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PROGRAMME PLANNING AND IMPLEMENTATION

Multilateral coordination and complementarity

Report of the Administrator

SUMMARY

The role of UNDP and of multilateral financial institutions has changed significantly in the recent past. The division of labour provided in their mandates is no longer clear as regards activities at the country level. Their relationship is affected by differences in structure, mode of organization and perceptions. At the global level there is now a trade-off for UNDP between greater decentralization of its programmes and participation in global initiatives. Therefore, UNDP must select global and regional issues in accordance with country-level priorities. Future relations between UNDP and multilateral financial institutions should be neither adversarial nor overly accommodating but, rather, should be based on the best use of UNDP comparative advantages, excellence in design and delivery of technical cooperation for capacity-building and more effective and extensive cooperation with the specialized agencies of the United Nations system.

## I. BACKGROUND AND INTRODUCTION

1. Governing Council decision 92/15 of 26 May 1992 requested the Administrator "to strengthen further the interaction of UNDP at all levels with other development institutions, including international and regional financial institutions, in order for the institutions to establish the greatest possible coordination, avoidance of duplication and best use of comparative advantage in technical cooperation, within the overall context of the national development priorities of recipient countries".

2. A study was undertaken to review the changing mandates of UNDP and multilateral financial institutions, to analyse present relationships and to recommend measures to improve the degree of complementarity and coordination. The study involved a desk review and interviews with 65 officials of UNDP, the World Bank, the International Monetary Fund (IMF) and the Inter-American Development Bank (IDB).

3. The present document draws upon this study as well as upon the following reports: Joint Inspection Unit, United Nations System Cooperation with Multilateral Financial Institutions, 1992; Danish International Development Agency, Effectiveness of Multilateral Agencies at Country Level, 1991; The United Nations in Development: Reform Issues in the Economic and Social Fields: A Nordic Perspective ("the Nordic UN Project"), The United Nations in Development, 1991; UNDP Regional Bureau for Africa and Development Alternatives Incorporated, Rethinking Technical Cooperation: Reforms for Capacity-Building in Africa, 1993; UNDP Regional Bureau for Africa, Capacity-Building and Technical Cooperation: Managing the Connection, paper prepared for the National Technical Cooperation assessment and programmes (NATCAP) technical workshop, June 1992; and the World Bank Technical Assistance Review Task Force, Managing Technical Assistance in the 1990s, 1991.

4. The present document contains three sections. The first discusses the changing role of UNDP and multilateral financial institutions at the country level. The second discusses roles and collaborative arrangements at the regional and global level, as well as lessons learned. The final section presents conclusions. Annexes provide additional data concerning the scale and type of collaboration.

## II. CHANGING ROLES OF UNDP AND MULTILATERAL FINANCIAL INSTITUTIONS AT THE COUNTRY LEVEL

5. The original mandates of multilateral development institutions provide a clear division of labour among agencies. The mandate of UNDP is to provide technical cooperation to support capacity-building for self-reliant development, with United Nations specialized agencies supplying technical inputs, usually as executing agencies.

6. The mandate of the World Bank and of the regional development banks, on the other hand, is to channel financial resources to developing countries to help raise their standards of living. The mandate of the IMF is to promote an open trade and payments system and exchange rate stability and to provide short-term

financial assistance to countries experiencing balance-of-payments disequilibrium.

7. Despite the clarity of these mandates, the roles of the various institutions have been changing in response to major political and economic transformations world wide.

8. At the country level, despite these changes, the roles of multilateral financial institutions and of UNDP remain distinct in concept. To a considerable extent, the World Bank and regional development banks continue to provide loans for capital investment projects. In addition, and of increasing importance since the early 1980s, the World Bank and IMF undertake negotiations with Governments on macroeconomic and sectoral policy issues, in which the priorities of national Governments and those of the World Bank and IMF are reconciled.

9. On the basis of these negotiations, capital assistance is made available in the form of sectoral or programme loans. Although the World Bank and the IMF take national priorities into account, there are key requisites upon which the institutions insist, largely concerning macroeconomic stability.

10. The role of UNDP, on the other hand, is to support Governments in building national capacity for self-reliant development. Although the introduction of the six themes in Governing Council decision 90/34 of 23 June 1990 has given greater focus to UNDP activities, UNDP does not insist on predetermined conditions. Although capacity-building activities are more likely to succeed in conditions of macroeconomic stability, their success is not absolutely dependent upon it.

11. The roles of aid coordination institutions should, then, be as follows: the World Bank coordinates financial assistance on the basis of negotiated policy conditions, and UNDP coordinates technical cooperation, with no policy conditions attached.

12. This conceptual distinction is less clear in operational terms, partly because there has been a convergence of focus by multilateral institutions on macro-level policy issues, and partly because the World Bank and regional development banks have become development institutions and have recognized that the development process requires both capital and technical cooperation. Thus the World Bank has increasingly undertaken technical cooperation aimed at institution-building, rather than confining its technical cooperation to activities directly in support of loan-funded capital projects.

13. Therefore, the division of labour among agencies based on the differences between capital assistance and technical cooperation is no longer clear-cut. For example, in the area of macroeconomic policy and management, although UNDP is not a party to the negotiations between Governments and the World Bank and IMF, it can play a key role in strengthening the negotiating capacity of Governments and their ability to make rational and informed policy choices.

14. Furthermore, the packaging of capital assistance and technical cooperation has contributed to blurring the division of labour among agencies. Grant-funded technical cooperation has been used in combination with low-funded capital

assistance. This practice may lead to a softening of the financing terms for a project, but can also undermine the effectiveness of both the technical cooperation and capital assistance.

15. The conceptual distinction is also less apparent in the context of the adoption of a programme approach by donors, in which support is provided for a national programme rather than for a defined project with specific inputs in the form of capital assistance or technical cooperation. In the context of programme-based assistance, the distinct contribution and impact of capital or technical cooperation, or of each donor, may be less discernible.

16. In addition, the increasing tendency to provide programme-based assistance has inevitably involved donors in discussions of policies and their implications and, hence, has introduced a new dimension to conditionality. The programme approach also necessitates much greater donor coordination than before.

17. The absence of clarity concerning the division of labour among agencies in operational terms means that the actual roles played by UNDP and multilateral financial institutions are determined by prevailing conditions in a country, that is, the relative strengths and capacities of the agencies, the preferences of Governments and the initiatives of the major players, including bilateral donors.

18. It also implies that agencies are subject to some degree of competition, even though the choice made by Governments between round-table conferences and Consultative Group meetings should minimize competition. An agency's role in aid coordination depends in part on the confidence of the Government in the agency's effectiveness in resource mobilization. This is not considered the strongest asset of UNDP even by Governments that have opted for the round-table process.

19. In reviewing the relationship between UNDP and multilateral financial institutions at the country level, the experience varies from region to region, from country to country and from project to project.

20. UNDP cooperation with the IMF has focused on assisting developing countries to build their capacity for sound macroeconomic policy formulation and management and to establish necessary financial institutions. For the most part, the IMF has acted as executing agency for UNDP-funded projects. In addition, there have been joint training programmes in macroeconomic management and design of structural adjustment programmes. In the context of providing support for managing economic transition and macroeconomic reform, UNDP may have to develop and focus its cooperation with the IMF and other specialized agencies active in this area.

21. In Africa, where there has been the most marked shift to policy-based lending as a response to the multiple crises faced by the region, there has been increasing reliance on the structural adjustment programme as the primary tool of economic management. This has changed the relationship between UNDP and multilateral financial institutions, as well as with Governments. The limited capacity of UNDP to mobilize resources for Africa from other sources and its relatively limited policy analysis capacity has curtailed its role at the

macroeconomic level, while the World Bank and IMF, in particular the World Bank, have extended their scope, importance and recognition.

22. UNDP cooperation with the African Development Bank (AfDB) covers a wide range of development issues, with AfDB acting as executing agency for regional projects in such areas as support for women entrepreneurs, energy and a feasibility study for the establishment of an African export-import bank. During the fourth Cycle, UNDP-financed projects executed by AfDB amounted to \$6 million. The relationship is limited partly because of the comparative advantage of AfDB and its lending portfolio are concentrated in the areas of construction and infrastructure, while UNDP-supported activities have been shifting away from these areas.

23. In the Arab States region, the World Bank is increasingly involved in policy-based lending. In most of these countries, UNDP collaboration is limited to supporting the Consultative Group process by providing information on technical cooperation needs. In one country, UNDP is successfully collaborating with the World Bank to implement major economic reform and to minimize the negative social impact of adjustment.

24. There is a marked trend in the region towards cooperation in emergency-prone countries, where the World Bank and UNDP are cooperating in identifying rehabilitation needs. In some least developed countries in the region, both UNDP and the World Bank are involved in a dialogue with donors and national authorities on policy issues and resource mobilization requirements.

25. In Asia and the Pacific there are fewer structural adjustment programmes, and given the higher level of technological development as compared with Africa, World Bank assistance focuses on project preparation and feasibility studies which in general have not been controversial. The World Bank role in project execution is declining in the region, as national execution increases. UNDP could play a more influential role in the region if it had a stronger capacity for policy analysis.

26. UNDP cooperation with the Asian Development Bank (AsDB) covers almost all sectors, with particular focus on agriculture, forestry, fisheries and natural resources. UNDP-financed projects executed by AsDB during the fourth cycle amounted to \$21 million. The relationship is changing as a result of the growing trend towards national execution in the region, and as a result of the greater focus of UNDP activities on fewer areas of activity.

27. In Latin America and the Caribbean, given the region's strong capacity for policy analysis and also given small indicative planning figures (IPFs), the role of UNDP has been to assist Governments in the management of borrowed funds. UNDP maintains close relations with Governments and commands credibility and acceptability.

28. The relationship of UNDP with IDB covers broad issues based on formal and informal arrangements. An agreement between the two institutions in 1990 provided for cooperation in the sharing of information and in the identification, preparation, financing and execution of technical cooperation. IDB no longer participates in project execution in the region, and much of UNDP/IDB cooperation is conducted by means of Management Service Agreements, in

which UNDP facilitates the timely and effective utilization and disbursement of IDB loans by Governments.

29. Certain issues arise from the differences in structure and mode of organization of UNDP as compared with multilateral financial institutions, in particular the World Bank.

30. The World Bank is highly centralized, with major decisions made at headquarters, whereas UNDP is very decentralized, with authority for decision-making increasingly given to field offices. Thus, relations built at the field level do not necessarily translate into substantive, mutually satisfactory cooperation in the context of country-level activities as a whole. Development of relationships between UNDP field offices and the country operations department at World Bank headquarters is required. This is not always logistically feasible and does not always lead to compatibility in assessment of the national situation.

31. Even though World Bank assessments are based on missions to a country, the final decisions and judgements are made by senior managers at headquarters, while in the case of UNDP assessments as well as operational decisions are increasingly made by field offices.

32. World Bank resident missions facilitate the work of missions from headquarters, but unlike UNDP they have limited authority to intervene directly, make decisions on project matters or provide supervision and technical assistance. With the increasing emphasis on policy-based lending, involving continuous dialogue with and support to key government officials and politicians, there can be disadvantages in concentrating activities and decision-making at headquarters. The World Bank Technical Assistance Review Task Force recognized that technical assistance is intrinsically more difficult and laborious than capital assistance. The Task Force concluded that "It is no accident that aid agencies specializing in technical assistance, including UNDP, maintain a heavy field presence".

33. These organizational differences have implications for the effective provision of technical cooperation aimed at long-term capacity-building. This is an area of great institutional complexity and a strong, permanent, professional country presence is a necessary condition for success. This presence may not require long-term expatriate project personnel but can be built by the UNDP field office in cooperation with national expertise. The ability of UNDP to develop networks and make effective use of its extensive field presence will be a major factor in the evolving division of labour between UNDP and the World Bank.

34. Aside from differences in the structure of the organizations, there are also differences in perceptions, attitudes and work culture which at times have reduced the degree of effective coordination and cooperation among the agencies. The mutual perceptions and attitudes may or may not be well founded, but since they have an impact on working relationships, they present a set of managerial problems which need to be resolved by the institutions.

### III. RELATIONSHIPS BETWEEN UNDP AND MULTILATERAL FINANCIAL INSTITUTIONS AT THE REGIONAL AND GLOBAL LEVEL

35. At the regional and global level, many development issues require the mobilization of resources, expertise, research networks, forums for debate and media presentation on a massive scale. UNDP has worked with the World Bank and with the donor community in many areas of global concern, including the Global Environment Facility, the Energy Sector Management Assistance Programme, the International Drinking Water Supply and Sanitation Decade, the Urban Management Programme, the Consultative Group on International Agricultural Research and the Onchocerciasis Control Programme. At the regional level there are such joint activities as the African Capacity-Building Initiative, Social Dimensions of Adjustment and National Long-Term Perspective Studies (also in the Africa region).

36. These examples of collaboration have had some significant success, and in general they have enabled both UNDP and the World Bank to bring their accumulated experience to bear upon major development problems. These have become increasingly important areas of activity for UNDP.

37. The World Bank has the capacity to take a leadership role in development issues of global concern, with 4,411 core professional staff, approximately 4,000 of whom are located in Washington, D.C. Of this number, 978 are technical specialists and 830 economists, with 261 professionals engaged in economic research and 260 in sector policy analysis.

38. In comparison, the ability of UNDP in this domain is extremely limited, both in financial terms and in terms of in-house professional staff. This is likely to decrease further as a result of UNDP efforts to cut costs and become more field-based and decentralized. Thus, there are tradeoffs which need to be addressed explicitly to determine how far UNDP can participate in and devote resources to major global issues, and if this is in conflict with increased devolution to the field and efforts to shrink headquarters staff to provide more substantive backstopping for field offices.

39. The resolution of this contradiction will inevitably enable UNDP to define more sharply its particular areas of focus. As indicated in "The Efficiency of Programming and the Comparative Advantages of UNDP" (DP/1993/28), it will be necessary for UNDP to develop substantive comparative advantages which reflect the areas of focus of country programmes and to concentrate its professional resources on building excellence in these areas. In other areas, while UNDP will continue to manage technical cooperation, it will not have the capacity to play a more substantive role.

40. The areas of focus which are emerging as priorities in the fifth cycle country programmes are as follows: economic management and public sector reform; social development, poverty alleviation and community participation in development; environmental protection and sustainable natural resource management; and productive capacity, involving technology transfer and support for the development of the private sector. There are also important cross-sectoral themes, most notably in the areas of gender in development and control of the human immunodeficiency virus/acquired immune deficiency syndrome (HIV/AIDS).

41. Thus the global and regional issues in which UNDP continues to participate reflect increasingly the areas which are emerging as major priority concerns at the national level. This will enable UNDP to provide more effective and relevant technical backstopping to field offices and to inject the global experience of UNDP into debate and analysis.

#### IV. CONCLUSIONS

42. The erosion of the clear-cut division of labour between UNDP and multilateral financial institutions can be seen as an opportunity as well as a problem. Present arrangements are not optimal, as there is a growing disparity between formal mandates and national realities. In part this has arisen because donors have not always adopted consistent approaches, nor have resources been allocated in accordance with a coherent donor strategy for the division of labour among institutions.

43. In addressing the concern of the Governing Council to strengthen further the interaction of UNDP with other development institutions and to establish the greatest possible coordination, avoidance of duplication and best use of comparative advantage in technical cooperation, there are two possible approaches, based either on a new division of labour or on competition.

44. The approach based on a new division of labour would involve a redefinition of the functions and responsibilities of each agency, by sector and region. Functions and strategic priorities would be determined jointly by the Governments of donor and recipient countries. This would minimize competition and overlap and define the "territory" of each agency.

45. This approach is not easy to implement. Such compartmentalization has not succeeded in the past, and a lack of competition can lead to inefficiency and low professional standards because of the monopoly position of specialized institutions. Governments are confronted with a single source of expertise in particular areas, rather than having access to a range of alternatives. Furthermore, certain activities inevitably receive less attention because they are not the responsibility of any particular institution. In addition, synergy, linkage and complementarity would be less powerful forces in the relationship among agencies.

46. The approach, based on competition, while stressing the need for coordination and complementarity, involves the acceptance of a market in technical cooperation services, in which the United Nations system must compete with multilateral financial institutions, governmental and non-governmental institutions, bilateral agencies, universities and research institutions. The technical cooperation market is highly imperfect, and there is at present no accepted set of rules by which development agencies operate.

47. The existence of alternatives among which recipient Governments can choose will improve the quality and effectiveness of technical cooperation. However, conditions must exist under which the market for technical cooperation functions more effectively, where the players in the market agree on explicit rules and where systematic support is provided for Governments to make rational choices among alternatives.



48. The market for technical cooperation is one in which costs and prices play only a marginal role in the determination of supply and demand and buyers have very limited rights to choose the quality and mix of inputs. This is because technical cooperation is combined with capital assistance; procurement is tied; and the ability to substitute technical cooperation from different sources is assumed to be low.

49. The wide variety in the price of technical cooperation services from different sources, for example, requires Governments to assess whether the difference is warranted by real differences in quality of service and level of technical expertise. The capacity to make such choices is an important element in the management of technical cooperation.

50. A key role for UNDP in this context is to continue to strengthen national programming, including the ability of Governments to plan and manage technical cooperation, to ensure the coherence of technical cooperation with national plans and programmes and the optimal utilization of national as well as external expertise and other resources. This will require a more satisfactory resolution of such conceptual issues as the problem of determining the value of technical cooperation in light of its general lack of fungibility.

51. In contributing to a more rational and effective use of technical cooperation by recipient countries, it is imperative that UNDP develop cost-effective and flexible modalities for programming and designing technical cooperation where, along with United Nations agencies, it has a comparative advantage. It is only through improved quality and effectiveness in the design and management of technical cooperation that UNDP can regain a central position in this arena.

52. Therefore, UNDP's relationship with multilateral financial institutions should neither be adversarial nor overly accommodating, but, rather, should be based on the best use of its comparative advantages, in particular those derived from its field presence in virtually all countries. In order to be competitive, UNDP should develop a more focused approach in areas in which it has or can develop a comparative advantage. In-house analytical and policy advisory capacity are crucial factors for success. This should be bolstered by strengthening the information network and building a roster of consultants of extremely high calibre.

53. While cost-sharing and management service agreements are useful modalities of cooperation and should be continued in the future, UNDP should review existing collaborative arrangements in order to ensure that national priorities are met more effectively.

54. The threat to UNDP that multilateral financial institutions, in particular the World Bank, pose cannot be reversed through institutional rearrangements or negotiations, but only through improving the effectiveness of UNDP operations.

55. The primary objective of UNDP should remain capacity-building in developing countries, but in the process of achieving this goal, UNDP should be able to compete in the supply of technical cooperation services. Therefore, UNDP should clearly identify its comparative advantages in a dynamic context and should collaborate with other agencies within the United Nations system to do so. This

will be the basis for redefining relationships with multilateral financial institutions.

56. The relationship between UNDP and the United Nations specialized agencies is an important factor in this endeavour. UNDP should forge new relationships and re-establish mutual confidence in order for the United Nations system to regain its position as a centre of excellence in areas of specialization. In the new era involving national execution and a new focus on thematic, multisectoral approaches, it will be necessary for the specialized agencies as well as UNDP to change. If Governments so wish, the country strategy note will provide the framework within which coordinated support to national programmes will be developed.

57. In such areas as macroeconomic management, prevention of HIV/AIDS, gender in development, private-sector development, environmental sustainability, forest management and the protection of biodiversity, the ways in which agencies cooperate in pursuit of national programmes must be transformed. In this transformation, the role of UNDP will become more focused in order to forge a close alliance among agencies which can effectively support the achievement of national development objectives.

Annex I

UNDP/OFFICE FOR PROJECT SERVICES COOPERATION WITH MULTILATERAL  
FINANCIAL INSTITUTIONS

1. The following describes the status of operations and the variety of mechanisms through which UNDP/Office for Project Services (OPS) cooperates with multilateral financial institutions in project implementation.

I. MANAGEMENT SERVICE AGREEMENTS

2. UNDP/OPS has 65 active or recently completed Management Services Agreements (MSAs) to support government execution of World Bank loans, under which OPS provides management and other support services. The MSAs have a total combined budget of \$180 million, of which \$20 million was spent in 1992, \$58 million in previous years and \$102 million remains to be spent.

3. OPS has six active or recently completed MSAs to support government execution of IDB loans. These MSAs have a combined total budget of \$51 million, of which \$2 million was spent in 1992, \$13 million in previous years and \$36 million remains to be spent.

4. There are no MSAs with AsDB or AfDB.

II. UNDP/OPS AS ASSOCIATED AGENCY

5. UNDP/OPS has agreed to act as associated agency, providing specified services, for six UNDP projects where the World Bank is the executing agency. Three of the projects are in the water sector and are located in Nigeria and Pakistan. Two regional projects in Africa and a project in Uganda deal with more general economic planning. The total value of these projects is \$3,766,711, of which \$288,000 remains to be disbursed.

III. OPS AS EXECUTING AGENCY

6. UNDP/OPS serves as executing agency for two World Bank-funded forestry projects (funded through third-party cost sharing) valued at \$220,621. Additionally, under the fund "World Bank as trustee of the Global Environment Facility", UNDP/OPS executes one global and one interregional project, the total budget for which is \$2,966,000.

IV. WORLD BANK AS ASSOCIATED AGENCY

7. Since 1988, UNDP/OPS has engaged the project implementation services of the World Bank through 27 inter-agency agreements. The total value of these inter-agency agreements is \$4,045,389.

## Annex II

### SELECTED EXAMPLES OF COOPERATION BETWEEN UNDP AND THE WORLD BANK AT GLOBAL AND SECTORAL LEVELS

#### I. AREAS OF COOPERATION

In the 1980s, joint programmes were initiated where the World Bank, UNDP and a specialized agency of the United Nations agreed to work on a global issue. The most important ones were the following:

##### Addressing global problems and issues

- (a) Global Environment Facility
- (b) Energy Sector Management Assistance Programme
- (c) International Drinking Water Supply and Sanitation Decade
- (d) Urban Management Programme

##### Promoting global scientific knowledge and understanding

- (a) Consultative Group on International Agricultural Research
- (b) Onchocerciasis Control Programme

##### Addressing sectoral and regional problems

- (a) African Capacity-Building Initiative
- (b) National Long-term Perspective Studies
- (c) Social Dimensions of Adjustment

##### Coordinating the Donor Community

- (a) Round-table Conferences and Consultative Group meetings
- (b) National technical cooperation assessment and programmes

#### II. COOPERATION WITH OTHER AGENCIES WITHIN THE WORLD BANK GROUP

##### UNDP and Economic Development Institute

- (a) Joint training programmes in pre-investment work
- (b) Macroeconomic management
- (c) Design of structural adjustment

UNDP and International Finance Corporation

- (a) Caribbean Project Development Facility
- (b) African Project Development Facility
- (c) Asian Foreign Direct Private Investment Programme

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