

Multilateral Branch
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During the past decade, it has become apparent that the old support costs arrangements provided the wrong incentives for the Specialized Agencies. It encouraged them to plan and implement as many projects as they could, since they were getting paid 13 % for each project. The normative activities of the organization often suffered, and there were problems with the technical quality of some of the projects, because some specialized agencies over-extended themselves. Specialized agency departments concerned with projects would lose sight of the fact the the organization had to pay some of the overhead costs itself, and was basically losing money on each project it implemented.

The new arrangement which came into force in 1992 is intended to put in place an appropriate incentive structure. The original 13 % overhead has been increased to 14 % and divided into three categories, 10 % for project administration, 2 % for technical support of projects, and 2 % for policy advice and other normative activities. The new arrangement is still one of cost sharing, and is not intended to cover all the overhead costs of the specialized agencies. It is hoped that the 2 % for normative activities will be an incentive for specialized agencies to restore the balance between their normative activities and project activities. It is hoped that the 2 % for technical support will be an incentive for specialized agencies to maintain a high technical quality for projects. It is hoped that by paying only 10% of project administration costs, the pressure will be reduced to do more projects beyond a level where quality can be maintained.

The new arrangements also make it easier for developing countries to play an increasing role in implementing their own projects. This is known as "national execution". Under the new arrangements, it will be easier for a Specialized Agency to use the 2 % allocation to give only technical support to a project which is largely implemented by the country itself. It is also easier for a Specialized Agency to use part of the 10 % to administer only that part of a project which a developing country may not be able to do itself, for example, placing trainees in foreign universities, or purchasing some types of specialized equipment. The underlying philosophy is that developing countries should gradually strengthen their capacity to implement projects themselves, and in the long run the specialized agencies should concentrate more and more on their normative rôle.