

EVALUATION OF THE UNITED NATIONS CAPITAL DEVELOPMENT FUND

(Draft: 2 February 1998)

Terms of Reference

Background

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

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

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

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

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

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

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

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

General Framework

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

10. A Steering Group, in which all interested donors, UNCDF and UNDP have been invited to participate, has been established to guide and oversee the Evaluation. The Netherlands has offered to manage the process and to chair the meetings of the Steering Group.

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

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

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

14. On this basis the Fund has prepared an action plan establishing targets for capacity improvement, financed from general resources to the tune of \$ 3.18 million. The action plan is a second, ready frame of reference for the Evaluation. Internal reviews of the action plan and other arrangements made at headquarters and in the field to give effect to its stated policies are underway and will be available to the evaluation team. A number of evaluative studies covering newly implemented activities have furthermore been commissioned.

Scope of Evaluation

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

a) assess the basis for the Fund's actual and/or potential comparative advantage as a development institution, and make a critical analysis of operational and other general implications, positive or negative, of the policy considerations outlined in the 1995 policy document;

b) review the adequacy of actions taken with respect to the findings and recommendations contained in the Capacity Assessment referred to in paragraph 13, and made the subject of a series of internal reviews;

c) examine the extent to which new approaches and processes instituted for project preparation, implementation, monitoring and evaluation are gaining acceptance among recipient agencies, target communities and partner organizations, and make a preliminary judgment as to how these processes have impacted on field operations.

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

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

18. In this connection, the Evaluation should discuss whether the reorientation of the Fund's activities has enhanced or is likely to enhance its distinctive identity in relation to other development institutions, giving it a comparative advantage through its ability to take risks, test new methodological approaches and to pilot innovations. The question of whether there are more ways to advance the aims of the 1995 policy study should also be clarified.

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

- a) how relevant these policies are to the needs and conditions prevailing in the countries found eligible for assistance according to the Fund's criteria for concentration;
- b) how satisfactory accountability can be assured both in relation to programme concentration and to the decentralized locus of project operations;
- c) what efforts have been made to consolidate activities of different types or to bring elements of the various products into a single intervention so as to secure greater area development impact.
- d) whether, in terms of financial management, the present "partial funding formula" remains optimal in terms of the Fund's financial and programme priorities, and shed light on the relative importance, quantitative and qualitative, of cost-sharing contributions.

20. While there is broad agreement that meaningful participation by project stakeholders is desirable, this is a time-consuming process and carries a cost in terms of operational

delays that slow down disbursements. The Evaluation should discuss what trade-offs apply in terms of investments made in the process and any resultant lower levels of delivery.

21. The Evaluation should quantify the expected impact of the new policies on technical and administrative support costs. These could be more substantial than anticipated as a result of prolonged project formulation, intensified technical backstopping or of arrangements for measuring programme impact, as opposed to traditional M & E routines devoted to evaluating project outputs or the timeliness and cost-effectiveness of inputs.

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

23. In part, the Fund's policy shift is prompted by the experience accumulated over the past 25 years. The Evaluation should synthesize this experience, identifying at the same time projects carried out prior to 1995 having elements that are consistent with the new policy direction or providing lessons that are germane in this context.

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

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

- refine the policy focus of the Fund's principal strategies, in the area of local development funds (LDF), eco-development and micro-finance, administrative decentralization and community participation;
- explore further the potential synergy between the Fund and UNDP, particularly in the areas of country programming, good governance and micro-finance;
- improve the Fund's capabilities for action in the field through decentralization, delegation and the outposting of staff;
- elaborate a methodology allowing the Fund to concentrate its activities in countries displaying affinity with its policies;

- develop staff competence, both at headquarters and at the country level, so as to perform effectively in the main areas of interest, i. e. participation by target groups, local governance and civil society, monitoring and evaluation, as well as on project management and finance;
- set in motion, through a series of publications, a more active communications strategy to spread understanding of the new policies and priorities, and to support resource mobilization efforts.

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

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

:in the substantive area:

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

:in the area of programme preparation:

- a) whether policy and institutional analysis of programme environments are systematically undertaken, in conformity with the Fund's objectives;
- b) how processes applied in the identification, negotiation and formulation of programmes have been changed and are affecting project design;

- c) the role played in project formulation by UNDP, through its co-financing of technical assistance components, a regular feature of the Fund's programmes;
- d) the extent to which implementing partners are associated with the formulation of programme products and as a consequence able to translate the Fund's new policies into operational realities;

:in the area of monitoring and evaluation:

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

:in the institutional area:

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

:in the organizational area:

- a) whether the Fund's current management structure and decentralization of staff are appropriate and adequate responses to the new operational exigencies;

- b) whether stakeholder colloquia, seminars and staff training programmes have been effective for the purpose of securing a good understanding of the Fund's programme processes and products, in particular as regards participatory development and impact monitoring;
- c) the progress made on setting up an efficient information management system and data base.

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

29. Taking representative samples of projects identified and formulated since 1995 but also selected projects whose formulation predated the 1995 policy study, the Evaluation should focus on the results obtained after two/three years of operations in resource-poor LDC's, especially in terms of how the Fund's objectives and policy emphasis on Local development funds, Eco-development and Micro-finance, are understood and have gained or failed to gain acceptance among recipient governments, ministerial and provincial agencies, partner organizations and local communities.

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

31. While recognizing that the short period covered by the Evaluation would not allow for measuring product impact, in terms of social and economic change, or for assessing conclusively the progress made by the Fund towards establishing a distinctive profile or niche, the Evaluation should form a judgment as to,

:in applying the new approaches:

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

well as stakeholder workshops, are effective in creating a sense of local ownership;

:in relating to in-country institutions:

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

:in performing its catalytic role:

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

Methodology

32. The Evaluation should proceed in two stages, Phase I comprising a desk study of two months' duration to review all pertinent documentation and material at the Fund's headquarters, and Phase II, of up to three months' duration, consisting of visits to selected "concentration countries" and field operations. The countries and project locations to be visited should be chosen in the light of the findings of the desk review, and should provide a representative cross-section of activities reflecting the Fund's new policies.

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

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

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

Organization and timetable

36. A consulting entity (Consultant), selected through competitive procedures, will carry out the Evaluation. The Consultant should have extensive experience in the evaluation of socio-economic programmes in developing countries and of the work of multilateral and bilateral institutions engaged in development cooperation. In particular, the Consultant should be thoroughly familiar with the United Nations system of development agencies, their respective mandates and operational programmes.

37. The present Terms of Reference, along with the invitation to bid, provide the basis for the Consultant's tender of proposals. Consulting entities that have been short-listed may obtain key documents directly from the Fund; an indicative list of such documents is attached.

38. The Consultant's bid should specify a detailed methodology for the evaluation, based on the terms of reference outlined above. The tender should also provide detailed information on the staff resources, particularly in terms of expertise in the substantive areas of interest to the Fund, that the Consultant plans to deploy for both the desk study and for the field investigations, identifying and providing personal histories of the specialists involved.

39. In order to accommodate the national perspective in the Evaluation, the Consultant should make a special point of including experts from the programme country, or specialists from a developing country, in their study teams for the field segment. While the consulting entity has significant latitude in the way it proposes to organize the study, it is estimated that the desk phase might require a work input of 6-8 person/months and the field phase 10-14 person/months.

40. Tender submissions should be according to the two-envelope procedure, one sealed envelope containing the Consultant's technical proposal and a second sealed envelope with the Consultant's financial proposal. In the analysis and ranking of the bids, methodological aspects will be weighted to the extent of 30 per cent; the entity's overall experience and the expertise assigned to the project will be rated at 30 and 40 per cent respectively. Where ratings are approximately equal, the financial proposal will influence the final selection.

41. The Final Report should be drafted in English and no longer than 50-60 pages, excluding appendices; a French translation will be financed separately. The following timetable will apply:

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| • Launching of invitation to bid | 1 March 1998 |
| • Submission of bids | 15 April 1998 |
| • Contract award | 1 June 1998 |
| • Desk Study (Phase I) | October/November 1998 |
| • Submission of Desk Study report | 1 December 1998 |
| • Field Studies (Phase II) | February-April 1999 |
| • Submission Field Study report | 1 May 1999 |
| • Submission draft Final Report | 1 June 1999 |
| • Submission Final Report | 1 July 1999 |

List of Key Documents

(as of January 1998)

- 1) Poverty Reduction, Participation and Local Governance: the Role for UNCDF (UNCDF Policy Series: Vol.1, August 1995)
- 2) Capacity Assessment of UNCDF (Report prepared at the request of UNCDF by a joint French-Danish team, July 1996)
- 3) Local Development Funds, promoting decentralized planning and financing of rural development (UNCDF Working Paper, December 1996)
- 4) Eco-development, People, Power and the Environment (UNCDF Working Paper, April 1997)
- 5) Key Performance Indicators (KPI's) (Policy, Planning and Evaluation Unit, UNCDF, 1996)
- 6) Other Funds and Programmes: United Nations Capital Development Fund, Report of the Administrator, December 1996, Executive Board of UNDP and UNFPA
- 7) UNCDF Project Evaluation Summaries 1993, 1995, 1996 and 1997 (Policy, Planning and Evaluation Unit)
- 8) UNCDF Business Plan 1997 (UNCDF, March 1997)
- 9) UNCDF Interregional Project (INT/97/C01), Support to the Implementation of the Capacity Assessment Action Plan (UNCDF, January 1997)
- 10) UNCDF Draft Policy on Concentration and related papers (1996-97)
- 11) UNCDF Participatory Development - Synthesis and Recommendations for Standard Practice (UNCDF, December 1997)
- 12) Local Development Funds - An Internal Review (UNCDF, January 1998)
- 13) Evaluation Interne du Programme Eco-Developpement Participatif du FENU (January 1998)