Institutional sustainability: at what price? UNDP and the new cost-sharing model in Brazil

Flavia Galvani and Stephen Morse

By the turn of the twenty-first century, UNDP had embraced a new form of funding based on 'cost sharing', with this source accounting for 51 per cent of the organisation's total expenditure worldwide in 2000. Unlike the traditional donor–recipient relationship so common with development projects, the new cost-sharing modality has created a situation whereby UNDP local offices become 'subcontractors' and agencies of the recipient countries become 'clients'. This paper explores this transition in the context of Brazil, focusing on how the new modality may have compromised UNDP's ability to promote Sustainable Human Development, as established in its mandate. The great enthusiasm for this modality within the UN system and its potential application to other developing countries increase the importance of a systematic assessment of its impact and developmental consequences.

Introduction

In April 2002 an article in Istœê, one of the most influential weekly news magazines in Brazil, refers to a farra de covenios (spree of agreements) promoted by the Brazilian government using up millions of dollars of public funds. This was not the first time that the Brazilian media questioned such unusual arrangements; as the Folha de São Paulo newspaper denounced on 11 June 2001, 'governo gasta R$1 bilhão sem licitação' ('government spends R$1 billion [US$546.4 million] without public bidding'). Both articles refer to the contracting of consultants and services and the procurement of goods by international organisations within what is broadly known as multilateral technical cooperation (MTC).\(^1\) They state that, according to reports of a regulatory body of the Brazilian public administration (Tribunal de Contas da União, TCU), these arrangements, based on a new model of cost sharing, involve 219 departments of the federal administration and are used to overcome the shortage of public servants and circumvent the restrictive rules and regulations within which the government apparatus has to work. Brazil has witnessed a transformation of the traditional 'donor–recipient' model of technical cooperation (OECD 1992; Arndt 2000) to one where the 'recipient' has become the 'client' and the 'donor' or international organisation has become the 'paid service provider'.

This paper will explore this new form of MTC based on cost sharing in Brazil, and particularly how it may have affected the work of one key international organisation: UNDP.
Cost-sharing resources are now a very significant source of funding for UNDP, accounting in 2000 for 51 per cent of its total expenditure worldwide (UNDP EO 2001:58). Cost sharing has become so important to UNDP that the resources involved in government cost sharing in Latin America’s five largest programmes in 2000 (US $573.18 million) were more than double the combined voluntary contributions made by UNDP’s three major donors: the USA (US$97 million), The Netherlands (US$93.3 million), and Japan (US$87 million) (ECOSOC 2000; UNDP EO 2001:22). The importance of this funding modality has grown extremely rapidly and there is a stated intention of expanding it even further: ‘This Latin American model of co-financing is now beginning to be applied in other countries, and will form an important part of UNDP’s financial future’ (UNDP 2002:22).

Other UN specialised agencies have already followed UNDP’s steps and are increasingly relying on government cost-sharing arrangements in Brazil. UNDP’s country programme in Brazil has the largest cost-sharing contributions in the world, and discussion here will focus on three key elements of UNDP’s mandate: capacity building, advocacy, and coordination (UNDP GD 1997; UNDP EB 2000). The paper also seeks to illustrate some of the key issues that have been experienced in other UNDP country programmes in Latin America—such as Argentina and Colombia—where government cost sharing also makes up the bulk of UNDP funding (UNDP OESP 1996; UNDP EO 2001).

Despite the amount of resources involved and the growing importance of cost sharing, the issue has received relatively little attention in the academic literature. After all, given that contributions to core resources are stagnant or declining, it is understandable that UNDP should examine the options available and make informed decisions about changing the nature of its relationship with government agencies. The lack of such studies is perhaps more surprising, however, in view of the extensive interest and debates in the development literature surrounding issues of donor–recipient relationships, particularly in terms of development NGOs (where the word ‘partnership’ is often applied), power, and the ‘beyond aid’ scenario. There are many ramifications to such partnerships, particularly those that involve Southern-based development NGOs acting as intermediaries between donors and the intended beneficiaries of aid. Lancaster (1999), for example, discusses the negative impact that NGO provision of development services can have on governmental organisations in the South, and raises valid questions about institutional capacity and sustainability. Yet while these dynamics have been covered with regard to NGOs, where they are perhaps more transparent given the relatively small size of such organisations, the same issues have not been explored in relation to what some refer to as the ‘fat and slow moving’ (Blaikie 2000) entities such as the UN and Bretton Woods institutions. Indeed, almost everything that has to date been written on cost sharing has been produced by UNDP. Understandably, such studies tend to reflect UNDP’s views, even if in some cases the recipient countries have been consulted.

This paper will argue that although the cost-sharing modality has benefited both the Brazilian government and UNDP, such financial self-reliance has come at a cost. At the heart of this discussion is the oft-assumed interchangeability of the terms ‘financial self-reliance’ and ‘institutional sustainability’ (McNamara and Morse 1998). In this paper, institutional sustainability is defined as the ability of an institution to produce valued outputs so as to acquire enough inputs to continue production at a steady or growing rate (Brinkerhoff and Goldsmith 1992). Financial self-reliance is but one element of this.

The paper is based on three strands of evidence:

1 Personal experience of one of the authors within the new MTC and cost-sharing modality in Brazil.
Institutional sustainability

2 Interviews with key informants from the Brazilian Agency for Cooperation (ABC), UNDP Brazil, and Brazilian implementing agencies. At the request of the interviewees, their anonymity has been preserved throughout. Thus neither names nor positions are divulged. Instead, informants are referred to by a ‘respondent number’, as illustrated in Table 1.

3 Documentation from the Brazilian government and from UNDP projects, technical cooperation reviews and evaluations, UN reports (mostly UNDP), and internal policy documents approved by the Executive Board of UNDP. The great majority of UN documents refer to technical cooperation at a global level, and only three refer specifically to Brazil (UNDP OESP 1996; Pielemeier and Salinas-Goytia 1997; UNDP EO 2001).

The paper will first outline the nature of the new cost-sharing arrangements and how these operate. It will then look at the benefits to the institutions involved and the potential disadvantages in terms of the realisation of UNDP’s mandate for the promotion of Sustainable Human Development (SHD) in Brazil.

Table 1: Summary of interviews in Brazil

<table>
<thead>
<tr>
<th>Respondent number</th>
<th>Organisation in which respondent was located</th>
<th>Number of e-mail communications</th>
<th>Dates of e-mails</th>
</tr>
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<tr>
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<td>1</td>
<td>7 June 2001</td>
</tr>
<tr>
<td>2</td>
<td>UNDP</td>
<td>2</td>
<td>16 May 2001</td>
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<td></td>
<td></td>
<td></td>
<td>19 June 2001</td>
</tr>
<tr>
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</tr>
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<td>4</td>
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</tr>
<tr>
<td>5</td>
<td>Project coordinator</td>
<td>1</td>
<td>11 June 2001</td>
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<td>6</td>
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<td>1</td>
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<td>14 May 2001</td>
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<td></td>
<td></td>
<td></td>
<td>21 May 2001</td>
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<tr>
<td>8</td>
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<td>1</td>
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<tr>
<td>9</td>
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<td></td>
<td></td>
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</tr>
</tbody>
</table>

Origins

In the late 1970s, the funds allocated to UNDP in Latin America started to decline due to the region’s relatively high level of development when compared to most African and Asian countries. The most affected were the region’s middle-income countries such as Brazil and Argentina. In the 1980s, the UNDP Brazil Office saw its core funding (from donor countries’ voluntary contributions) cut by more than 50 per cent. Conditions continued to worsen during the 1990s so that by 2000 core funding had become negligible (0.12 per cent of total income) (UNDP EO 2001:2). Given such cuts in core resources, it might have been expected that the technical cooperation activities carried out by UNDP would virtually disappear in Brazil, but
instead its involvement has been growing exponentially. At the centre of this growth has been the cost-sharing arrangement between the Brazilian government and UNDP.

Cost sharing can be defined as an arrangement in which either the host government (government cost sharing) or bilateral donors (third-party cost sharing) contribute financial resources to undertake projects in partnership with UNDP (UNDP OESP 1996:76). Although both modalities of cost sharing are present in Brazil, government cost sharing accounted for 97 per cent (US$180.72 million) of the total volume of resources involved in such arrangements in 2000 (US$186.63 million), while the third-party modality represented only 3 per cent (US$5.91 million) (UNDP EO 2001:62).

Between 1990 and 2000 the volume of UNDP Brazil’s resources coming from cost-sharing agreements increased by more than 895 per cent (personal communication: UNDP Brazil Country Office). By 2000, Brazilian government cost sharing amounted to US$180.72 million (UNDP EO 2001:62), of which approximately half came from loans from International Financial Institutions (IFIs), mainly the World Bank and the Inter-American Development Bank (IDB) (personal communication: UNDP Brazil Country Office). UNDP acts as the vehicle to turn part of IFI loans (usually between 5 and 30 per cent) into workable projects, significantly increasing the loans’ implementation rate (UNDP OESP 1996:24). IFIs strongly support this kind of arrangement.

It should be stressed that it is the choice of the Brazilian government to use the cost-sharing modality with UNDP. Currently, most line ministries and main organs of the federal public administration have projects either with UNDP or with another international organisation. It has also become more common for the organs of state and municipal government levels to look for this kind of partnership (UNDP OESP 1996:27–28).

Initially, cost-sharing funds were used to complement the core resources allocated to the projects. Later, particularly during the ‘V Programme Cycle’ of 1992–1996, the Brazilian government started to provide all project funds for more than 95 per cent of the UNDP portfolio. In this case, the term ‘cost sharing’ is clearly not appropriate, but it is used nevertheless. Indeed, the arrangement is sometimes referred to as ‘100 per cent cost sharing’.

How does cost sharing work?

MTC in Brazil is a tripartite system involving international organisations such as UNDP and, on the Brazilian side, ABC and implementing agencies that ‘own’ the projects. ABC, within the Ministry of Foreign Relations, is responsible for negotiating and supervising technical cooperation, and also for coordinating the technical cooperation activities provided by Brazil to other developing countries.

In the case of the UNDP programme, ABC has another key function because its Project Administration Unit (UAP) is also in charge of the administrative and financial implementation of projects. The implementing agency is usually an organ of the public administration, generally federal, but also from state or municipal levels. It is responsible for providing the financial resources for the project and for its implementation, with the support of consultants and other inputs contracted by the international organisation. Any non-profit organisation, such as a development NGO, can in principle engage in such agreements. There are currently 22 international organisations providing MTC in Brazil, mainly from the UN and the Inter-American systems. UNDP is the largest programme in terms of the resources involved (75 per cent of the total resources allocated to MTC) as well as in the number of projects (106 projects, representing 58 per cent of such projects currently underway in Brazil) (ABC 2000).

UNDP charges a fee for administering cost-sharing funds on behalf of host governments. In Brazil the fee is currently 3 per cent of the project’s delivery costs. These fees are used mainly
to cover the local office’s expenses, with 20 per cent transferred to UNDP headquarters. Between 1997 and 2002 the resources mobilised in Brazil through this fee amounted to US$35,312,289 (UNDP EO 2001:35), of which US$7,062,458 was kept by UNDP headquarters (UNDP EO 2001:35).

The first step in cost sharing is for the implementing agency to include in its budget proposal for the following fiscal year a budget line to allocate the necessary funds to cover the expenses of a future project. It then starts negotiating the project document with ABC and the international organisation (hereafter referring only to UNDP). Once agreed and signed, the funds are transferred to the UNDP account (usually in Brazil) and effectively become internationalised, in that they no longer belong to the Brazilian government.

Regardless of the currency in which the project’s deposit is denominated, its budget is kept in US dollars by the UNDP accounting system. If payments are denominated in local currency, the implementing agency prepares a quarterly expenditure forecast specifying the goods and services it will need in order to conduct its activities. UNDP then matches the forecast with the project’s availability of funds, approves it, and forwards the money to the UAP, which then pays the national suppliers. In the case of payments in US dollars, the process is very similar, but in addition to checking the project’s financial soundness and approving the expenditure request, UNDP also pays the international suppliers directly. In both cases, the expenses are debited from the project’s budget in US dollar equivalents. In the case of resources coming from an IFI loan agreement, the procedures are very similar, except that the implementing agency needs the IFI’s ‘no objection’ to transfer funds to UNDP (ABC 2000:29).

Why cost sharing?

The cost-sharing process as outlined above may appear cumbersome and inefficient, and one may wonder what advantages the Brazilian government gains by using these mechanisms to implement part of its national programmes with its own resources. This is especially so given that the government loses ownership of public funds once transferred to UNDP and it also has to pay UNDP for administrative services. The advantages of cost sharing to UNDP are not difficult to identify given the fee income. Moreover, cost sharing has not only allowed UNDP in Brazil to replace core funding but has allowed an expansion of its country programme. Currently, for every US$1.2 from UNDP’s core resources, the Brazilian government spends US$1000 in government cost sharing (UNDP EO 2001:2).

But what does the Brazilian government gain? The answer lies in recent history. Important changes were taking place in Brazil during the 1980s (referred to as the ‘lost decade’ in Brazil). In 1985, a democratic government took office, ending 21 years of military rule, and launched a complex reform process to modernise the economy and to reshape the systems of governance: reducing the role and size of government, changing methods of service delivery, privatising, decentralising, deregulating. At the same time, the government was under increasing internal pressure to fulfil social demands in a diverse range of areas, including education, environmental protection, and poverty reduction. Addressing these demands required fast and effective action.

Ironically, financial resources were not the main problem, since the Brazilian economy was starting to recover and the democratisation process had led some major IFIs to intensify their operations in the country. The problem was that, in many cases, the government did not have the capacity to carry out the reforms as it took over an institutional framework that was generally weak and outdated, with a cumbersome bureaucratic system, obsolete legislation, and inadequate human resources. In this context, the implementation of many important programmes was hindered (UNDP OESP 1996:25–26; UNDP EO 2001:22). As pointed out
by one interviewee: ‘A neutral observer should keep in mind that the Government relied in the past and still relies on outdated instruments and is bound by obsolete legislation, thus being unable to give a proper response to all those pressing demands’ (respondent 9).

One option would have been to modify these obsolete regulations and procedures, but these are not simple reforms because they involve profound alterations to structures of public administration and there is seldom a consensus on what should be done. Instead, the government turned to external agencies to help implement its programmes.

But why UNDP? While UNDP has some of the flaws characteristic of big bureaucracies (Robinson et al. 2000), its rules and procedures are flexible (Andic et al. 1995:60) and it enjoys a reputation for being a neutral and transparent institution. However, while this is a valid and commonly expressed argument (Andic et al. 1995; UNDP OESP 1996; UNDP EO 2001), it does not present the whole picture. After all, there are many potential options including the use of international consultancy and procurement firms.

UNDP has an additional and highly significant advantage over many of its competitors: it is a multilateral organisation with privileges and immunities. Projects implemented by international organisations, where resources have been internationalised, follow that organisation’s rules and procedures and the national legislation does not apply (ABC 2000:42; Sampaio 1998). Also, in the case of the procurement of imported goods, because the purchase is being made by an international organisation, no import taxes are levied, which substantially lowers the costs to implementing agencies. Moreover, UNDP has a major advantage over other international organisations in its use of National Execution (NEX) for running projects. As pointed out by one interviewee, ‘the use of National Execution since the early 1990s helped to attract cost-sharing funds to the UNDP Programme in Brazil’ (respondent 7).

Although UNDP is not the only international organisation to use NEX, it was the pioneer. NEX was introduced by UNDP headquarters in the early 1990s, replacing the traditional Agency Execution (AEX), in order to increase recipient countries’ ownership over the technical cooperation process. NEX is currently used, to varying degrees, in UNDP programmes all over the world, and greatly enhances the host country’s sense of ownership over the process of cooperation as the technical, administrative, and financial controls of the projects are performed by nationals: ‘NEX increased government ownership and control over the technical cooperation process. Furthermore it helps to speed up projects’ implementation’ (respondent 1).

Furthermore, an organ of the national government audits the projects implemented under NEX while in AEX such functions are conducted by the international organisation. This is especially important when dealing with projects 100 per cent financed through government resources, as in Brazil (Andic et al. 1995:16; UNDP EB 2000:18). The issuance by the Brazilian government on 15 February 2001 of decree number 3.751 establishing that all projects cost shared with government funds must be NEX confirms this point.

**Sustainability and development goals: are they conflicting?**

So far in the analysis the new framework created by cost-sharing arrangements seems to be a win-win situation for all players involved. The Brazilian government is supplied in a timely and cost-effective fashion with a set of services that guarantees the effective implementation of its programmes, while UNDP has maintained its office in Brazil using fees charged in connection with co-financing. UNDP headquarters was thus not only able to maintain its office in Brazil without having to finance the cost of doing so, but also receives on average more than US$1 million a year in revenues from UNDP Brazil that can be used to finance UNDP interventions elsewhere. From the perspective of IFIs, cost-sharing arrangements with UNDP help improve loan performance, especially in sectors in which disbursement rates have
traditionally been low (e.g. in major institutional reform programmes and in the social sector).

Cost-sharing has brought about a fundamental shift in the nature of technical cooperation provided by UNDP so as to become ‘a more sophisticated development cooperation partner’ (UNDP Brazil website n.d.). In order to cope with this new role, UNDP Brazil has upgraded its administrative capacity and taken on a more ‘aid business’ orientation which recognises that its clients can move their funds elsewhere if their demands are not satisfied (UNDP EO 2001:6): ‘UNDP/Brazil is a client-oriented organisation, composed of a highly qualified team of professionals able to provide timely response to a wide range of demands from its development partners’ (UNDP Brazil website n.d.).

Is this new role helping UNDP to implement its SHD mandate or is it another case where institutional sustainability has become the main objective and the institution has lost sight of its development goals (Brown 1997)?

At first glance, the list of projects currently being implemented by the Brazilian government in partnership with UNDP looks very impressive and in line with UNDP’s mandate of promoting sustainable human development. Table 2 provides a sample of UNDP projects in Brazil, though it should be stressed that these are taken from UNDP’s own website and are presumably projects that it is happy to highlight as indicative of its priorities. Projects in a wide variety of areas relevant to sustainable human development are presented, including natural resource management, capacity building, and education.

However, a closer look reveals that UNDP’s work and modus operandi in Brazil are actually incompatible with many of the principles (good governance and transparency, for instance) inherent in its mandate. By serving as a ‘shortcut’ to allow government institutions to bypass some of the legislation regarding recruitment and procurement of goods and services, UNDP is allowing the government to delay certain fundamental reforms and in the meantime is creating friction among different sectors of the government, infringing labour laws, creating a two-track civil service, reducing its capacity to influence decision makers, and creating competition and lack of coordination within the ‘UN family’. All these issues are further discussed below within three key roles of UNDP: capacity building, advocacy, and development coordination.

**Capacity building**

UNDP claims that building national capacity is at the core of its interventions worldwide, with 70 per cent of its ‘outcomes’ falling in this category (UNDP EO 2001:26). The UNDP Programming Manual states that UNDP focuses on ‘support to developing an enabling environment for SHD and capacity building for good governance’ (UNDP 2000:2). Projects such as BRA/00/003 as well as various references to ‘modernisation’ in Table 2 can be seen in terms of capacity building. However, one could argue that cost sharing is leading UNDP to approve projects to which it can make no substantive technical or capacity-building contribution, and also to undermine government reform initiatives through its interventions.

UNDP sees its role as a ‘partner for development’, supporting the government in the conception and management of development projects and programmes (UNDP Brazil website). In reality, projects and programmes are, with very few notable exceptions such as local development and microfinance programmes, designed and implemented by the government without any technical input from UNDP. UNDP has mainly an administrative role: recruiting project staff and procuring and purchasing inputs.

"UNDP is widely lauded for its role in assisting in programme operations, especially in hiring personnel and consultants, in financial management and in procurement of..."
<table>
<thead>
<tr>
<th>Project code</th>
<th>Project title</th>
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</thead>
<tbody>
<tr>
<td>BRA/95/028</td>
<td>Environmental Macro-monitoring</td>
</tr>
<tr>
<td>BRA/96/013</td>
<td>Citizenship and Human Rights—Ministry of Justice</td>
</tr>
<tr>
<td>BRA/96/026</td>
<td>Integrated System of Educational Statistics (SIED)</td>
</tr>
<tr>
<td>BRA/97/001</td>
<td>Fiscal Modernisation of the São Paulo Public Sector</td>
</tr>
<tr>
<td>BRA/97/012</td>
<td>Sport Fishing</td>
</tr>
<tr>
<td>BRA/97/019</td>
<td>Educational Information Treatment and Dissemination</td>
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<td>BRA/97/022</td>
<td>Central Bank Modernisation</td>
</tr>
<tr>
<td>BRA/97/028</td>
<td>VISIGUS project of National Health Surveillance System</td>
</tr>
<tr>
<td>BRA/97/032</td>
<td>Coordination of the Fiscal Modernisation Programme of the Brazilian States (PNAFE)</td>
</tr>
<tr>
<td>BRA/97/034</td>
<td>Modernisation Programme of the Federal Executive Power</td>
</tr>
<tr>
<td>BRA/98/005</td>
<td>Support to the Monitoring and Analysis of the Pilot Programme for the Protection of the Tropical Rainforests (PPG–7)</td>
</tr>
<tr>
<td>BRA/98/009</td>
<td>Management of the Amazonian Rain Forest (Promanejo)</td>
</tr>
<tr>
<td>BRA/98/010</td>
<td>Interlegis PRODASEN—Senado Federal</td>
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<td>BRA/98/013</td>
<td>Fiscal Modernisation of the Rio de Janeiro Public Sector</td>
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<td>BRA/98/020</td>
<td>Professional Education Reform Programme</td>
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<td>BRA/99/017</td>
<td>Long Distance Education for Teachers and Educational Professionals</td>
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<td>BRA/99/027</td>
<td>Technical Cooperation with the Caixa Economica Federal</td>
</tr>
<tr>
<td>BRA/00/001</td>
<td>Support to the Brazilian Centre of International Relations (CEBRI)</td>
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<tr>
<td>BRA/00/003</td>
<td>Institutional Strengthening of the Social Communication Support Unit (ACS) of the Brazilian Ministry of External Relations</td>
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<tr>
<td>BRA/00/005</td>
<td>Regional Integration Information Centre</td>
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<td>BRA/00/008</td>
<td>Flood-planes’ Natural Resources (ProVarzea)</td>
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<td>BRA/00/015</td>
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<td>BRA/00/027</td>
<td>School Strengthening Fund II (FUNDESCOLA II)</td>
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<tr>
<td>BRA/00/029</td>
<td>Support to the Brazilian Electric Sector in Relation to the Global Climate Change</td>
</tr>
<tr>
<td>BRA/00/034</td>
<td>Institutional Development of the Center for Strategic Knowledge Management in Science and Technology</td>
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</table>

Source: UNDP Brazil website at www.undp.org.br.
computers and other equipment. Observers stated that UNDP execution reduced the project’s life span by one to two years. . . . It is not felt, however, that UNDP provided technical input itself or through another UN agency such as the United Nations Environment Programme (UNEP), nor did it provide a ‘UN approach to capacity-building’ in its project components. The UNDP role was clearly seen as administrative rather than technical. (Pielemeier and Salinas-Goytia 1997)

One shortcoming is that UNDP has helped to create a parallel bureaucracy of experts who are better paid than the host government’s remuneration rates and hence weaken governmental capacity (Table 3). Project-contracted personnel will typically have no further links with the institution after the project is finished (Pielemeier and Salinas-Goytia 1997), and UNDP-hired consultants are often not integrated within the institutional structure of the implementing agency but are instead recruited from isolated units. As these consultants are usually better paid and have privileged access to office supplies and equipment, this can create an uneasy relationship between them and other personnel, imposing further barriers to the transfer of skills and know-how (Arndt 2000:165). This is an expression of the common yet often criticised ‘expatriate/expert–national/counterpart model’, except that in this case both groups are Brazilian nationals (Berg 1993). Also, because of the difficulties in recruitment and the scarcity of capable personnel in the public sector, many project personnel have assumed the responsibilities and functions of public-sector employees (Andic et al. 1995:60). ‘Key state positions are also normally filled by UNDP-contracted employees. One result is an almost total absence of long-term government capacity and programme continuity’ (respondent 6).

The proportion of new staff employed each year via international organisations has steadily increased (Table 4), and there are currently more than 9000 workers hired by international organisations in the Brazilian civil service at federal level, almost 2 per cent of the total number of civil servants (Istoé 2002). The issue here is that international organisations’ more streamlined recruitment processes are less transparent than the official civil service recruitment procedures, as they do not require public announcement of the posts available nor a standard test for the candidates, both factors which could encourage favouritism in the recruitment for these posts.

One important feature of these contracts is that the employees are not entitled to basic rights, such as social security or pension funds, because they are hired as consultants on short-term

<table>
<thead>
<tr>
<th>Post</th>
<th>Minimum and maximum salary band (R$/month)</th>
<th>Difference (%)</th>
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<tbody>
<tr>
<td>Office clerk</td>
<td>400–700 / 400–1800</td>
<td>0–157</td>
</tr>
<tr>
<td>Computer systems analyst</td>
<td>800–1600 / 1000–7300</td>
<td>25–356</td>
</tr>
<tr>
<td>Graduates</td>
<td>1400–4900 / 3900–5500</td>
<td>179–12</td>
</tr>
<tr>
<td>Manager</td>
<td>2900–7100 / 3900–7300</td>
<td>34–3</td>
</tr>
</tbody>
</table>

Table 3: Salary differentials between Brazilian civil servants and those doing a comparable job but employed via an international organisation (IO)

Source: Istoé 8 April 2002.
contracts. Indeed, drivers and secretaries have been taken on as ‘technical consultants’, and 80 per cent of such employees have worked for at least four years and have become de facto permanent staff (Istoé 2002).

In reality, many of them [project-hired personnel] occupy clerical posts, like secretaries and car drivers to serve the demands of the government departments. They are hired through projects because it is much more difficult to hire these same people following the procedures established by the national legislation. (Respondent 2)

The use of national consultants to perform ordinary government functions generates a twin-track civil service, and certain institutions have become dependent for their survival upon UNDP’s projects because so many of their personnel are employed via this route. Neither of these outcomes is compatible with ‘good governance’ and the concept of capacity building as commonly expressed (Cohen 1993; Hilderbrand and Grindle 1994:10).

Some of these problems have been recognised. The Brazilian government has recently passed legislation trying to impose more control over the use of international organisations to hire personnel for jobs not related to a specific project activity. The results are yet to be seen. UNDP is also well aware of this situation, which is frequently reported in project and thematic evaluations. However, UNDP would risk losing its clients if it tried to intervene. The official UNDP response is as follows:

Given LAC’s [Latin America and Caribbean] particular circumstances, a parallel bureaucracy and ‘bypassing’ the government have become a necessity until the capacities are built and the flawed public sector is reformed, so that the ‘enabling environment’ can be established. (UNDP OESP 1996:34)

As has been argued above, however, the activities of UNDP are actually hindering the attainment of such an ‘enabling environment’.

**Advocacy**

UNDP claims to be focusing on its role as ‘upstream policy adviser’ (i.e. its ability to influence the host government’s policies) to maximise its impact in promoting SHD (UNDP EB 2000). It also argues that cost sharing plays an important role in the successful fulfilment of this function.
Co-financing represents the only way to have an impact on countries with core IPF resources as modest as those assigned to the region. In that context it opens the door for UNDP—through a continuing policy dialogue with the host countries—to advocate policy priorities such as the concept of sustainable human development. (UNDP OESP 1996:27)

In Brazil, however, UNDP’s advocacy role is limited and is mostly evident when the Human Development Report (HDR) presenting the Human Development Index (HDI) for the Brazilian municipalities is published each year. The report has been highly publicised and has had an important effect in Brazil, but it represents only a very small fraction of the work of UNDP.

The bulk of UNDP’s resources and activities are directed to technical cooperation projects and programmes based on cost sharing (such as those given in Table 2) and any role as advocate and adviser would have to be incorporated into these activities in order to have significant impact. Indeed, it could be argued that UNDP’s ability to influence the Brazilian government vanished once it became a contractor to it. UNDP Brazil has found itself in a position where it has had little or no influence over the content of projects, even though it is involved in their implementation. According to one respondent, ‘UNDP Brazil has mainly an administrative function, not a technical one. What technical assistance can you provide to the country when the projects arrive at UNDP ready [i.e. already designed] and with already pre-selected consultants?’ (respondent 2).

Effectively, the donor–recipient power relationship has now been reversed, with the compliant recipient becoming the donor. This switch from donor–recipient to donor–client provides an interesting comparison to what some see as more intractably unequal power relationships between donors and development NGOs that can lead the latter to become nothing more than ‘middle men’ for the donors, thereby losing their ability to criticise donor policy (Fowler 1998; Lewis 1998; Hailey 2000; Joseph 2000). With both forms of relationship the power balance is stark; those with money have the power, those without don’t. While UNDP was able to provide core funding for its programme in Brazil, UNDP could use its funds at its discretion in accordance with its strategic priorities to develop projects and programmes and engage with governments in areas meeting these priorities. These projects and programmes were frequently implemented by UN specialised agencies. With the level of core funding now available, it is virtually impossible for UNDP Brazil to develop this kind of work. Cost-sharing money is tied money and UNDP has no real leverage to influence the use of these resources.

UNDP counters by showing that all cost-shared projects in Brazil relate to SHD (UNDP EO 2001:15). As Table 5 shows, this is true, but there is no direct link between the thematic alignment of the projects with UNDP’s ability to influence a host government’s priorities. This is partly because the vagueness of the SHD concept allows almost any intervention to fall under its umbrella (Nicholls 1999), as can be seen by the diversity shown in Table 1, but also because the thematic areas of the projects simply reflect government priorities over which UNDP has no concrete influence (UNDP EO 2001:5).

In the case of Brazil, the priorities of UNDP and the federal government seem to coincide, but what if they did not? UNDP has, of course, the option of not engaging in projects or programmes which it considers to be out of line with its mandate. However, if cost sharing is the only source of funding readily available to UNDP in Brazil, and its existence largely depends on that source, it appears unlikely that turning down a 100 per cent cost-sharing project will be an option. There is no evidence that UNDP has been rejecting proposals on the basis of a clash with its mandate. The statement below displays UNDP’s rationale on this issue, with a clear emphasis on pragmatism:
**Table 5: UNDP thematic areas in Brazil and the amounts allocated in 2000**

<table>
<thead>
<tr>
<th>Thematic area</th>
<th>US$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Development</td>
<td>3,810,220</td>
<td>2</td>
</tr>
<tr>
<td>Social Development</td>
<td>26,671,540</td>
<td>14</td>
</tr>
<tr>
<td>Environment</td>
<td>43,817,530</td>
<td>23</td>
</tr>
<tr>
<td>Education</td>
<td>53,343,080</td>
<td>28</td>
</tr>
<tr>
<td>Governance</td>
<td>62,868,630</td>
<td>33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>190,511,000</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


In other words, in some countries short-term micro misalignment prompted by non-core priorities may be a necessary and calculated trade-off for better macro alignment and increased leverage of UNDP over the long-term .... [T]he imperative for the organisation to be sensitive to country demands presents a case for UNDP to take a pragmatic policy position on this at the margin and not to push for too strict an alignment, as long as the bulk of interventions fall within the SRF/MYFF framework. (UNDP EO 2001:17)

In a similar vein, some within UNDP see no incompatibility between UNDP Brazil’s emphasis on SHD and cost sharing. Analysing ‘whether this financing modality [cost sharing] hinders UNDP’s capacity to advocate for the SHD idea’, Cesar Miguel (1997), UNDP Representative in Brazil from 1993 to 1997, concluded that ‘cost-sharing arrangements and the concept of SHD are fully compatible; and in the short term, cost-sharing may be the best way to have relevant UNDP-promoted SHD programmes’. However, another factor which is reducing the ability of UNDP to challenge government priorities is the increased competition UNDP now faces from other multilateral agencies for cost-sharing resources. Despite the earlier protestations, it is reasonable to expect that this competition among development organisations may make UNDP even more susceptible to government pressures.

To summarise, it seems fair to conclude that the reliance on government funds has greatly restricted UNDP’s capacity to influence the policies and programmes of the Brazilian government.

**Coordination**

Coordination is another key aspect of UNDP’s mandate. In fact, the UNDP resident representative is usually the UN coordinator for development programmes in the host country (Robinson et al. 2000). This role as coordinator has had many critics. For example, when asked about UNDP’s actions to coordinate national efforts towards SHD, the World Bank’s Chief Economist in Uganda said: ‘It is one thing to be a leader and another to claim to be a leader. Where is UNDP’s thinking and technical capacity?’(Nicholls 1999).

Interestingly, the main critics appear to come from within the UN system, as it is claimed that many of the UN specialised agencies believe that UNDP is ‘too lightweight and lacks the
Institutional sustainability

resources, substantive in-house expertise, and the clout to play such a [coordinator] role’ (Nicholls 1999). In response to these critics, UNDP has implemented a series of initiatives, the most recent one being the United Nations Development Assistance Framework (UNDAF), whose objective is to set out targets, roles, and priorities for the UN system’s activities in the host country.

It is unlikely, however, that UNDAF will bring significant improvements to coordination in Brazil. First, although coordination is generally believed to be desirable, organisations still want their autonomy and freedom: ‘Everyone is for co-ordination but no one wants to be co-ordinated’ (Bennett 2000:220). Second, UNDP’s role as coordinator is derived primarily from its position as one of the main sources of grant funding for the UN system in developing countries.

Until 1975, when the UN General Assembly took a decision that led to the introduction of NEX in order to increase recipient countries’ ownership, all UNDP projects were carried out in partnership with the UN specialised agencies. The latter thus relied on UNDP resources to implement a significant proportion of their work. After the decision to move away from AEX towards NEX, the relationship between UNDP and the other specialised agencies started to weaken. Cost-sharing arrangements accelerated this trend— as stated above, all UNDP projects in Brazil are now NEX. In a situation where UNDP has very few funds of its own to support the work of UN specialised agencies, its influence and leadership within the UN system in Brazil has been greatly jeopardised. Since the specialised agencies in Brazil can no longer count on UNDP resources to fund their projects, they are also looking at government cost sharing as an alternative source of funding. The reliance of a number of UN agencies on government cost-sharing resources means that they effectively compete among themselves in order to guarantee their own survival and growth in an ever more competitive environment. The following quotes reflect the new reality:

Programme countries are enjoying a greater choice in terms of the organisations that can help them manage and implement development initiatives. Choice requires agencies such as UNDP to become more competitive. (UNDP EO 2001:6)

Possibilities for broader and deeper coordination were limited by the reliance of a number of United Nations actors on non-core funding. (UNDP EO 2001:31)

UNDP also views its role as coordinator in a broader sense as being ‘to coordinate all parties—government, donors, and UN agencies around a collective agenda of development’ (UNDP EO 2001:20). In an evaluation report on the issue, UNDP argued that ‘[t]he local office of UNDP in Brazil has done an excellent job in coordinating activities with the Government of Brazil, with many of its agencies at all levels, and with multilateral and bilateral institutions’ (UNDP EO 2001:20).

While cost sharing and NEX have brought UNDP closer to its Brazilian counterparts, and perhaps improved UNDP’s relations with the World Bank and IDB, there does seem to be confused terminology in UNDP’s argument between the ‘coordinate with’ role and the ‘playing the coordinator’ role. It is one thing to participate in partnerships to develop a specific task, which involves a certain level of coordination; it is another thing to ‘play the coordinator’.

Conclusion

In conclusion, cost sharing has certainly helped UNDP Brazil along the road to financial self-reliance, but one should remember that institutional sustainability is not an end state (Brinkerhoff and Goldsmith 1992), nor should it be seen in purely financial terms (Aldaba et
al. 2000; Tandon 2000). While the arrangements based on cost sharing can be seen as beneficial both for the Brazilian government and UNDP, there has perhaps been a price to pay. At least in respect to the three development activities of capacity building, advocacy, and coordination, it seems reasonable to conclude that in Brazil, UNDP has greatly compromised the achievement of its development goals in pursuit of its financial self-reliance. Indeed, if it were not for government cost-sharing arrangements, UNDP action in Brazil would probably be restricted to the implementation of projects funded by trust funds administered by UNDP such as the Global Environment Facility (GEF) or the Montreal Protocol. There is no doubt that UNDP Brazil is a very flexible organisation which has shown the constant ability to adapt to change, but the changes have been so dramatic that income generation and sustainability, rather than the promotion of SHD, seem to have become UNDP’s main objectives.

There are pressures to modify the cost-sharing arrangement in Brazil, and these depend to a large extent on the pace and magnitude of the Brazilian public-sector reforms aimed at modernising its regulations and procedures. Moreover, the Brazilian government is under increasing pressure to ‘regularise’ the situation of the consultants employed on cost-sharing projects, which is perceived by many as irregular. A judge from the Labour Tribunal recently stopped all the hiring of consultants via international organisations, although the government managed to suspend the ruling until late 2003 by when it hoped to have arrangements in place to alter the current legislation and facilitate the absorption of some of the consultants. Indeed, it could be argued that even without legislation national institutions could make a greater effort to absorb national consultants who are working in the institution through UNDP-managed contracts. As a result, funds directed to government cost-sharing arrangements will most certainly be reduced, and it is likely that UNDP Brazil will explore other funding options. For example, there is the increasing importance of the Human Development Reports in Brazil, and the possibility of diversifying the client base perhaps by forging partnerships in the private sector.

It is doubtful whether core funding would or even should return to the levels enjoyed by UNDP Brazil in the past. Some argue that aid in general will decline in size or may even disappear; the so-called ‘beyond aid scenario’ (Aldaba et al. 2000; Hailey 2000; Malhotra 2000). Although this point is disputed (Collier 1999), it has led to an obvious conclusion: those charged with helping to promote development should become self-sustainable (generally equating to financial self-reliance), and this implies a reorientation from foreign to local sources of income and a diversification of income streams (Aldaba et al. 2000). Given this resource background affecting the development industry as a whole, it is perhaps understandable that the cost-sharing example highlighted in this paper is by no means unique. The benefits of cost sharing have been broadly promoted within the UN system and many country offices are anxious to follow the UNDP Brazil example. It would appear that institutional sustainability gauged in purely financial terms is an appealing and pervasive goal. Should the UN specialised agencies be any different from NGOs or other development agencies in this regard?

Valid arguments can be made for any answer to this question. Many non-UN organisations, particularly development NGOs, that devote much time and energy to sourcing funds may see no reason why the UN should be any different. At the same time, could it not be argued that UNDP has important and unique roles to play in coordination and advocacy that demand core funding? What is beyond doubt is that the impacts and side-effects of cost sharing have scarcely been understood and rarely debated. In the view of the authors, it is fundamental that the lessons from Brazil and other Latin American countries are learnt before expanding the use of government cost sharing in other parts of the world. While a reduction in dependency on the Brazilian government may result in a scaling down of UNDP activity in the country, the irony
is that UNDP Brazil would perhaps then be far closer to fulfilling its mandate for Sustainable Human Development than it is today.

Notes

1 As defined by the Brazilian government, the aims of MTC programmes and projects are ‘to promote a qualitative and sustainable change at the level of the recipient institutions, as well as generating positive impact on target sectors, mainly through mobilisation of human resources, training, and the occasional complementation of recipient institutions’ infrastructure’ (ABC 2000).

2 UNDP resources are provided in two broad categories: regular (core) donor countries’ voluntary contributions; and other resources (non-core), which involve cost sharing and trust funds.

3 The literature covering such relationships is vast. For an introduction, the interested reader is referred to a special 2000 issue of Third World Quarterly 21(4) entitled ‘NGO Futures: Beyond Aid’ (guest edited by Alan Fowler) and in the same year Development in Practice 10(3&4) for a selection of papers.

4 NEX is also employed by the FAO, the World Meteorological Organisation, the United Nations Drug Control Programme, and the International Timber Organisation.

5 The HDI, for instance, has been extensively used for targeting government programmes.

References


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