



UNDP Policy and Procedures for Engagement on National Salary Supplementation Schemes (NSSS) and National Salary Payment Schemes (NSPS)¹

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I. Summary

1. This Note distinguishes between different development contexts as they relate to the issue of national salary reform and payments, and presents UNDP's position and procedures in each of them accordingly. The *UNDP Practice Note on Capacity Development in Transition Situations* provides the overall framework of analysis and programme context for this programme policy.³

2. Scenario One: In 'standard' development cooperation activity (defined here as achieving steady state development progress without being in crises or post crises mode), it is not the role of external assistance to provide for the national wage bill. In instances where there is a negotiated arrangement under loan or grant assistance to provide support to the wage bill or parts thereof, it is best provided as direct budget support transferred to Treasury, under agreed conditions stipulated in the loan or grant agreement. UNDP's role here is most often one of policy advocacy and advisory services in this field. This Note does not discuss this further. Where such countries move into periods of development transitions, triggered by sudden political or economic shifts or man-made or natural disasters, then the scenarios below would apply.

3. Scenario Two: In many LDCs and transition states, civil service incentives are not adequate to ensure attracting and retaining skilled talent into public service. An appropriate level of pay is one form of monetary incentive that acts as a motivator, often in combination with other monetary and non monetary incentives. UNDP supports the application of appropriate levels of incentives to ensure a fully functioning and well performing civil service, as one element of a civil service reform package. Other issues such as the size of the civil service, the capacities of the civil service and the enabling political environment in which a civil service functions must also be taken into account in a full development response.⁴ National salary supplementation schemes (NSSS) are often introduced to provide additional monetary compensation. In such contexts, UNDP would play a policy advocacy and advisory role, together with other partners engaged on civil service reform, as well as a programme support role through a UNDP project. This scenario is covered in this Note.

4. Scenario Three: In countries in conflict and/or post conflict and volatile transition situations where there has been a break down of a recognized state authority and role, it may be necessary for external assistance to provide interim support directly for public sector salaries, to assure the minimum functioning of the state. This role would be for a limited period of time, to be agreed on case-by-case based on local conditions. This would be when an adequately functioning arm of the state can take over, and the standard operation of this national wage bill can be managed nationally. In this case, UNDP may be requested to play the role of direct service provider, as an interim management arrangement. This role is also covered by this Note.

5. **Common characteristics**: UNDP would only engage in salary supplementation and salary payment schemes as part of a larger wage or civil service reform process (even in times of post crises such would be the initial stages of a longer term reform strategy); a risk assessment is included in such engagement; direct service support would be for an agreed limited duration with a monitored exit strategy; and such would require the approval of the Office of the Administrator and Regional Bureau concerned.

¹ These programme procedures will be included in the updated UNDP NEX guidelines and Risk Management policy.

² Drafted by BDP/CDG and BOM (OHR and OFA). Reviewed by OLPS and BCPR. Based on an internal survey conducted among twenty COs in Jan-March 2007, queries and responses on the topic on UNDP capacity net, and draft presented to the Operations Group in July 2007 for review and approved for distribution in December 2007.

³ See *UNDP Practice Note on Capacity Development in Transition Situations*, BDP/BCPR, September 2007.

⁴ Refer *UNDP Practice Note on Public Sector Administration*, 2004

II. Related UN Policy Context:

6. Prior UN and UNDP policy discussions on the issue of incentives have centered around the issue of donor payments to government staff working on development projects. The question of such external payments to government staff has been the subject of discussions in the governing bodies of the members of the Joint Consultative Group on Policy (JCGP) as well as the OECD Development Assistance Committee. The UNDP Governing Council considered this issue at its 37th session (in 1990), at which it adopted decision 90/16. Following this decision, the JCGP established a working group to recommend a common policy for its members,⁵ and issued a UN Policy on Payment to Government Staff, dated April 1996.⁶ This provides a clear statement of policy for all members of the JCGP, based on the following (quote):

- a) The JCGP is against any monetary compensation to government counterparts for their work/participation in donor-funded programmes and projects.
- b) A recognition that in some countries that are facing serious economic difficulties which have drastically reduced the purchasing power of civil service salaries, the above policy cannot be applied at once. In these countries, an exit strategy should be developed in close cooperation and consultation with other donors and the government. Ideally, this exit strategy would encourage and support civil service reform, and would coordinate donor payments to government staff, gradually reducing such payments as reform takes effect. (end quote)

7. Following from the above, a *UNDP Background Note on Capacity Development and Incentives*⁷ was presented to the Senior Management Team (SMT) in October 2002, which stated the following: "Donors sometimes present salary incentive schemes as a first step in the direction of a general civil service reform. The problem with the way the schemes are designed and implemented is that they could have the opposite effect of delaying or even substituting for a general salary reform. To find a sustainable solution to the incentives problem, development partners will first have to address two fundamental deficiencies in the present situation: 1) The civil service incentive structure - the principle of a general salary reform must at least be envisioned, even if the reform is not decided on in detail. Temporary solutions for individual departments can then be designed as steps towards a more universal reform; and 2) Integration of external contributions - donors will have to reduce their ambitions for visibility or "additionality" and provide their contributions on a collective rather than individual basis. As the programme approach makes more headway through SWAPs, budget support and debt relief arrangements, the need for separate project management units (PMUs) should also gradually fall. There are schemes by which several donors pool their contributions for salary increments and other incentives into a common fund that is managed by government. A workable framework for such has been provided by the Selective Accelerated Salary Enhancement Scheme, adopted in Tanzania in 2002. However, such schemes cannot be effective if few donors are willing to pool their contributions and if individual topping-up continues, often through PMUs."

III. UNDP Policy

8. UNDP adheres to the JCGP policy on contracting government personnel, which disallows direct payments to government staff for their additional work contributions on donor supported development projects. This should not be confused with the standard practice of hiring nationals as UNDP staff, management or technical expertise with UNDP.

⁵ Harmonisation of programme cycles and programme procedures among members of the Joint Consultative Group on Policy, DP/1993/27, March 1993.

⁶ <http://content.undp.org/go/userguide/results/project/initiating.en#additional%20information>

⁷ Taken from Capacity Development, Incentive Schemes and Project Management Units, Background Discussion Note, Gus Edgren, Sept 2002

9. The hiring of national expertise from government or other national entity, for staff and/or project positions, can be conducted under the following conditions and procedures:

- UNDP contracts can only be issued to government personnel if they separate from government service, or have been officially released on special leave without pay. In all these cases, the process and individual hired would have to conform to the process and responsibilities detailed in the UN Staff Rules or UNDP ALD and Service Contract Guidelines as the case may be.
- This means that: a) an independent and competitive selection process was followed; b) the individual hired does not have dual contract status (ie in this case, if on special leave without pay, the full process of formal notification of the release from government service must be obtained prior to issuance of UNDP contract); and c) full functional and reporting allegiance would be to UNDP, ie individuals serving on a UNDP contract serve in their individual capacity and not as a representative of government or other non-UNDP authority.⁸

IV. Principles that define UNDP engagement on a NSSS or NSPS⁹

10. The following principles and procedures are detailed for UNDP engagement on NSSS, where UNDP is asked to engage on the salary supplements to civil service or other government-contracted posts covering direct state functions. They do not cover UNDP programme, operations or policy posts, which would be covered by standard UNDP project contracts and related procedures as detailed in the UN Staff Rules and those governing UNDP ALD and Service Contracts.

- UNDP participation in a NSSS would only be considered within a broader framework of transitional or public administration reforms underway in that country.
- Such an engagement would be preferably within a broader multi-partner arrangement within the country. The partnering roles with government and other international partners should be detailed within a government-donor agreement. Where there is no internationally recognised government presence, such would be covered in an international multi partner agreement.
- This engagement would be driven by UNDP's national capacity development role and support. UNDP would not get engaged purely as a financial transfer mechanism to make direct salary payments to government officials.
- Agreement to initiate and engage on an NSSS would require the formal consultation and approval at the highest national levels, preferably through parliamentary committee, the office of head of state, or designated high level authority.
- In any engagement on national salary supplementation schemes, the risks involved with managing accountability can be high. Therefore, analyzing the associated risk is essential to ensure full transparency of operations and the application of agreed business procedures.

⁸ For more information on the UN's policy on this matter, please see The [United Nations Policy on Payment to Government Staff](#), which highlights the guiding principles when handling this issue. This reference is also stated in the UNDP Programme and Project Management section of the UNDP Programme and Operations Policies and Procedures Guide at <http://content.undp.org/go/userguide/results/project/initiating.en#Additional%20Information>

⁹ The JCGP policy does not make reference to the broader issue of contributing to national salary supplementation schemes as a part of the government's efforts at civil service reform.

- UNDP recommends a pooled fund for salary supplement payments, preferably managed and monitored by a government authority.
- Given exigencies in-country, if government and donors agree that such be an externally managed arrangement for an agreed period of time, then the extent of, and time period for, the participation in such a scheme would be determined by the national civil service reform agenda. The process and schedule for national wage reform would be linked to take over from such an externally supported scheme.
- In order to ensure consistency of approach by the international community involved in supporting an NSSS, such should be pursued where possible through the national aid coordination mechanism. Such a consultative mechanism would establish standards, operating procedures, approval and monitoring mechanisms.
- A capacity development strategy for the deepening and retention of capacities would not rely or focus on monetary incentives alone. An NSSS would be applied together with non monetary incentives, such as training, short term fellowships, learning exchanges, introduction of a merit based recruitment system, transparent performance management systems and so on. Existing and new non monetary incentives should be encouraged and applied simultaneously.
- The time bound nature of such a scheme, with a mandated exit strategy and the transparency of information around it, are essential characteristics for UNDP engagement.¹⁰

V. UNDP Procedures that apply in the context of National Salary Supplementation Schemes (Scenario Two)

11. Where UNDP is requested and agrees to engage on an NSSS to support civil service posts, it would do so under an agreed UNDP project document that supports that part of the overall national reform process.¹¹ This is the legal basis for agreement and transfer of such payments to government, who in turn would pay those civil servants under government contracts.

- a) If using the national execution modality¹², the UNDP CO would transfer the monies agreed to support salary supplements to government, as an advance, and the government authority pays the recipients.
- b) If the project is under UNDP direct execution¹³, and has to cover core government functions, then those national salary lines would be sub contracted to a government implementing agent for contracting and payment through them. The government implementing agent would use own contract modalities, the terms and conditions agreed to with UNDP. If special circumstances warrant UNDP services in this regard, refer Scenario Three, Part B (page 5).
- c) UNDP, together with the other involved partners, would conduct a risk and capacity assessment prior to formal agreement to these roles and functions, to make certain minimum standards are in place and/or are being developed to ensure transparency of operations and the application of agreed business procedures.

¹⁰ For more details on defining, managing and monitoring an exit strategy, refer *UNDP Practice Note on Capacity Development in Transition Situations*, September 2007

¹¹ Given the essential feature of government ownership and lead on this issue, only NEX and DEX modalities are considered in this Note. For agency or NGO execution, such will be reviewed on a case by case basis by the respective Regional Bureau and Executive Office.

¹² Or national implementation under the harmonized arrangements

¹³ Or direct implementation under the harmonized arrangements

- d) Salary supplements would be linked to specific functions or jobs, and not to individuals. They would be a part of institutional transformation and based on accepted national job classifications. The (re)definition of roles and functions that warrant the higher pay scales must be clearly justified, with clear lines of accountability and results, which would define the performance based results tied to the NSSS.
- e) Recruitment for these jobs would be carried out under the given national contracting procedures. UNDP would not be accountable for this process or its results.
- f) Exit strategies are a mandatory requirement for engagement in an NSSS, to be continuously monitored with all relevant national and international partners engaged.
- g) A public information campaign would accompany the scheme, and support provided by international partners to it, to ensure full transparency of the process and public access to information on the NSSS.
- h) Approval by the Office of the Administrator and respective Regional Bureau is required.

VI. UNDP Procedures that apply in the context of National Salary Payment Schemes (Scenario Three)

12. UNDP conditions and procedures that apply in providing a direct management service for government salary payments, using government contracts: In a limited number of crisis and post conflict country situations, where government is as yet unable to provide the required administrative and management support to ensure the payment of such salaries, they may request UNDP to make these payments directly to the recipient on government contract.

- a) Such an arrangement must be part of an international partner agreement, wherein the participating partners agree that UNDP would undertake the role of implementing agent at the request of the national and international partners involved.
- b) UNDP would carry out this role as a direct management service, or as a support to a national implementing agent, provided that these terms are clearly specified in a project document or in a Letter of Agreement between Government and UNDP for country office support services attached to the project document.
- c) UNDP, together with the other involved partners, would conduct a risk and capacity assessment prior to formal agreement to these roles and functions, to make certain minimum standards are in place and/or are being developed to ensure transparency of operations and the application of agreed business procedures.
- d) Such a role would be taken on for a limited duration, to be specified in the above Agreement between the parties concerned.
- e) Such government jobs would still be covered under government contract with the existing national authority. They would not be UNDP contracts.
- f) Recruitment for these jobs, if required, would be done under national contracting procedures. If in a given post conflict situations this is not immediately feasible, an agreement on identifying the best candidates for key posts will be made in consultation with the partners involved, until such time as a national competitive process of recruitment can be pursued.
- g) Exit strategies, including for direct hires so open competition for posts can be introduced, must be continuously monitored with all relevant national and international partners involved.

- h) A capacity development strategy to hand over these public payroll management functions to the agreed national authority, must be implemented as part of the agreement and exit strategy to ensure appropriate hand-over.
- i) Approval by the Office of the Administrator and respective Regional Bureau is required.

13. UNDP procedures that apply in providing a direct management service role for government salary payments, using UNDP contracts: There would be a very small number of complex crisis/emergency situations where the breakdown of the state apparatus results in no legitimate government in power at a given period of time. Such situations require special emergency measures to keep the basic functioning of a state moving through the provision directly of specific services. In the absence of a legitimate national implementation authority, the direct implementation project modality allows for UNDP to ensure direct payment of salary to an agreed group of civil servants. In such a situation, such must be a part of an international multi partner agreement, where UNDP would undertake the role of implementing agent, if so asked by the national and international partners involved. This must be formalized in a project document or Letter of Agreement attached to the project document accordingly.

- a) UNDP can issue a limited-period service contract, for a maximum period of one year, with a review thereafter through the agreed UN system modality, where government contract modalities are absent, as an interim measure and make direct payments accordingly. It must be stressed that such would only be for special crisis/complex emergency situations, and in the short term, until such can be transferred onto formal government contracts and payroll.
- b) UNDP would carry out a risk assessment prior to formally signing on to such a management role, followed by the close monitoring and auditing of the agreed salary payments under UNDP audit and financial procedures.
- c) Recruitment would be conducted as per UNDP rules and procedures.
- d) UNDP would monitor a personnel data base for staff hired, document all processes followed and monitor personnel records as per standard UNDP regulations.
- e) The responsibility for performance and results review and monitoring would be done through a multi-partner agreement/board that would oversee essential public service functions during this interim period.
- f) Such an arrangement would be for a limited time duration of not more than two years, with exit strategies and hand-over to national authorities monitored closely during this period. If special circumstances require that such an arrangement go beyond the given two years, such must be clearly justified and agreed to by all parties involved.
- g) Approval by the Office of the Administrator and respective Regional Bureau is required.