNDP and USAID
Compensation Expenditures**

levels (FSN-1 through FSN-12) for its locally hired staff that are roughly equivalent to UNDP grades. Furthermore, USAID's FSNs are employed to perform services comparable to their counterparts at UNDP. However, both UNDP and State officials stated that UNDP relies more heavily on its local hires, particularly its national officers, to carry out program activities.

UNDP uses a greater number of local hires because it believes that it should maximize the use of national human resources, consistent with its objective of building national capacity. UNDP accords a high degree of responsibility to its national officers, and increasingly to its national staff. In an effort to build recipient government capacity and to improve the cost-effectiveness of UNDP operations, UNDP is trying to reduce the number of its international professionals over time and replace them with national professionals.

Each agency provides a range of benefits and allowances that are customarily available in the local labor market. Both UNDP and USAID provide base pay, step increases, bonuses, allowances, annual and sick leave, and medical and retirement plans. According to a UNDP official, UNDP salaries include all bonuses and other allowances. USAID's bonuses and allowances are paid separately from salaries.

Although each agency provided similar types of benefits and allowances to its locally recruited staff, UNDP's average compensation expenditures for locally recruited staff exceeded those costs paid by USAID. Overall, UNDP spent on average 14.9 percent more on compensation for locally recruited staff than USAID, or \$16,200 and \$14,100, respectively in 1995. Nevertheless, UNDP's average expenditure was 31 percent lower for staff posted in field offices, when professionals and locally recruited staff were combined.

To some extent, the differences in the level of expenditures for locally recruited staff can be attributed to the differences in the principles that underlie the compensation plans instituted by each agency. According to UNDP's personnel manual, salary scales and conditions of employment are determined for locally recruited staff by using the "best prevailing conditions found locally for similar work" as a standard of measurement. This standard ensures that the "U.N. remains a competitive employer" and is able "to attract and retain high caliber staff."¹⁸ In contrast, the Foreign Service National Handbook requires that USAID provide total remuneration,

¹⁸Personnel Manual: Locally Recruited Staff, UNDP (Nov. 1991), p. 1.

**Appendix II
Comparison of UNDP and USAID
Compensation Expenditures**

which includes cash and other benefits, if locally prevailing.¹⁹ Differences in each agency's expenditures may also be attributed to the seniority of the staff included in the survey.

To further illustrate differences in each agency's compensation expenditures, we compared expenditures for locally hired staff at equivalent grade levels in six countries.²⁰ As shown in table II.3, UNDP spent on average 12 percent more than USAID on salaries, allowances, and benefits for locally recruited staff in 1995. UNDP spent an average of 44 percent more than USAID to compensate its lower-level employees (G-2 to G-4), 10 percent more than USAID to compensate its middle-level employees (G-5 to G-7), and 20 percent more to compensate its upper-level national officers.

¹⁹Personnel Manual: Foreign Service Nationals, U.S. Department of State (Washington, D.C.: May 1995), p. 4.

²⁰Each agency provided data on the number of employees and the salary expenditures at each grade level as of September 1995. USAID also provided the average expenditures for each allowance and benefit paid to the employee at each grade level. However, UNDP was unable to provide its expenditures for allowances paid to locally hired staff by grade level. As suggested by a UNDP official, we applied UNDP's average expenditure for each allowance across all grade levels.

UNDP provided monthly data, which were annualized. USAID provided annual expenditures. When data were provided in foreign currencies, we used the International Monetary Fund's average annual exchange rate to convert currencies to U.S. dollars. When U.S. dollar figures were provided, we used the exchange rate given by each agency to convert U.S. dollars to foreign currencies and then used the Fund's annual average exchange rate to reconvert the figures to U.S. dollars. This approach was employed to ensure uniformity.

**Appendix II
Comparison of UNDP and USAID
Compensation Expenditures**

Table II.3: Comparison of UNDP and USAID Average Compensation Expenditures, by Comparable Grade Group, for Locally Recruited Staff in Six Countries, 1995

Percent	Bangladesh	Benin	Honduras	Mali	Nicaragua	Zambia	Average compensation
All staff	-13%	-4%	-26%	34%	35%	45%	12%
Lower (G-2 to G-4)/ (FSN-3 to FSN-6)	46	61	36	40	46	34	44
Middle (G-5 to G-7)/ (FSN-7 to FSN-9)	5	-13	3	32	30	1	10
Upper (NOA to NOC)/ (FSN-10 to FSN-12)	-11	19	-17	72	25	30	20

Notes:

1. Percentages were calculated using the average of UNDP-to-USAID cost per local staff for each group and reflect the amount by which UNDP's compensation costs differ from USAID's. USAID grades have been converted to UNDP equivalents.
2. The figure for all staff was computed by comparing the average compensation expenditures for all locally hired UNDP staff to USAID staff posted in each country. It was not computed as a weighted average of the three groups.
3. Compensation costs include salaries, benefits, and allowances.

Comments From the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

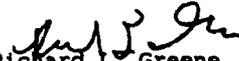
February 19, 1997

Dear Mr. Hinton:

We appreciate the opportunity to provide Department of State comments on your draft report, "INTERNATIONAL ORGANIZATIONS: U.S. Participation in the United Nations Development Program," GAO/NSIAD-97-08, GAO Job Code 711168.

Technical corrections are also provided as an annex. The Department requests that GAO print verbatim in the final report those corrections that it does not incorporate into the report text. If you have any questions concerning this response, please call Ms. Julia Albrecht, IO/S/SC, at (202) 647-4826.

Sincerely,


Richard L. Greene

Enclosure:
As stated.

cc:
GAO - Mr. Richardson
STATE/IO/S/SC - Ms. Albrecht

Mr. Henry L. Hinton, Jr.,
Assistant Comptroller General,
National Security and International Affairs,
U.S. General Accounting Office.

Appendix III
Comments From the Department of State

Department of State Comments
on the GAO Draft Report,
"INTERNATIONAL ORGANIZATIONS:
U.S. Participation in the United Nations
Development Program"
GAO/NSIAD-97-08; Job Code 711168

The draft report is consistent with the Administration's view that the United Nations Development Program (UNDP) promotes many U.S. foreign policy goals in a cost-effective manner. UNDP plays a pivotal role in coordinating UN development assistance. The report notes the efforts underway at UNDP to streamline the organization, tighten its focus and increase staff accountability. The Department agrees with the report's recommendations that UNDP should strengthen its evaluation and auditing mechanisms. We will bring these proposals to the attention of other members of the Executive Board as well as UNDP's senior management, and will ensure that these concerns are addressed.

The report mentions the decline in U.S. contributions to UNDP but does not comment on its impact. The U.S. was UNDP's largest contributor every year from the organization's inception until 1996. As UNDP's largest donor, the United States has enjoyed a degree of influence that exceeds our share of total contributions. UNDP is headquartered in the U.S. and has always been headed by an American. The U.S. has always held a seat on UNDP's governing body. The report notes, moreover, that in monetary terms "the United States receives a greater return on its investment than any other major donor." In order to maintain U.S. influence at UNDP, the Administration seeks to restore U.S. funding to a level consistent with our interests.

Now on p. 67.
See comment 1.

With respect to your recommendation (page 87) that the Secretary of State include administrative expenditures in the formula used to calculate the amount of money withheld from international organizations that assist these countries, we do not support it and offer the following comments:

Chapter 3 of Part I of the Foreign Assistance Act of 1961, as amended (FAA), generally governs our voluntary contributions to international organizations. Section 307 of the FAA provides that:

"Notwithstanding any other provision of law, none of the funds authorized to be appropriated by this chapter shall be available for the United States proportionate share for programs for Burma, Iraq, North Korea, Syria, Libya, Iran, Cuba, or the Palestine Liberation Organization or for projects whose purpose is to provide benefits to the Palestine Liberation Organization or entities associated with it."

**Appendix III
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The following is GAO's comment on the Department of State's letter dated February 19, 1997.

GAO Comment

1. In view of State's disagreement with our recommendation to include field office administrative costs in the formula, we have made this a Matter for Congressional Consideration.

Comments From USAID

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

FEB 18 1997

Mr. Henry L. Hinton, Jr.
Assistant Comptroller General
National Security and International Affairs Division
U.S. General Accounting Office
441 G Street, N.W. - Room 4039
Washington, D. C. 20548

Dear Mr. Hinton:

I am pleased to provide the U.S. Agency for International Development's (USAID) formal response on the draft GAO report entitled "U.S. Participation in the United Nations Development Program" (January 1997).

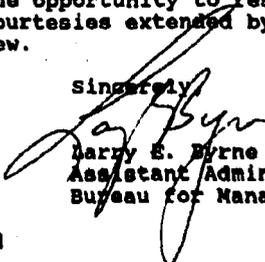
The report presents a balanced assessment of the United Nations Development Program (UNDP). USAID works closely with UNDP in many countries and we concur with the principal conclusions of the draft report.

In particular, we agree that UNDP has taken steps to strengthen its coordination of UN programs and has begun to improve its evaluation systems. The effective coordination of development assistance and the evaluation of results are principal concerns of USAID. We stand ready to continue to work with UNDP, as we did in 1996, regarding our performance monitoring and impact evaluation systems.

USAID, however, has strong concerns with the comparison of UNDP and USAID compensation costs. We believe that the section of the report should either be eliminated or better supported. The enclosure contains a number of comments and methodological questions for your consideration.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,


Larry E. Byrne
Assistant Administrator
Bureau for Management

Enclosure: as stated

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

USAID COMMENTS ON GAO DRAFT REPORT
"U.S. PARTICIPATION IN THE UNITED NATIONS DEVELOPMENT PROGRAM"

See comment 1.

USAID is concerned that the methodology used to compare compensation expenditures is flawed. Specifically, USAID believes it is misleading to compare agency compensation by using an across-the-board average. This approach assumes that the employment categories used in the report are comparable. This section of the report should be removed or better supported by explaining the methodology used to compare the compensation expenditures.

Employee Categories

See comment 1.

• As the GAO data shows, there are variations for compensation within employment categories. For example, the report finds that UNDP headquarter's personnel receive greater compensation than USAID personnel in Washington. Thus an appropriate question is whether the findings were based on comparison of the full range of duties performed by the employees of the two agencies. Both USAID and UNDP have different workforce categories. USAID believes that variations in compensation for the workforce categories are caused by the differences between the mission of the two agencies as well as differences in responsibilities of employees in different categories. Each organization uses a combination of permanent core staff; personal services contractors (recruited from a worldwide pool in the case of UNDP, and primarily from the U.S. in the case of USAID); and local employees. Therefore a useful approach would be to examine and compare the compensation for each cadre of personnel, as well as, each cadre's share of the total workforce. If, for example, USAID relies relatively more on a cadre of direct-hire permanent staff and UNDP relies more heavily on contract staff, the compensation costs for USAID would be expected to be greater. Other Factors - There are other factors that may account for the differences in compensation expenditures; these include:

See comment 1.

• It is not clear whether the analysis of UNDP professional salaries was based on gross remuneration or net remuneration. Specifically, did the salary totals include the staff assessment and post allowances? In the case of USAID, all employees (foreign service, civil service, and personal services contractors) must pay income taxes. In the case of UNDP, treatment of taxes varies widely and thus their employees may have a different, and perhaps lower, tax burden.

See comment 2.

• It may not be valid to compare USAID staff who are career members of the U.S. diplomatic corps with UNDP staff who may be recruited off-shore for a particular assignment. USAID assigns employees overseas as part of a career service that requires rotational assignments abroad. Thus, the costs of periodic relocation of staff is higher than the costs associated with temporary employment. USAID invests in its employees on a long

term basis, building and relying heavily on a career cadre, rather than recruiting personnel for temporary assignments.

See comment 1.

• Because USAID is part of the USG foreign affairs community, U.S. citizens must manage its work overseas. Because UNDP recruits from a worldwide pool, average personnel costs may be lower than average U.S. salaries.

See comment 1.

• USAID is bound, like all federal agencies, by the law to provide substantially equal pay for equal work, under the U.S. Pay Comparability Act. Therefore USAID salaries levels must be comparable to those in other federal agencies and thus differences in compensation should be considered within the broader framework of USG-wide compensation requirements.

See comment 1.

• Similarly, USAID is required to provide allowances and benefits in accordance with standard regulations that cover all U.S. employees posted overseas, including DOD civilians.

See comment 3.

• USAID intentionally uses its locally recruited workforce in more senior positions than UNDP. USAID senior Foreign Service Nationals (FSNs) occupy positions of responsibility and are among the best trained host country nationals. UNDP performs similar technical and professional functions by relying on "professional" staff, recruited off-shore from a worldwide pool. If UNDP local staff perform mostly logistical support functions, but fewer professional functions, USAID local staff costs would be higher.

Nature of Programs

See comment 4.

• The analysis does not assess whether the size and complexity of the country programs managed by USAID are comparable with those of the UNDP. We believe that USAID implements larger and more complex programs which demand greater oversight and more highly skilled professionals. For example, USAID employs overseas controllers who are part of the agency's permanent staff. These individuals hold advanced degrees and have received professional certifications from professional associations. UNDP does not employ a similar cadre of such professionals overseas.

Organization

See comment 5.

• USAID is a single overseas organization that administers the vast majority of all U.S. foreign assistance programs, while UNDP is one of several U.N. organizations administering assistance programs that maintain separate overseas offices. The question is whether comparing the administrative costs of USAID with only those of UNDP is an appropriate base. Perhaps a more appropriate base for comparison of USAID and UNDP would be to consider UNDP together with its associated agencies. While we are not sure what this analysis would reveal, we believe that USAID spends a smaller share of resources on administering programs.

The following are GAO's comments on USAID's letter dated February 13, 1997.

GAO Comments

1. Appendix II provides a detailed section on the methodology we used to compare UNDP and USAID compensation expenditures. The methodology was developed in close cooperation with budget and human resources staff from the U.S. Department of State, USAID, and UNDP. As explained in the appendix, the analysis compares overall average compensation costs for each agency. In addition, we compared average compensation costs for professional and support staff, headquarters and field staff, and locally recruited staff. Using a grade level equivalency chart developed by UNDP employing International Civil Service Commission data, we also determined the average salary expenditures for each agency's professional staff in headquarters locations by grade level. The data contained in the equivalency chart are updated every 4 to 5 years by the U.S. Office of Personnel Management and the International Civil Service Commission. Our analysis included all compensation costs such as salary, benefits, and allowances. Because our analysis focused on compensation costs, not employee remuneration, the controlling factor was whether the agency incurred expenditures.

2. UNDP's international professional staff serve both in UNDP's headquarters and 132 field offices located around the world. In field offices, international professionals are recruited from outside the country in which they serve; are rotated on periodic basis; and are considered career staff, not temporary staff. Our analysis compared UNDP's international professional staff to USAID's U.S., direct hire/career Civil Service and FS staff.

3. It is UNDP's policy to delegate as much responsibility as possible for running its program in the field to its locally recruited staff in an effort to build local capacity. Further, UNDP employs locally recruited staff at comparable grade levels to U.S. FSN. UNDP's locally recruited senior staff are employed as national professional officers to perform duties that require knowledge and experience at the national level. According to a knowledgeable State official, UNDP used its locally recruited staff in more senior positions than FSNs employed by the United States.

4. As previously explained, our analysis compared average compensation costs incurred by UNDP and USAID in 1995, using a grade level equivalency chart to assure comparability of positions, and our report acknowledges

that a primary factor causing compensation costs to differ between agencies is the different mix of employees used. The scope of this review did not include determining the extent to which program differences existed or whether this was a major reason for the different mix of employees used.

5. All U.N. agencies use the "common system," established by the International Civil Service Commission, to determine employee compensation. Consequently, although the distribution of employees among the various grade levels or headquarters and field offices may vary among the U.N. agencies, the basic method of compensation does not.

Comments From UNDP

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

The Administrator United Nations Development Programme



10 February 1997

Dear Mr. Johnson,

I am pleased to comment on the United States General Accounting Office's Draft Report on U.S. Participation in the United Nations Development Program, which I have read with great interest. GAO has conducted an extensive review of UNDP and I agree with many of the findings. It was heartening to see that the GAO has recognized the progress made by UNDP since GAO's last report in 1990.

As you know, we have embarked on a major program of internal reform aimed at improving our effectiveness in promoting sustainable human development and eradicating poverty, especially in the poorest countries in the world. We have made significant progress in revitalizing our organization while reducing costs and increasing accountability. Of course, more needs to be done. We also have made a major commitment to strengthen both our network of country offices as well as the United Nations Resident Coordinator system. Virtually the total costs of the Resident Coordinator system are in fact borne by UNDP. UNDP is committed to further and deeper reform as work continues through a managed change process. The GAO Report will play a constructive role in support of our internal reform effort.

I was pleased to see the very supportive comments made by the United States Ambassador to Laos and the United States Chargé d'Affaires in Viet Nam on the important work of UNDP carried out at the country level. I note the GAO's observations that the UNDP program is consistent with the national security and foreign policy objectives of the United States and that the United States receives a greater return on its investment than any other major donor nation. It is, however, important to underscore the fact of UNDP's neutrality. With the guidance of our 36 member Executive Board (on which the United States is represented), UNDP works closely with both donors and recipient countries to promote the important principles of the United Nations Charter.

Mr. Harold J. Johnson
Associate Director
International Relations and Trade Issues
National Security and International Affairs Division
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The remainder of this letter summarizes my specific comments on the Report. I will focus on areas where UNDP is making a special effort to improve or where there may be some misunderstanding. These include: (1) monitoring and evaluation; (2) personal accountability, audit and internal control; (3) UNDP's universality of presence; (4) the cost comparison with USAID; and (5) UNDP's internal reform program. Detailed, point-by-point responses will be provided under separate cover.

UNDP'S EFFORTS TO IMPROVE MONITORING AND EVALUATION

In general, the draft report presents a fair assessment of the state of project monitoring and evaluation in UNDP from an accountability perspective. The draft report cites shortcomings which we ourselves have acknowledged in our own internal reports. At the same time, it recognizes initiatives that UNDP has taken to address some of the outstanding issues and problems.

Regarding the number of evaluations undertaken, the draft report considers the total number of projects UNDP has prioritized evaluative work on the basis of the financial importance of the projects. Indeed, the 470 projects eligible for mandatory evaluation represents only 14 per cent of the total of 3,231 projects approved for 1988 and 1989. However, what is more significant is the magnitude of financial resources covered by mandatory evaluations. The total resources of these projects eligible for mandatory evaluation represents 69 per cent of the total resources approved for all projects in UNDP's portfolio. Therefore, with respect to coverage, mandatory evaluations can provide an adequate basis for ensuring accountability for resources provided to recipient countries.

As of January 1997, the compliance rate for mandatory evaluation of projects approved in 1988 and 1989 is 64 per cent (300 evaluations conducted out of the 470 projects eligible for mandatory evaluation). The rate, however, would increase to 71 per cent if one considered the:

- number of projects that could not be evaluated because of the crisis situations (23) in the countries of location, and for other justified reasons (14), including project cancellation, evaluation conducted by Funds administered by UNDP, and ex post evaluation or evaluation of project clusters planned; and
- the number of evaluations re-scheduled (10).

In addition to the mandatory evaluation of projects with resources of over \$1 million, UNDP has also evaluated projects that are innovative, are contemplating a substantive revision, or have serious operational difficulties. As of 1995, these other evaluations constituted four per cent of the total number of projects approved for 1988 and 1989 and represent about nine per cent of the total financial resources

See comment 1.

Now on p. 33.

The draft report indicates that improvements are needed, especially emphasizing the need for evaluations to focus on the impact of projects (see page 42). This is entirely in line with UNDP's efforts. While we recognize the need for improvement, UNDP's work in this area is relatively advanced when benchmarked with other United Nations organizations and most bilateral donors.

Efforts to determine impact, however, call for improvements not only in evaluation per se, but also in other stages of the project cycle. These include the collection of baseline data at the project design stage, the development and selection of indicators, and the collection and analysis of time-series data for those indicators through regular monitoring, in order to have a basis for evaluating impact at a later stage. The selection of indicators in a manner to enable the assessment of global impact across projects, programmes, countries, regions on thematic lines is currently being worked on. The responsibility of project designers and managers in this regard needs to be reinforced. These pre-requisites are emphasized in the new *Guiding Principles on Monitoring and Evaluation* which will be issued shortly.

Work is ongoing in our change process, detailed below, which will continue to strengthen our ability to manage and initiate the policy, impact and strategic evaluations UNDP conducts. We will ensure that evaluation findings are not only accessible to staff and stakeholders but are also built into UNDP's knowledge system to serve policy and programme development. In this regard, the change process is recommending new institutional arrangements to enhance the learning aspects of the evaluation function.

On the issue of programme oversight, you may wish to take note of the fact that UNDP has established a Programme Management Oversight Committee (PMOC). The annual reviews of programmes conducted by country offices and regional bureaux are reported by the bureaux to the PMOC, culminating in individual country presentations every three years. The triennial reports are presented to the Executive Board. The reviews represent a monitoring tool at the level of implementation and complement evaluation reports. They link project and programme performance with the functioning of the country office.

In addition the PMOC by identifying special innovative projects for close monitoring has established a system for UNDP to learn from innovative experiences. In addition considerable improvements have been made in the design of the programme approach which will link the monitoring of programmes with the annual budget revisions leading to an enhance monitoring of our initiatives.

PERSONAL ACCOUNTABILITY, AUDIT AND INTERNAL CONTROL

Concerning the important area of audit and internal control, the Division of Audit and Management Review (DAMR) has already implemented revised audit planning methodology that includes the linkage between available resources and the determination of priorities. UNDP is in the process of initiating a number of additional steps to further strengthen (DAMR), including additional sub-contracting of Country Office audits to international firms of high repute to increase coverage and frequency of audits. I am committed to make additional

resources available to DAMR as part of the 1998/1999 biennium budget submission which will result in a substantially strengthened and capable unit.

DAMR, in close consultation with the External Board of Auditors, has initiated additional procedures with a view to increasing external audit coverage of Nationally Executed Projects. The issue of National Execution -- which is central to our efforts to build self-reliance in our programme countries -- continues to receive my personal attention. UNDP is working closely with its Executive Board and recipient governments to simplify processes while ensuring an increased accountability in the use of donor resources. In this regard we are preparing a new National Execution manual and increasing both the number and scope of training activities at the country level for UNDP staff and government counterparts.

UNDP is actively undertaking measures to improve its efficiency, accountability and good management practices. We have instituted an efficiency promotion program that will address both immediate and longer-term efficiency gains throughout the organization. For example, both our human resources and our finance division are working to reengineer their processes to achieve maximum efficiency.

We have defined the organizational values that will drive the UNDP accountability framework recently endorsed by the Executive Board. That framework moves us from a culture where proliferating rules and manuals produce inertia to one where staff exercise their judgment and initiative. In developing the system of accountability we have engaged experts from the National Law Center of the George Washington University in Washington, D.C. to compare our current system with key features of systems established by other organizations. In addition, the Review Team has identified "best practices" that can further improve and enhance the UNDP accountability system. We have taken their recommendations into account in our ongoing change effort to make UNDP and its staff more accountable.

UNIVERSALITY OF UNDP PRESENCE

As is appropriate for an international development organization, UNDP maintains a universality of field presence. While we do maintain programs in States that may have policies inconsistent with the United States, this should not lead one to conclude that the UNDP programs in these countries are at odds with U.S. foreign policy objectives. In no case does UNDP subsidize or promote anti-democratic policies. Rather, UNDP carries out a range of activities that provide support to ensure better lives for people living in these countries, especially the poor, which is consistent with the goal of U.S. foreign policy. I can assure you that our work in fact addresses very basic human needs and promotes human rights in countries where we work.

Collectively, through the processes of participatory development which involves non-government organizations and the private sector, public administration reform, economic liberalization and the elimination of poverty, UNDP's programs promote the Charter of the United Nations and reinforce trends in line with the interests of the United States and other democratic countries with free or mixed-market systems.

The amount of UNDP resources allocated to these countries is very modest and, in fact, much less than to other countries in similar economic circumstances. The Executive Board of UNDP reviews and approves our programs in these countries, all of which are in full compliance with relevant policy guidelines. I would be pleased to provide more details about our programs in any of the countries mentioned in your report.

COMPARISON OF UNDP AND USAID

In order to put the comparison of USAID and UNDP in better perspective, let me briefly mention UNDP's human resources situation. Our core staff comprise the international professionals, national professionals and general-service staff. Even though UNDP started off with a large number of international professionals, over the years, they have been substituted by national professionals who serve in the country offices. This was done both as a component of UNDP's mandate to transfer management of development to national actors, as well as to improve cost-effectiveness of UNDP's delivery structure. The remuneration of national professionals and local general-service staff is determined in accordance with the common United Nations local salary survey methodology that uses local comparators, normally including the United States embassy in that country.

We believe that some of the general statements made in the report on the higher benefits paid to USAID staff would benefit from a more systematic comparison in monetary terms, if at all possible.

UNDP INTERNAL REFORM PROGRAM

UNDP has embarked on a change process, which we call UNDP 2001, to ensure that the organization moves forward into the 21st century in a way that impacts on the eradication of poverty through the promotion of sustainable human development at the country level. This initiative builds on and intensifies change at UNDP on-going since 1994. UNDP will have:

- a clear, client focus;
- well-defined services;
- shared organizational values and managerial principles with an accountability framework and provisions for staff empowerment, recognition and sanctions;
- a qualified and optimally-located staff team;
- a leaner, flatter structure, whose headquarters concentrates on corporate strategy and decision-making, management support and control and whose country offices are empowered to manage operations through delegation, managed networks and ex-post systems of accountability;
- resources sufficient to support its important mission; and
- partnerships and programs at global, regional and national levels to support specific goals of the United Nations system.

The preparatory phase of the change process (May to July 1996) formulated and initiated seven internal projects run on a participatory basis by staff teams from headquarters and country offices. Through the work of these projects, the subsequent phase (August to November 1996) articulated the elements of a design for change intended to close the gap between the situation today and the vision of UNDP 2001. This compilation of recommendations has been reviewed and endorsed by the Change Management Committee (composed of 21 staff members at all levels) and approved by the Executive Committee (UNDP's senior managers) in January 1997. The recommendations will be presented to the May 1997 annual session of the Executive Board. Once approved, implementation will begin immediately thereafter.

In closing, let me emphasize that UNDP is a development institution that looks at itself closely in order to learn from its past successes and failures. We are in the process of a significant change that is designed to increase our ability to catalyze sustainable human development impact and results where it counts the most -- in the poorest countries in the world.

Yours sincerely,



James Gustave Speth

The following is GAO's comment on UNDP's letter dated February 10, 1997.

GAO Comment

1. We agree with UNDP that while only 14 percent of the projects approved in 1988 and 1989 were mandated by UNDP regulations to be evaluated, this covered a much higher percentage of the total resources applied to projects for those years. Our final report has been modified to reflect this fact.

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