

**Synthesis Report: Findings and Recommendations from a Seven Country Study of UN  
Engagement in Poverty Reduction and National Development Strategies \***

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**The United Nations Development Group**  
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\*The findings, interpretations, and conclusions expressed in this paper are entirely those of the author. They do not necessarily represent the views of the UNDG Working Group on MD/MDGs.

# **Synthesis Report: Findings and Recommendations from a Seven Country Study of UN Engagement in Poverty Reduction and National Development Strategies**

## **Executive summary**

This paper reviews the role of the United Nations Country Teams (UNCTs) in Poverty Reduction Strategy Paper (PRSP) processes and, more broadly, in National Development Strategies (NDS). The central focus is on PRSPs. The paper draws on a set of seven country papers that were at the centre of the study – Azerbaijan, Honduras, Laos, Malawi, Mongolia, Uganda and Zambia. The paper is designed to examine how UN agencies can reposition themselves to maximise their comparative advantage to assist effectively and strategically the national development process. In addition to the seven country studies the paper is based on a literature review and meetings or conversations with UN regional staff and HQ staff in Geneva, Rome and New York, including the UNDG Working Group on MD/MDGs which commissioned the research.

The two important contexts for the study are UN reform and aid architecture reform. Through these, the practice of PRSPs is becoming more strongly rooted in domestic ownership of both process and content. This has been helped by linking PRSP processes to longer term plans for MDG attainment in NDS.

The country experience demonstrated that internal UN coordination issues are being increasingly effectively addressed. The detailed guidance available on UNDAF, especially on locating it in NDS/PRS, is widely understood even where PRSP processes have run into the sand. However, there has been less progress on the engagement with the wider aid reform agenda, represented in the processes around the Paris Declaration. One of the key points emerging from the country research was the need for UNCTs to locate their engagement in PRSP processes more strategically in this wider reform agenda.

There is increasingly widespread understanding within the UN of the links between the internal UN reform process and wider processes of harmonisation and alignment around national development strategies. This is not only true for the initial ‘one UN’ countries. The pace of change is uneven and for the more progressive UNCTs, their engagement in PRSPs/NDS is already well developed along the lines of the related recommendations.

The recommendations here are responsive to the finding that the PRSPs require stronger UN support and leadership on the wider reform of aid delivery. A general theme of this report, informing many of the recommendations, is to examine more strategically the links between the two reform agendas and UN programming practices. The UN family is uniquely placed to support National Development Strategies and PRSP processes. Stronger UN engagement in PRSPs, on content and process, should be directed to increasing their effectiveness as instruments to guide public investment for poverty reduction.

### **Main recommendations**

- The UN and the BWIs should jointly acknowledge the progress made in improving PRS processes. They should signal their complementary roles more aggressively from HQs and provide more systematic and public assessment at country-level of their partnership arrangements around PRSPs.
- A more generic set of guidelines ‘Good Partners in National Development Processes’. This should lay out the relationships between UN reform processes and the wider reforms of the aid architecture.

- Urgent attention is given to clarifying UNCT roles in DBS processes.
- Paris Declaration principles should be applied at the UNCT-level. UNCTs, through RC reports and in UNDAF reporting, would cover the totality of UN country engagement and provide an assessment of strengths and deficiencies in relation to those Paris principles.
- RCs should report explicitly, and in a structured way, on how the UN is contributing to the wider aid reform agenda, seek to identify gaps in the reform process and specify UNCT comparative advantage in H&A processes.
- Stronger country-based analytic work on the weaknesses of PRSPs, both to strengthen the impact of UN engagement in PRSP processes and to strengthen the poverty focus of the PRS process itself.
- UNCTs consciously identify how they can support different NGO roles based on a strategic assessment of which roles should be prioritised for the PRSP and MDGs and of how civil society strengthening can most effectively support these roles.
- UNCTs should build on its experience with MDG costings and take advantage of the current debate on fiscal constraints to offer coherent country-level support to budgeting processes in relation to the attainment of the MDGs. This must be developed through existing country processes -sector working groups for example – and must be housed and conducted within the relevant line ministries. It is vital to engage technical and specialised agencies in addressing costing issues and debates on fiscal constraints especially with regard to MDG specific sectors like health, education, agriculture.

#### **Further recommendations**

- Best practice on support to sector programming is documented, shared and mandated for UNCTs.
- The demand-driven role of regional offices in support of UNCTs be more clearly specified and determined more clearly by UNCT engagement in national policy processes.
- Ensuring local awareness of the probable costs to the MDGs, of donor or government intransigence on financing should be part of the UNCT strategic approach to enhanced MDG resourcing.
- Examine opportunities to reduce transactions costs through greater convergence between UNDAF thematic processes and government-managed sector processes connected to the PRSP.
- UNCTs should use their brokering role to strengthen the quality of policy dialogue in sector-related planning and programming for PRSPs.
- Share best practice on internal UN coordination; country experience demonstrated that internal coordination issues are being increasingly effectively addressed.
- More systematic attention is given to alignment of reporting on the internationally agreed development goals including the MDGs with PRS/NDS monitoring.

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## Acronyms and abbreviations

BWIs	Bretton Woods Institutions
CCA	Common Country Assessment
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
DaO	Delivering as One
DGO	Development Group Office
DBS	Direct Budget Support
ExCom	Executive Committee
FAO	Food and Agriculture Organization
H&A	Harmonisation and Alignment
HIPC	Heavily Indebted Poor Countries
HRBA	Human Rights Based Approach
HQ	Head Quarters
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
JAS	Joint Assistance Strategy
JSA	Joint Staff Assessment
MD	Millennium Declaration
MDG	Millennium Development Goal
MTEF	Medium Term Expenditure Framework
NDS	National Development Strategy
OECD/DAC	Organization for Economic Co-operation and Development / Development Assistance Committee
PREM	Poverty Reduction and Economic Management
PRGF	Poverty Reduction and Growth Facility
PRS (P)	Poverty Reduction Strategy (Paper)
RC	Resident Coordinator
SWAps	Sector-Wide Approaches
UNAIDS	Joint United Nations Programme on HIV/AIDS
UN	United Nations
UNDAF	United Nations Development Assistance Framework
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFPA	United Nations Population Fund
UNICEF	United Nations Children Fund
WFP	World Food Programme

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## **Synthesis Report: Findings and Recommendations from a Seven Country Study of UN Engagement in Poverty Reduction and National Development Strategies**

### **Introduction – Research purpose and methods**

1. This report reviews the role of United Nations Country Teams (UNCTs) in Poverty Reduction Strategy (PRS) processes and, more broadly, in National Development Strategies (NDS). The central focus is on PRS. The study was commissioned by UNDG partly in response to a concern that UNCT engagement in PRSPs was rarely mentioned (World Bank and IMF 2005). An earlier report (UNDG 2003a) on this issue focused on ways in which the UN system could improve its effectiveness but did not look at successes, weaknesses, and problems faced by UN country teams. This paper is designed to examine how UN agencies can reposition themselves to maximise their comparative advantage to assist effectively and strategically the national development process – the Annex has the Terms of Reference for the study. This paper draws on a set of seven country papers that were at the centre of the study – Azerbaijan, Honduras, Laos, Malawi, Mongolia, Uganda and Zambia. As of 31 August 2007, according to the IMF and World Bank websites, 65 countries had completed an I-PRSP or PRSP.

2. In addition to the seven country studies, the paper is based on a literature review and meetings or conversations with UN HQ staff in Geneva, Rome and New York, including the UNDG Working Group on MD/MDGs which commissioned the research. We also spoke with staff at the Oslo Governance Centre (UNDP) and UNDP Regional staff in Bangkok and Colombo. Prior to the country studies, a one day workshop was held at IDS with the seven IDS researchers to discuss a short desk review undertaken and develop an approach to country work. The workshop included a presentation and discussion led by Richard Jolly who has been advising the IDS staff, and a conference call with UNDG staff in New York who provided further guidance and clarification. Following the workshop, a conversation guide for the country work was prepared. In addition, detailed suggestions were provided by UNDG on the content of country studies with a format around Process, Content and Outcomes in relation to UNCT engagement in PRS/NDS. The purpose of this paper is to draw findings and recommendations from this body of work. It is expected to be a contribution to the updating of the ‘Guidance Note on UN Country Team Engagement in PRSPs’ (UNDG 2003b).

3. The seven country studies took place between April and June 2007 and involved research staff employed by IDS usually together with an expert from an interested UN agency; UNDG, FAO and UNICEF took part. Programmes were arranged by the respective Resident Coordinators’ Offices and UNDG, New York played a central role in facilitating the process. Each visit was for about a week and involved a tight programme of meetings with government officials, UN and other international development partners and with stakeholders in civil society, ending in a review session with the UNCT. The draft country reports were circulated to the respective country UNCTs for review before being finalised. These country studies are attached as an appendix to this synthesis report.

4. This paper draws on the country studies selectively to illustrate issues on UN performance in relation to PRSPs. Specifically, even if crudely put, the specialised agencies are in a process of articulating their higher-level national policy engagement which presumes that their direct service delivery is, or should be, increasingly conditional upon *prior* engagement in sector strategies and budgeting. The PRSP is often the focus for this process. Under the Resident Coordinator system in the countries studied, as well as in the wider UN literature,

there is much evidence of impressive progress on this reform agenda. This has led to substantial improvement in the engagement of UNCTs collectively in the PRSP process. But, one of the key points emerging from the country research was the need to understand PRSP processes in the wider reform agenda. The urgency of the internal UN reform agenda is widely understood even where PRSP processes have run into the sand. However, there has been less progress on the engagement with the wider aid reform agenda, represented in the processes around the Paris Declaration. The recommendations here are largely responsive to the finding that stronger UN support and leadership on the wider reform of aid delivery could benefit the PRSP process. There are existing Guidance Notes and related papers from the UNDG and other agencies on the Paris agenda but actual engagement with that wider reform agenda is uneven.

5. The terms of reference require a focus on the integration of the MDGs in the PRSP process and this paper provides that focus. However, as successive UN documents underline and as UNCTs are keenly aware, MDGs have to be a part of a domestically owned agenda – to fall within the framework of the National Development Strategy and the longer term vision where these are developed. A strong message from the research in the seven study countries and from other interviews was the importance of contextualising the MDG agenda in local processes. The adoption of a 9<sup>th</sup> MDG on governance in some countries is an example of this. More broadly, the UN family seeks to support national policy processes in domains determined by their mandates and by their comparative advantages and these extend beyond the specific MDGs, though often indirectly supportive of them. This is an important context for contextualising these study findings. The preferred UN language in goal definition is to refer to the ‘International Agreed<sup>1</sup> Development Goals, including the Millennium Development Goals’, in order to acknowledge the importance of these broader mandates. As UNICEF observed, commenting on an earlier draft of this paper, a fundamental problem with the MDGs is that they are couched in terms of alleviating the worst forms of deprivation and do not capture a national human rights perspective. This tension has been repeatedly referred to in the course of this research and reflects the genuine difficulties of simplifying complex national development strategies and a broad set of human rights into a simple set of measurable targets.

Nevertheless, results-based analysis of aid effectiveness will require a focus on poverty reduction outcomes and the MDGs provide the ones which will have most currency. In International Development Association (IDA)-eligible countries, the PRSP is the now main vehicle for international partnership with government. In these countries, Joint Assistance Strategies (JAS) on aid coordination and delivery are increasingly closely linked to PRSP processes. The articulation of MDGs – which all IDA countries have formally adopted – within the PRSP and its processes is therefore a logical development.<sup>2</sup> This paper examines this model of engagement identifying successful practice and making recommendations for improvement.

6. The first section of this paper gives a contextual account of PRSPs – the global development perspective – and then addresses some important critiques of the PRSP process itself. It is necessary to acknowledge these critiques for their local analysis may often be relevant to understanding how the UNCT engages most effectively in PRSP processes. They

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<sup>1</sup> These were agreed through the Millennium Declaration at the Millennium Summit (2000).

<sup>2</sup> PRSP as the vehicle for partnership will of course only be true for about 70 countries. There are less aid dependent and middle income countries which have large numbers of poor people and likewise there are fragile states in which PRSP processes are either rudimentary or non-existent yet obviously are challenged in achieving the MDGs. The UN agenda is not conditioned by PRSPs in these contexts.



suggest a clear role for the UN family to engage not simply as another partner but to actively support governments in strengthening the content and processes of PRSPs. Part 2 contextualises the study in the UN reform agenda and the wider aid reform agenda. Part 3 develops the findings and recommendations through examination of a model of engagement for the UN in PRSP processes.

### **Part one: The study context – global development perspectives**

7. Superficially, the organisation, since 1999, of enhanced external financing to the poorest countries around *domestic delivery* of PRSPs is attractive. Domestic delivery typically requires some important specific results: a poverty analysis and development of a poverty reduction strategy; the development of annual budgets and a medium term expenditure framework that addresses recurrent and investment needs for implementing the poverty reduction strategy; an inclusive process of developing the budgeted strategy with the active engagement of different civil society stakeholders; development of adequate monitoring linked to the budget and a results-based reporting; and, identifying prior actions often including reform and strengthening of public sector financial management. The pay-off comes in the form of sustained and substantial debt relief, with access to the IMF's Poverty Reduction and Growth Facility and the World Bank's Poverty Reduction Support Credits from IDA. Over 70 of the world's poorest countries are currently eligible and the PRSP process is now used by most DAC members to coordinate their support in these countries.

8. The normative foundations of the PRSP focus on domestic ownership and invoke aspirational appeal to the values of social justice and democracy but its architects were more firmly grounded in the key messages from aid effectiveness research. World Bank-led work had established a 'conventional wisdom' on the recipient country conditions where aid was most effective, which was where sound domestic policies were in place. The research also showed however, that more aid itself had not been a useful vehicle for promoting good policies. The PRSP process is an attempt to get the good policies in place before the aid flows. It replaces the stick of the structural adjustment approach of aid giving conditional on future reforms, and then withholding subsequent aid tranches when these reforms are not forthcoming, with the carrot of assured funding given acceptable policy process around the PRS. Policy reform is a continuous process and in practice of course the PRSP agreements effectively continue conditionalities on policy reforms and macroeconomic management. But now, the policy dialogue is informed by a domestic policy process built on notions of inclusion, transparency and accountability. The PRSP process is not then just another debt reduction instrument but a very deliberate strategy to improve aid effectiveness and thereby deliver more growth and less poverty.

#### **Five themes that are central to the effectiveness of the PRS approach**

- Strengthening the medium-term orientation of the PRS
- Utilising the PRS as a mutual accountability framework
- Enhancing linkages between the PRS and the MTEF and budget
- Sustaining meaningful participation
- Tailoring the approach to conflict-affected and fragile states

World Bank and IMF, PRS Review (2005)

9. As the box above illustrates, the PRSP process is ambitious. It was expected that early experience would be flawed and that a learning process was needed. Interim PRSPs were used as progress markers allowing decisions on release of debt relief to proceed before the development of full PRSPs. To support PRS process, the World Bank produced an elaborate PRSP source book for those involved in their development. The guidelines on Joint Staff Assessment (IMF/World Bank) – a key action in the process, now called the Joint Staff Advisory Note – are brief but comprehensive; they articulate a vision of a sound and comprehensive development strategy.

The PRSP is prepared by the government through a *country-driven* process, including broad participation that promotes *country ownership* of the strategy and its implementation as well as *partnerships* among the government, domestic stakeholders and development partners. *Comprehensive diagnosis*, a *long-term perspective*, and *results-orientation* are important. (JSA Guidelines, [www.imf.org/external/np/prsp/2001/042001.htm#annex2](http://www.imf.org/external/np/prsp/2001/042001.htm#annex2))

10. The joint staff assessment guidelines identify the International Development Goals<sup>3</sup> as a part of the expected monitoring of the PRSP. This would presume a level of coherence between the PRSP and the national strategy for the achievement of the MDGs. Indeed, a joint-letter issued to senior staff by the World Bank and the UN in May 2003 stated that ‘For over 70 of the poorest countries, the Poverty Reduction Strategy Paper (PRSP) will constitute the primary strategic and implementation vehicle to reach the MDGs’. Building on early experience, the UNDG has assessed the challenges in taking up this agenda and developed and updated guidelines for UNCTs to use recognising that:

... the PRSP process presents a unique opportunity of strategic importance for active engagement of the UN system. To take advantage of this opportunity, UNCTs need to advocate for the MDGs as the long-term goals of national development and international development cooperation. The PRSPs should then serve as short term plans of action for achieving them, including nationally owned cross cutting issues. (UNDG 2003b: 2)

11. The same words are repeated in the 2007 CCA/UNDAF guidelines and further strong evidence of UN ‘buy in’ is provided in the documentation of individual UN HQs with a set of thoughtful and instructive papers guiding each agency on how to understand and pursue their engagement in PRSPs. UNCTs have responded and there is now a common appreciation that UN country engagement, broadly concerned with internationally agreed treaty obligations and development goals,<sup>4</sup> is concretely based on a strategic engagement in national development strategies and PRSPs through the MDGs. The UNDG website gives examples of best practice in this and the Synthesis of Resident Coordinators Annual Reports for 2006 (UNDG 2007b) states that:

To ensure planning was MDG-based, 57 UNCTs provided substantive technical support in 2006 to countries in the formulation, revision, and implementation of National Development Strategies (NDSs) and Poverty Reduction Strategy (PRSs). The plans identified the required interventions and resources for each priority sector (rural development, urban development, health systems, education, gender equality, environment, technology, cross national infrastructure, and public sector management) in order to achieve the MDGs.

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<sup>3</sup> Now articulated in more detail with 18 targets across the eight MDGs.

<sup>4</sup> *Internationally agreed treaty obligations and development goals* is a phrase designed to describe the commitments, goals, and targets of international conferences summits, and conventions, and *the human rights obligations under international human rights treaties and instruments*.

12. Many of our UN respondents, in interviewing for this study, were enthusiastic on this PRSP/NDS and MDG agenda. They saw the chance to address the perceived deficiencies of PRSP processes as a vehicle for investing in human development. Others, with more guarded enthusiasm, were resigned ... 'it is not *if* but *how*' the different agencies organise their collective engagement. Yet others were alarmed by either or both of the central role of flawed PRSP processes and the apparent narrow emphasis upon the MDGs. These different perspectives all come from bright people with lots of experience and genuine commitment to the UN goals and it is, perhaps, inevitable, that there are grains of truth in all of them. It is necessary to examine the perceived weaknesses of the PRSP/NDS -MDG agenda to understand the substantive value of the criticisms of the process now in full train. This task may not sit so obviously with the overall study remit of contributing to improved engagement of UNCTs in PRSP/NDS processes. However, if the process itself is suspect then it behoves partners within it to help improve it, and as our discussion outlines, there are ways in which the UN family could seek to strengthen the development effectiveness of PRSP processes.

### **PRSPs and their critics**

13. Clearly, the PRSP process should be *useful* in meaningful ways (measured poverty reduction) for PRSPs to be an appropriate vehicle, as they are currently being used, for enhanced aid resources. Because PRSPs sound right they have won a lot of plaudits. When they are responsive to the MDGs they become yet more attractive but the assessments of aid effectiveness suggest some serious limitations on them. Some of the most recent research on aid effectiveness has criticised the approach and assembled three core arguments in support of their criticisms, as elaborated below. A key **recommendation**, emerging from this study, is the need for stronger country-based analytic work on these weaknesses of PRSPs, both to strengthen the impact of UN engagement in PRSP processes, and to strengthen the poverty focus of the process itself.

14. The aid effectiveness discourse has been seminally influenced through the publication in 1998 of the World Bank's study *Assessing Aid – What Works, What Doesn't, and Why* (Dollar and Pritchett 1998). The core argument was that money in itself was not enough for effective aid; the quality of domestic policies mattered; further research, and there was a lot, established that aid could not 'buy' good policies. The arguments have not abated but the core idea that aid could, either especially, or only, be useful in a 'good' policy environment has remained popular. The use of World Bank Country Policy and Institutional Assessment (CPIA) scores as part of the basis for determining IDA lending is a part of that legacy. The joint assessments produced by the Bretton Woods Institutions of PRSPs further that legacy with a focus on policy conditions. In consequence, in a very large number of poor developing countries, there has been an effective continuance of policy-based lending through the PRSP process. It is driven by a mutual (Developing Partner-host government) buy-in to a set of agreed and timetabled policy reforms on the basis that these countries' governments have an initial good policy reform mandate, together with the other 'domestic deliverables' identified above.

15. Other studies demonstrate that aid volumes are more responsive to recipient country UN voting behaviour and to the historical facts of colonial relationships and current geopolitics, including trade regime reform, than to overall quality of policy regimes. These perspectives, not necessarily inconsistent, in practice reveal differences. Aid does not necessarily go to the deserving as identified by policy quality. But the PRSP approach is a

constant, at least for poor people in poor countries. The likely effectiveness of PRSPs is therefore, according to the aid effectiveness mainstream, going to vary.

16. The underlying focus of the aid effectiveness research was on the conditions under which aid led to more growth on the presumption, agreed by all informed commentators, that growth was a necessary condition for poverty reduction. A main critique of the practise of the early PRSPs, and one that remains crucial is that insufficient attention was paid to the linkages between growth and poverty reduction. The limitations of cross country regressions, apparently proving the case for poverty-reducing growth, have been intensely researched. PRSPs have been observed to be weak in establishing clear local links between growth and poverty reduction and on making growth more pro-poor.

17. The practice of PRSPs is then associated with:

- a disputed aid effectiveness agenda whose strictures are anyway not followed
- a continuance of policy-based lending dressed up as a domestically-owned agenda
- vagueness in how the growth policies being pursued are going to deliver poverty reduction.

18. The three critiques of the current aid agenda, summarised here, can be linked to these three observations on the practice of PRSPs. They are important in understanding how the UN family should use its comparative advantages in pursuing the human development agenda and specifically, how and when the PRSP could be a vehicle for change to the benefit of the poor. Elements of all of them were reflected in UN documents received and in our discussions with UN staff – and in papers from other agencies also including the Bretton Woods Institutions and leading bi-laterals – so they are no surprise. Their collective import, we argue, is hugely supportive of the UN reform process on development but underlines the importance of being responsive to national contexts when pursuing global goals in the shape of the MDGs.

19. The latest (2007) UN update on Africa and the Millennium Development goals says, in its first sentence, that SSA is not on track to achieve any of the goals. Given the centrality of Africa to the aid effectiveness agenda why is the picture so glum? Given also the pledges from the G8 in 2005 to double aid to Africa (not happening yet but aid is increasing) is extra money the key? Easterly (2006) argues that this approach, what he calls a ‘big push’, is flawed. He says that the ‘big push’ concept, associated historically with Rosenstein-Rodan publishing in the 1940s, is wrong. His critique is based on the weaknesses of central planning, as the current practice of (expanded) aid is characterised and the failure of past aid to deliver the basics to poor people as seen in the poor progress on the MDGs. Aid has not worked because it goes about things the wrong way with grand visions and multiple goals rather than focusing on learning from whatever success is out there. He identifies many cases which, if repeated, could actually deliver less misery now for the poor. Easterly argues that successful delivery requires feedback, to the providers of aid, and accountability, against poverty reduction, for the continued control of that aid. Paradoxically, aid delivery is led by agencies fully committed to the market economy and a neoliberal agenda yet is driven by a vision of state delivery of poverty reduction based on elaborate processes, plans and indirect targets despite the language of results-based lending.

20. This critique is particularly directed at plans, such as the MDGs costings exercises, and argues instead for a focus on what works, on ‘searchers’ who identify local strategies that deliver poverty reduction results, not on elaborate plans and large budgets. Easterly may be overly pessimistic but history is partly in his favour. The implications for development

assistance are grave, and unwelcome to many development professionals. They also suggest a stronger *national* focus in development planning; poverty reduction may be a global public good but global instruments are faulty because they do not reflect the specificities of local poverty reduction opportunities. For the UN, their reform programme is potentially responsive to these concerns by strengthening the integrity of their support of coherent local strategies; but it is not so robust if reform agendas are not based in local realities and the needed strategies are dominated by global prescription for those reform agendas. The message is clear enough but has massive implications for the delivery of aid and is the most radical of the three critiques. It suggests continuing the strengthening of 'one UN' reforms but adopting a much stronger direct commitment to building on local solutions to poverty reduction in UNDAF and other UN road maps. PRSPs, as presently constituted, with their focus on growth, are not the answer according to Easterly. Critics of this perspective are plenty, citing some very considerable progress on different dimensions of poverty reduction and the ability of aid agencies, including the UN, to support 'searchers'. However, the Easterly critique underlines the importance of adapting to national context and of accountability mechanisms.

21. The second critique is associated with a candid assessment of the results that have been achieved under the present emphases in international financial support to developing countries. Several commentators are strident in their critique of the policy orthodoxy of the Bretton Woods Institutions. Specifically, the poor growth and poverty reduction performance of many heavily aid dependent economies is seen as *prima facie* evidence that the policy advice on offer, and which aid dependent economies have to take, is not working. This view is primarily driven by the poor performance of African economies over the last two decades. This is a period during which economic growth rates have been insufficient to allow any prospect of the first MDG been achieved in a large number of African countries with an increasing share of the world's poor. The World Bank (2007a) acknowledges this failure, as the box below illustrates. This book's analysis, led by one of Africa's leading economists, points to the continuing poor performance of many African economies *even* when the policy prescriptions from the Bretton Woods Institutions are adopted. It suggests that the investment climate, infrastructure, innovation and institutional capacity are four pillars of concern and details the types of actions, learning from more successful cases, which need to be taken to turn growth performance around. The book however, as noted in its conclusions, does not discuss how well its recommended growth strategies will translate into poverty reduction and, in that, is vulnerable to the same critiques that have challenged existing BWI orthodoxy. The trade-led growth which is at the heart of the proposals is elusive for many African economies but even its achievement may not expand the limited economic opportunities currently open to many of Africa's poor.

**Challenges of African growth: opportunities, constraints and strategic directions**

Poverty is increasingly assuming an African face, and eradicating it has become a predominantly African challenge. Although the region currently accounts for only 10 per cent of the world's population, it now accommodates 30 per cent of the world's poor. The world as a whole has made remarkable progress in reducing extreme poverty over the last three decades, cutting it by nearly two thirds between 1970 and 2000. In contrast, the trend in sub-Saharan Africa has been in the opposite direction, increasing from 36 per cent of the population in 1970 to 50 per cent in 2000. As a result, one in two Africans (or 300 million people) is poor, spending less than \$1 a day on basic necessities of life. This proportion is twice as high as the world average, and the number of the poor is twice as high as it was in 1970.

World Bank (2007a: 3-4)

22. This critique is particularly important for the UN to be cognisant of in assessing its role and the nature of its commitment towards the PRSP process. This is because much of the policy advice of which this poor performance is a product is enmeshed in the operation of the PRSP process. Many commentators are sceptical of the innovative character of the PRSP process since the underlying policy advice is not easily distinguished from the era of structural adjustment. The supposed change to domestic ownership is sometimes viewed as window dressing.

23. There are numerous country examples where poor growth performance is evident. One example where BWI prescription appears spectacularly limited is Bolivia where the GDP per capita is well below pre-aid levels and the collapse of the economy over the last 25 years is greater by far, in relative magnitude, than historically noted events such as the reported measures of the impact on GDP of the Great Depression in the USA and the UK. African countries have very similar growth experiences and many have moved backwards over the development era. A detailed criticism, building on and updating the Human Development Report analysis of 1996, examines the relationship between income growth and human development. The analysis, presented by Richard Jolly at the March 2007 workshop held to plan country studies, is specific in identifying the historic inability of countries to translate fast growth into fast human development. Human development is seen as a precondition to economic growth which is meaningful developmentally insofar as (multidimensional) poverty is addressed. The evidence is based on the experience of only 12 countries but no doubt is more generalisable since it is structural adjustment policies, and their successors, which are identified as the villains. The wider evidence supports Jolly's argument that the impact of these policies has not delivered faster human development and that faster growth, even if attained, will probably not do so either in the absence of investments in human development.

24. This second critique of development orthodoxy is then twofold. First, that the prescriptions of the BWIs are not delivering growth in most of the world's poorest economies. Secondly, in many poor countries, in the absence of a stronger commitment to human development, future growth may have little impact on poverty.

This critique of PRSPs needs to be taken seriously even if it has been weakened by recent strong growth performance in several African economies. That growth may prove difficult to sustain through 2008 and onwards with the increasing costs of internationally traded energy and food. The difficulty for the UN is, of course, the perception that any critique of BWI-led instruments is motivated by concerns other than the welfare of the poor. This is a real sensitivity and can only be addressed through a positive approach, seeking to improve practice and to engage constructively with BWI partners in developing policy advice. The core need is for more *country* level analytic work, which pinpoints where, and why, growth processes are weak or are not serving the poor.

25. The third critique of the PRSP process is rather more indirect in nature and relates closely to concerns about the poorest performing economies; these are not always exactly in correspondence with 'fragile states' (World Bank 2006) but are a good approximation. Paul Collier's book (Collier 2007), *The Bottom Billion* is the main source of this critique and is driven by analysis of the limited benefits of aid and development orthodoxy to the needs of the poor in the poorest countries. Collier is very clear on the substantial beneficial effects of aid in the right circumstances but sees little aid effectiveness in some economies. He identifies four

poverty traps which distinguish these economies: the conflict trap, the natural resource trap, the landlocked trap (with bad neighbours) and the bad governance (small country) trap. The point of this identification of poverty traps is not to malign PRSP process but to attest to their limitations in affecting the lives of the bottom billion poor in the countries affected by such traps. The sequential argument is that aid has failed, in volume and purpose, in addressing the needs of these bottom billion. The fragile states agenda is very much a part of the current aid discourse but that discourse does tend to push towards PRSP approaches, as soon as the BWIs deem a country is ready. This ignores the assessments, such as this one from Collier, of the longer term and fundamental structural differences in the economic prospects for many of these countries. This paper does not pursue the issue of fragile states and none were included in the case studies. However, the recommendations identified here are conditioned in fragile states by the evident need for donor engagement in alternative analyses and different approaches to the aid relationship.

### **Part two: Study context – the UN and aid reform agendas**

26. For most readers of this paper, the two important contexts for the study will be fully appreciated. The first is UN reform and the second is aid architecture reform. The multiple challenges of these agendas are well known and have produced a voluminous literature that readers will be familiar with. Almost all of the other major international development actors – including, for example, the Bretton Woods Institutions, the regional multilateral banks, DFID, USAID, and JICA/Japan– are similarly grasping with overlapping and major reform related to aid effectiveness. There is a common agenda. The key principles agreed for engagement as development partners have been enunciated quite specifically in the Paris Declaration (see box).

#### **Paris Declaration highlights**

We reaffirm the commitments made at Rome to harmonise and align aid delivery. We are encouraged that many donors and partner countries are making aid effectiveness a high priority, and we reaffirm our commitment to accelerate progress in implementation, especially in the following areas:

- i. Strengthening partner countries' national development strategies and associated operational Frameworks (e.g., planning, budget, and performance assessment frameworks).
- ii. Increasing alignment of aid with partner countries' priorities, systems and procedures and helping to strengthen their capacities.
- iii. Enhancing donors' and partner countries' respective accountability to their citizens and parliaments for their development policies, strategies and performance.
- iv. Eliminating duplication of efforts and rationalising donor activities to make them as cost-effective as possible.
- v. Reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner countries' priorities, systems and procedures.
- vi. Defining measures and standards of performance and accountability of partner country systems in public financial management, procurement, fiduciary safeguards and environmental assessments, in line with broadly accepted good practices and their quick and widespread application.

Source: High Level Forum on Aid Effectiveness, Ministers of developed and developing countries responsible for promoting development and Heads of multilateral and bilateral development institutions, meeting in Paris on 2 March 2005. [www.oecd.org/dataoecd/11/41/34428351.pdf](http://www.oecd.org/dataoecd/11/41/34428351.pdf)

27. The UN agencies are of course very much a part of the post-Paris aid effectiveness process, producing an Action Plan (UNDG 2005a) and supporting monitoring activities on implementation that the OECD/DAC has instigated. There are three particular sets of challenges that they face.

28. Firstly, the focus on domestic ownership has led to increasing volumes of aid being allocated as Direct, sometimes called General, Budget Support (DBS). This is a challenge to the specialised UN agencies that have relied in part on in country bilateral support for their projects. Moreover, if the major dialogue between the international development partners and the local authorities is around the terms of direct budget support (DBS) then UN agencies, with no contribution to DBS, are marginalised. The UNDP in particular has engaged with the challenges of this agenda and produced guidelines (UNDP 2005) recognising that the move to DBS is wholly consistent with, even responsive to, their own analytic work on aid effectiveness. The DBS focus is ‘helpful’ on meeting spending targets for several important bilaterals with increasing budgets – striving for the 0.7% share of GDP target they have all signed up to. DBS usually results in Ministries of Finance having a much stronger voice on resource allocation than in the past, and in greater needs for capacity development on public financial management. This new aid environment is unfamiliar terrain for many within the UN system but the principles underlying it are fairly unanimously agreed and it is here to stay. In practice, it should represent a real opportunity for UN agencies to help shape and implement programmes and projects in ministries central to human development goals that now may have rather fewer other donors engaging directly in projects with them.

29. Secondly, the harmonisation arrangements in countries, such as Tanzania and Uganda for example, which have progressed most in improving the aid relationship along Paris principles, are based on Joint Assistance Strategies (JAS) which try to reduce transactions costs to government by using lead agencies in sectors, encouraging delegated authority and reducing the number of donors in each sector. This is both a challenge and an opportunity to lead UN agencies in the main human development sectors, sitting as it does on top of intra-UN coordination mechanisms central to their internal reform agenda.

30. Thirdly, the renewed focus on supporting domestic systems and processes puts renewed emphasis on sector analytic work – helping governments to get their policies and budgets right or ‘upstream’ work as it is sometimes called. As has been widely acknowledged (see box below) the skills sets of UN agencies are not always conducive and re-staffing or re-skilling are both difficult.

#### **Capacity constraints**

Limitations in the quality of expertise available to UN Country Teams and the access of the recipient countries to a great variety of skills and expertise from the UN system constrain the effectiveness of the UN system’s response at country level. The system’s capacity to mobilize all the fundamental skills required to support national development strategies and the achievement of the MDGs and other relevant internationally agreed development goals is limited by severe organizational and financial constraints and still requires intensive, harmonized and integrated efforts.

Source: ‘Triennial Comprehensive Policy Review of Operational Activities of the United Nations Development System: Conclusions and Recommendations’, (draft), 62 Session of the General Assembly (2007)



31. These three challenges are specifically pertinent to UN engagement in PRSPs since that is the commonly chosen instrument, now in 65 countries, of which the UNCTs have engaged in 57 (UNDG 2007b), for anchoring these changes in local policy dialogue. The changes represent an enormous opportunity to UN agencies precisely because they derive their logic from the paramount need to strengthen domestic ownership of the development process and to increase the accountability of governments to their own citizens and not just to remote and divided external fund providers. In principle, the human rights based approaches (HRBA) enshrined in successive UN documents should now be more central to the aid architecture through the recognition of the need to strengthen domestic policy processes and promote transparency and accountability. Governments, not donors, are made responsible for delivering outcomes, and the achievement of human rights is some sort of final arbiter of performance. Economic growth performance and MDG attainment will be the dashboard indicators but the underlying logic of the approach is wholly consistent with HRBA. There is need for improving delivery upon and coherence within UN approaches to this agenda but the agenda itself is well-suited to the UN charter and to the aspirations of its agencies. Key documents, such as the High-Level Panel Report on UN reform (United Nations 2006) recognise this. It was evident also from the country studies for this paper that the experience/exposure to *internal* UN reform will be an asset for UN agencies in engaging with these new partnership arrangements.

32. Turning now, more briefly, to the internal UN reform agenda, the first and happy point to emerge from the case studies for this paper was the high degree of commitment in several countries to making a success of the reform agenda. There has been a fairly rapid transition over the last three years to judge from UN documentation (see e.g. UNDG 2007a and b). Processes may still be somewhat uncertain and difficult issues abound, especially around HQ ordained procedures – business models – and mandates, but the spirit of engagement is strong. The linkage of internal reform processes to the Paris reform process is close in the most progressive UNCTs and alignment and harmonisation are accepted principles. The One UN – one leader, one programme, one budgetary framework and one office – way of doing business in-country is driving change not just conforming behaviour; whilst the One UN pilot countries may be ahead of the curve on reform, see for example UNCT, Mozambique (2006), many other UNCTs are not far behind. There may be lack of clarity in the reform process so far (Clynick 2007), especially in relation to budgetary and fundraising implications. The purpose of the pilots is to address and clarify these issues and strengthen the reform model before it is rolled out more widely.

But, in-country, individual agencies are rising to the challenge of the reform agenda. UNICEF is a good example (see box below) of engagement. Their mandate is wider than the MDGs and they, in a sense, with their impressive track record, have their own priorities but, as the box summarises, they have engaged, and have benefited from doing so. This 2004 evidence was further supported in HQ interviews for this study which emphasised the foci in the current UNICEF plan on more upstream advisory work and better alignment to national development processes. The team also met individuals within UNICEF less attuned to the imperatives of this agenda but these, sincere, ‘Neanderthals’ were providing country-specific perspectives and served rather to underline how the road map on reform needs to be understood in country context.

### UNICEF and UN reform

UN reform has:

- Permitted UNICEF to influence the ‘UN agenda’ at the country level through the UNCTs, the Consolidated Appeal Process, Common Humanitarian Action Plan, Common Country Assistance, UN Development Assistance Framework and the theme groups;
- Allowed UNICEF to bring in a stronger focus on children, child protection issues; and to focus on social issues;
- Ensured greater coherence with other agencies; and
- Promoted greater communications with and understanding of other UN agencies, which over time should lead to more joint programming.

Historically, UNICEF has cultivated strong brand identification as an efficient, effective aid organization, focused on the rights and needs of children and women in development, emergency, and transition situations. UN reform requires UNICEF to carefully balance the need to retain its unique identity and visibility objectives with the need to work toward broader UN goals of programming, financial systems and procedural coherence as well as accountability for results. Both internal and external perceptions, as reflected in interviews and in evidence from case illustrations, show that this remains a challenge for UNICEF.

Source: UNICEF, Evaluation Office (2004)

33. The new ‘third generation’ UNDAFs (UNDG 2007a) are a major development for the ExCom agencies (UNDP, UNICEF, UNFPA and WFP) but for *all* the UN agencies in-country they have provided the means to align internal reform with the wider development partner reform process and the focus on national development strategies (UNDG 2007b). These UNDAFs seek to align the UNCT behind national development processes and provide the flexibility for UNCTs to restructure programming and reporting to make this genuine. Whilst UNDAF processes have often been far from ideal (Longhurst 2006, and below on transactions costs) they are now shaping an opportunity for, rather than a barrier to, more effective engagement by UNCTs.

34. These two reform agendas, as noted above, are very often rooted in PRSP processes since these are now the ‘normal’ vehicles for promoting the domestic ownership agenda and the associated changes in ways of doing business. The PRSP process is now nearly eight years old. During this time it has of course evolved. In the earliest examples, the PRSP was essentially owned by the Bretton Woods Institutions (BWIs). It has gradually moved, in the most progressive cases, to a process that is increasingly domestically owned and does involve a degree of accountability of government to its citizens. This occurs both through the ways in which it is formulated and the ways in which it is monitored. This transition is important, especially when reflecting on the critiques, of which there were many, of early PRSP processes. The key point is that the PRSP process, apart from being an instrument for managing debt relief, through the link to HIPC decision and completion points, is the vehicle for coordinating development partner support around a domestically owned agenda.

35. The PRSP process is being promoted even where there is no payback in the form of debt relief. It operates as a way of delivering concessional funding from the BWIs (specifically, IDA funding). It may be the case also that the chances of securing meaningful domestic ownership are more likely in such countries since the leverage of the BWIs is

diminished.<sup>5</sup> There is more realism to the process of securing ownership when the urgency of making debt relief real is not driving the timetable and not determining the content, at least not so obviously.

36. UNCT effectiveness in their engagement in PRSPs has been diminished by the centrality of other development partners' capacity to impose conditions on their substantial support, principally those of the BWIs naturally, around PRSPs; but PRSPs are increasingly becoming 'domestically owned' as experience with their implementation grows. They are becoming common property to multiple stakeholders, and finally, developing a broader function serving different agents. This report is not about the global politics of the aid processes but is influenced by a particular, and increasingly widely held, view on those processes. Recognising that popular opinion, and tax payers' support, in the rich countries, to increased aid will be about poverty reduction results, the PRSPs will be an important barometer for the enthusiasm, currently strong, for spending more in poor countries. It will not be PRSP processes themselves but poverty reduction outcomes that count. The UN agencies are at the front of that assessment and their performance will be judged by criteria of MDG effectiveness. More detailed analysis – on PRSP or NDS processes – will not feature much ... results matter and the risk of aid 'fatigue' in the absence of good results is real.

37. The MDGs have substantial buy-in from all stakeholders but the main instrument for donor coordination and international resource flows is the PRSP agenda. Clearly, the capacity of stakeholders to link these two effectively will determine both the future volumes of aid for poverty reduction and in consequence the achievement of the MDGs. MDG costings exercises are specific about the volumes of additional aid required, country by country, to sustain progress towards the MDGs. The challenge for the UN system is to work effectively with development partners to realise those amounts and to use them effectively, on an agenda which they have championed.

38. The aid industry, and the UN system more specifically, has moved from a contested agenda, around PRSPs *vis-à-vis* the MDGs, towards recognition that they must be the same agenda and that their separation has undermined development effectiveness. The MDGs as the justification for more development assistance and the PRSPs, as the means of sanctioning that assistance, clearly should be aligned; it took some time to make that connection but it is now widely accepted within the broader context of UN mandates.

39. The UNDG produced guidelines relatively quickly relating to the role of UN agencies in PRSP processes (UNDG 2001). A review followed (UNDG 2003a) and the recommendations of that review are summarised in the box below. This led to the development of new guidelines shortly after (UNDG 2003b) which remain in place.

40. These recommendations reflect the increasing alignment of aid processes around the PRSPs and provide the principles to UNCTs teams on how they should be seeking to align their (MDG) agenda with this mainstream process. Let us take these as read, that they have informed the 2003 guidelines on UN engagement (clearly) and that they have informed thinking within UNCTs on engagement strategies. Country studies showed a high-level of engagement with these recommendations especially those on participation and content. The

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<sup>5</sup> But even where debt relief is not an issue, bi-lateral donors often need IMF endorsement of macroeconomic policies.

challenge for this paper is to move this agenda forward, identifying opportunities to learn from country experience.

**An assessment of the role and experiences of UN agencies in  
Poverty Reduction Strategy Papers**

*Report recommendations*

PARTICIPATION

- Improved UN appreciation of and participation in the PRSP processes
- Supporting and advocating the involvement of government counterparts
- Strengthening participation by parliaments and by civil society, in particular the poor
- Better collaboration between UN and BWIs
- Early and continuous UN involvement in PRSP processes to increase effectiveness
- Coherence and alignment of UN planning instruments with national priorities, including PRSPs and other national planning processes
- Harmonization of programming UN cycles and procedures
- Adequate resources and increased technical capacity

CONTENT

- Ensure multidimensional and cross-sectoral analysis for PRSPs
- Link the PRSPs with the sector-specific plans
- Advocating macroeconomic policies in support of poverty reduction
- Strengthen links with the MDGs and their operationalisation
- UN to advocate a right-based approach to poverty reduction
- Consideration of crisis and conflict dynamics

IMPLEMENTATION AND EVALUATION

- Improvement of Public Expenditure Management and capacity building
- Improved data
- Regional collaboration
- Systemic, participatory analyses of impact
- UN Implementation of Programs

PRSPS AND RESOURCE ALLOCATION

- Implementing decisions of global inter-governmental institutions
- More resources to achieve MDG targets
- Increasing the financial resources of the UN system

Source: UNDG (2003a)

41. For UNCTs, addressing both the Paris Declaration and the UN reform agenda is a daunting challenge no doubt but country experience, from the case studies, suggests impressive progress on this joint agenda. The centrality of PRSP processes is the mechanism through which these agendas are united. The UNCTs are very well placed to build on PRSP processes, as they increasingly respond to the imperatives of the aid effectiveness agenda and advocate for MDG perspectives as a driving force in PRSP processes.

42. A further element in the evolution of these processes is the linkage of shorter-term PRSP timeframes to longer-term visions, 'National Development Strategies' (NDS), on achieving the millennium goals with their 2015 targets. The country studies showed that this is

a common agenda driven often by local commitment to the MDGs and supported by the UN engagement in promoting that agenda. This recent development of NDS, which are nothing new in themselves as planning instruments, has provided an opportunity for governments, and their citizens, to lay out MDG-focused development priorities in a slightly more independent way than the PRSP processes, at least the early ones, would allow. With their international commitment to the MDGs, and the justification for enhanced development partner support being rooted, even if remotely sometimes, in the pursuit of the MDGs, this evolution is logical. They provide a means to create clear links between the MTEF and budgetary processes, the PRSP itself and the longer term achievement of the MDGs. Achieving these links is difficult and, in some country contexts, nowhere in sight, but it represents a template for development partner engagement that is becoming the received wisdom for how that engagement should progress.

43. The evidence from the country studies in Azerbaijan and, to some extent, Mongolia is instructive here. These are countries where the formal PRSP processes, linked to debt relief, rapidly became redundant as BWIs conditionality was effectively removed through domestic growth processes. This growth was a product of natural resource rents and resulted in a much reduced voice for the BWIs in determining the fundamentals of economic management. In that process, opportunities emerged for the UN family through its support to PRSP and NDS processes. Indeed, there was a *de facto* withdrawal by the BWIs as their scope for conditionality evaporated and their focus centred on management of the resource rents. These developments underline the fact that the UN engagement on PRSPs must be not seen as subordination to a World Bank owned agenda but to a longer term national process of MDG attainment for which the PRSP is, currently, the instrument of choice. And, as PRSP processes become more and more rooted in national processes not BWI conditions, the scope for them to reflect the UN agenda is strengthening since that agenda, unlike PRSP processes, is, with few country exceptions, mandated through national agreement to MDGs.

44. The twin reform agenda that UN agencies are addressing are increasingly intertwined as pursuit of ‘good practice’ in development partner arrangements becomes more pressing. This paper argues that the UN system, engaged strongly as it is with internal reform, has most learning needs and most deficits in regard to the wider aid agenda. Deficits in the sense of (actual or potential) missed opportunities and where there are significant opportunities for improving UN effectiveness. If we accept the centrality of the PRSP process, for the moment, to Harmonisation and Alignment agendas the UNCTs are enormously well-placed. There is increasing convergence on the need to ensure these PRSPs are linked to an MDG-focused development plan in most poor economies. The door is wide open. The UNCTs do not have a monopoly on the MDGs. Everybody has signed up. But UNCTs should (or could) have the authority to help a judgement on whether public investment is actually designed to deliver upon them. The UNCT role is entrusted with and gifted an extraordinary opportunity through the fact of donor pledging and international monitoring of the MDGs. Increasingly, results on the MDGs are the dominant public perception of how aid should be assessed. This is the criterion by which the World Bank will be publicly assessed in its poverty reduction efforts, and it is more often ready to acknowledge this now as evident through its own work in monitoring the MDGs.<sup>6</sup> There are important HD agendas beyond the remit of the MDGs but this PRSP-MDG linkage, delivering on the poverty reduction contained in the MDGs, is the most obvious route for the collectivity of aid to be judged and the UN will be equally accountable.

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<sup>6</sup> <http://ddp-ext.worldbank.org/ext/GMIS/home.do?siteId=2>

### **Part three: The model of engagement – study findings and recommendations**

45. In developing the research focus for this study the early work developed eight core investigative concerns on the UN and PRSPs:

- **Aid instruments**
- **Sector strategies**
- **Partnerships**
- **Transactions costs**
- **Capacity**
- **Coordination**
- **The information base**
- **Fragile states<sup>7</sup>**

46. The paper uses these to frame findings and recommendations. Capacity and Sector Strategies are brought together since the key capacity issues relate to the sectoral theme with a concern that a shift towards more upstream sector work is a challenge to capacity. There is also an additional section, following partnerships, on MDG needs assessments since these have been a widely used means to further engagement of the UN in PRSP processes.

47. The overview finding from the country studies is one of increasingly effective UNCT engagement in PRSP processes. The combined pursuit of UN reform and wider aid architecture reform through PRSP processes is driving much UNCT activity and there is widespread agreement that this agenda can be made effective in promoting domestic policy commitment to and budgeting for the MDGs. The section outlines the core model of UN engagement in PRSPs. It builds on country experience to draw lessons and make recommendations. Two general, and more challenging, recommendations are followed by more specific issues.

48. The value added from this PRSP engagement is dependent on the quality of the PRSP process itself. Whilst there is considerable evidence of improving practice with PRSPs and a wider appreciation of how they can be useful, there are concerns over their development effectiveness as they are currently practiced. Responding to these concerns the paper also develops a second theme on the quality of the PRSP process itself, which leads to a further set of recommendations. These are responsive to the assessment, discussed in part one, that the PRSP process itself is no panacea and often the fundamentals – domestic ownership, civil society engagement, results-based public sector financial budgeting and management – are observed more in the breach. Some of these weaknesses of PRSP processes are widely appreciated (UNDP 2003c). Some may be more transitional in nature and will disappear as the PRSP process evolves in-country. It is not always easy to distinguish reasons for believing the PRSP process is fundamentally flawed (Global Development Perspectives) from opportunities to improve the process (the Model of Engagement) since both concern weaknesses of the current PRS/NDS process. Nevertheless, the separation is valid. The difference lies in the way in which the UNCTs, and their regional and global UN parents, choose to exercise their voice. It is incumbent for UNCTs to improve their ‘community of practice’ within PRSP/NDS processes and, as this paper acknowledges, good progress is to be seen. Exercising voice here is about strengthening of local PRSP processes. Equally, the UN has a global human development perspective, rooted in its charter and international treaties, agreements and conventions, which requires it to challenge local processes when they do not match up.

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<sup>7</sup> As noted above, ultimately there was no specific study of fragile states in this research.

Exercising voice here is about challenging local processes and providing the analysis to do so. This is not questioning the commitment of development partners but assessing the development potential of their chosen approach. In PRS/NDS context this is about their capacity to deliver on a human development agenda.

49. The early experience of PRSP engagement by UN agencies is very mixed and several country reports referred to effective non-participation in the early days of PRSP processes. This has changed rapidly and there is now a 'model' of engagement that is being pursued, to varying degrees, in all the countries studied. UNCTs in the pilot 'One UN' countries have developed this model most in the context of national development strategies, and in their concept papers are quite detailed and elaborate on aspects of the model (see e.g. UNCT, Mozambique, 2006 and the more recent stocktaking exercise), the reform agenda is also being aggressively followed in the countries studied around basic elements of the model:

- An NDS that is MDG-based.
- A PRSP that is a shorter-term budgeted plan to address the needs identified in the NDS.
- A PRSP development process that is country-owned with the effective engagement of civil society stakeholders.
- Recognition that the wider HRBA is necessary for the successful development of the PRSP/NDS approach.
- A commitment to bring the CCA, UNDAF, and Annual Work Plans into correspondence with national planning and budgetary processes. CCAs are not necessary where participation in national planning processes subsume their function. UNDAFs will identify specific outcomes, within the local plans, where the UNCT has comparative advantage.
- A commitment to work in a coordinated way in sector strategies through government-led processes such as sector working groups.
- A commitment to work towards implementing the Paris Declaration through Joint Assistance Strategies.
- A commitment to promote and use effective, MDG-directed, national monitoring systems.

50. The country experiences identify a number of problems with implementing this agenda. These relate to process, content and outcomes of PRS/NDS (and whilst in country for the research phase these three aspects of the PRS/NDS were often used as interview organising themes). The country studies include UN experience with early vintage PRSPs and current practices are generally much improved on these early experiences. As a consequence, there is a diversity of experience across countries that sometimes reflect these time gaps; moreover, the acceleration of commitment and energy to the reform process has been especially important in the very recent past – since the 2005 Paris Declaration and the High-Level Panel Report (United Nations 2006). There is now more momentum behind the reform process than the early PRSP experiences would reflect; it is not appropriate to identify lesson learning from these old experiences if in fact those lessons have been learnt. This is also true of much critique of PRSPs (e.g. African Forum 2006) which tend to repeat old failures rather than explore learning. Examining the UNDG guidelines on PRSPs and the latest UNDAF Guidelines it is apparent that many lessons have been learnt at that level. Recent country practice reflects that progress. The Azerbaijan country study was mainly focused on an NDS development process that took place very recently – 2005–2007 – and the process was clearly hugely indebted to UNCT inputs. These inputs were organised following precepts from the UN reform agenda and the country paper for this study provided a strong endorsement of the processes undertaken there.

51. This observation about improving processes over time is important. There is an institutional memory around PRSPs, that is couched in negative terms around the limited space for the UNCT to engage with the PRSP, the limited capacity to do so when that space does exist, and the threat that the PRSPs and new aid architecture poses to usual ways of doing business. This memory was strongly reflected in some interviews but in many other cases there was recognition that the model outlined above is how the UNCT needs to engage (IFAD 2004) and that the early experience with PRSPs is not reflective of the potential to do so. This leads to three further observations. First, it is increasingly difficult to disentangle the UNCT experience of PRSP engagement from experience in the wider aid reform agenda. They are closely bound up and it is important that, as in this paper, the PRSP experience is seen in this broader context. Secondly, the country studies showed a wide and rapidly deepening commitment to the UN reform agenda but less appreciation of how this fits into the wider reform agenda. Yet, for effective PRSP participation *both* of these perspectives need to be strong in country programming. Thirdly, the diversity of country contexts, especially in relation to the politics of the policy process, underscores the need for a change in the culture of reporting; away from responding to HQs mandates, notably with the specialised agencies, and more towards diagnostic assessment of national context and the UN's developmental role within that. This is not something that should be restricted to the CCA and the introduction to RC reports but as the driver of UN strategic engagement, focusing perhaps on MDG constraints and how to release them. This is entirely consistent with the emerging emphasis for UNCTs on 'upstream' participation in local policy processes but underlines the need for great flexibility to accommodate the diverse local contexts in which UNCTs are seeking to operate. It should also help encourage more strategic identification of UNDAF outcomes and reporting that is more focused on results than on process 'improvements'.

52. A major concern of those interviewed who remained PRSP sceptics was the problem of PRSP dominance by the Bretton Woods Institutions. This will inevitably remain an issue whilst the critical BWIs funding, and indeed that of many bi-laterals, is conditional upon external satisfaction with the process and content of PRSPs. However, the practice of PRSPs is becoming more strongly rooted in domestic ownership of both process and content. This has been helped by linking PRSP processes to longer term plans for MDG attainment in NDS. The weaknesses of early PRSP processes are by no means eliminated but there is now a much wider appreciation of their deficiencies and of what needs to be done to improve practice. Awareness of a specific weakness, that PRSPs were poor at articulating pro-poor policies, has created space at sector-level to link PRSP processes to a pro-poor policy agenda in key human development sectors. UNCTs have been able to use their technical expertise to support these sector processes. UNCTs have also been able to build on the trust vested in them by national governments and distinguish their engagement from the conditional partnership of the BWIs. Strong performance on UN reform and real commitment to Paris Declaration reforms have in some cases been useful to leverage more influence on planning and budgetary processes and strengthening of the human development focus. As these opportunities become more widely appreciated it is likely that the levels of scepticism will reduce but that can be helped through clearer recognition of the considerable progress that has been made in some countries.

53. In this context, it was apparent that the UN-BWI relationship has sometimes been very good and strong (Azerbaijan) with UNCTs benefiting from active BWIs engagement. This is not always the case though (Mongolia and Malawi). It is **recommended** that the UN and the BWIs should jointly acknowledge the progress made in improving PRS processes. The two groups should signal their complementary roles more aggressively from HQs and provide more



systematic and public assessment at country-level of their partnership arrangements around PRSPs.

54. A second clarification to help the sceptics relates to the Guidelines that UNDG provides for UNCTS. These have been issued periodically on several different topics that are increasingly closely integrated. The ones pertinent here relate both to internal reform processes and to linkage with other aid instruments. The most recent Guidelines, such as for the UNDAF, reflect a stronger commitment to aligning reform processes with national development contexts. They, to some extent, capture the ways in which UN internal reform processes relate to wider reforms of the aid architecture. There is cross reference in the UNDAF Guidelines to (many papers including) the UNDG PRSP guidelines and to the position paper on SWAs; there is also reference to forthcoming concept papers on direct budget support and on joint assistance strategies. There is some considerable scope for more inclusive development of Guidelines that, in satisfying the different business models and mandates of the different agencies, also seeks to provide coherence on linking UN reform to reform of the wider aid architecture. Given the centrality of PRS/NDS processes and the commitment to domestic ownership, through these processes, of the development agenda, the UNDAF Guidelines should reflect this. A more generic set of guidelines ‘Good Partners in National Development Processes’ is **recommended**. This should lay out the relationships between UN reform processes and the wider reforms of the aid architecture. Of course, more detailed treatment of UNDAF processes relating to internal coordination can be added in subordinate documents but the main message should be around the centrality of national processes and partnership arrangements for UN effectiveness on the human development agenda.

55. **Aid instruments** have evolved to try and address three main types of problem. First, is the accountability to donors overriding any form of domestic accountability for use of public funds. Secondly, is the proliferation of donors at sector-level imposing high transactions costs on government. Thirdly, is the inability to monitor donor-supported activity and results when their spending is off-budget. The reform of aid instruments is driven by awareness of these problems and centres on *harmonisation* and *alignment* (H&A). Best practice on H&A have been developing around Joint Assistance Strategies (JAS), with use of direct budget support (DBS) and programme approaches at sector-level (SWAs). In PRSP countries, the PRS has been the vehicle for implementing this agenda providing a frame of reference for development partners to coordinate around.

56. In some country contexts, the UNCT has been able to play a central role in promoting this reform agenda. In particular, the country studies suggest that education, health, livelihoods, food security, gender and governance are sectors or themes where the UNCT has been able to play a coordinating role. This sector engagement is discussed immediately below; it is an area on which UNCTs have often made good progress which is far less commonly true for engagement in DBS or JAS. DBS is often seen as a threat to UN agencies because of the resource flow implications – the potential loss of bilateral support to local programming. In the country studies, this view was expressed even though use of DBS has been associated with increases in sector budgets, especially education and health, where UN agencies are major contributors. The Zambian and Malawian country studies both found that the UNCT was awkwardly placed as the forum for dialogue between government and partners was increasingly centred on DBS discussions – in turn linked to the PRSP – in which the UN had limited voice in the absence of a financial contribution. Governments sometimes encouraged UN participation as a countervailing voice to some of the powerful development partners but the process was unsatisfactory. It is **recommended** that urgent attention is given to clarifying

UNCT roles in DBS processes. DBS is expected to increase as a proportion of total aid and uncertainty over their DBS role is a source of disillusion with the aid reform process for some UN agencies. UNDP (2005) have provided some guidance to their staff but a UNDG lead is needed. As PRS strategy is increasingly linked to DBS discussions there has been growing concern over the absence of a clear articulation of pro-poor policy within those discussions and the case for supporting UNCT involvement in a systematic and coherent way is strong. The UNCTs could legitimately identify a role around the MDGs, linking DBS discussions to sector strategies or, for example, supporting monitoring activities. As noted above, the shift to DBS should rather become an opportunity for UNCTs to have stronger influence on sector priorities relating to human development as bi-lateral agencies move towards DBS.

57. On JAS, which we use as shorthand for the harmonisation agenda, the UNCTs are somewhat better placed since, in some countries at least, they have managed to engage as partners trusted by government to lead on coordination efforts. But the country studies showed a variety of experiences with some pretty weak roles, e.g. Uganda, on JAS processes. The Zambian study showed a problem in relation to the UNDAF and JAS processes that resulted from a perception that the UNDAF was creating a parallel vehicle for UN harmonisation and undermining the JAS. In contrast, the Azerbaijan country study found that, though there had been an energetic UNDAF process, the UNDAF did not really feature in the interviews and the focus was very much on the NDS. In effect, the UNDAF operated there, as ideally expected, as the vehicle for coordinating UN inputs, and for signalling its areas of comparative advantage and leadership, but it was subordinate to the NDS as the focal point for partnership. HQs requirements on the UNDAF are clear so it is difficult to see what the Zambian UNCT could have done without reform of the guidelines in specific relation to the wider harmonisation agenda. The core problem was one of poor timing since the UNDAF pre-dated the Zambian plan. This is an area which has been addressed in the new UNDAF guidelines. However, there remains a problem that, since the UNDAF is the means of planning and then accounting for activities within a work plan the focus of the reporting is on the UN coordination not on the wider aid architecture. Two recommendations come out from the country studies. First, to clarify the ways in which UNDAF processes are or should be part of the wider harmonisation and alignment agenda it is **recommended** that Paris Declaration principles should be applied at the UNCT-level. In other words, UNCTs, in RC reports and in UNDAF reporting, would cover the totality of UN country engagement and provide an assessment of strengths and deficiencies in relation to those Paris principles. This is consistent with the review (UNDG 2007c) by Resident Coordinators of the early 'Development as One' (DaO) experience (as the One UN pilots are referred to there.) This should lead to tangible improvements in actual coordination as gaps are identified but above all it would strengthen the perception from development partners of the UNCT as an active participant in the wider reform agenda. Secondly, it is **recommended** that RCs should also report explicitly, and in a structured way, on how the UN is contributing to that wider reform agenda, seek to identify gaps in the reform process and specify UNCT comparative advantage in H&A processes. In some cases, in recognition of the proliferation problem, this will result in endorsing reduced engagement or more focused engagement in specific sectors central to the PRSP.

58. **Sector strategy and UN capacity.** Sector Wide Approaches (SWAs), often now called programme approaches, are central to the model of engagement and involve policy dialogue on sector strategy, capacity building and sector programming through a variety of funding mechanisms with preference for sector budget support or sector basket funds. They are common in the social sectors and becoming more common in agriculture. They are often maintained, even when DBS is the agreed preferred aid modality, because of perceived

weakness in the sector-line ministries. The sector approach is particularly important for FAO and IFAD since the first MDG is so dependent in many poor economies on improved performance of the agriculture sector. When working well they should be the basis on which PRS-based annual budget proposals and the MTEF process are based. PRSP processes have been frequently criticised for being weak in linking sector strategies to the macro PRSP and budget and therefore for being weak in delineating how budgets translate into poverty reduction outcomes. In some countries, e.g. Uganda, where SWAps are well-established there was close alignment of the PRSP and the MTEF with the fruits of sector strategy work but even so, the treatment of key MDG-related sectors in the PRSP was limited.

59. In several countries, the UNCT was able to play a leading role in strengthening sector strategies through analytic work, technical assistance and close partnership with the relevant government agencies. Many governments were strongly appreciative of the UNCT role especially in relation to sector working groups established by the government to develop PRSPs. In Azerbaijan, Honduras and Mongolia this was underlined by *non-UN* respondents as a significant strength of the UNCT. In particular, these UNCTs organised their inputs through lead agency arrangements which involved detailed intra-UN agency work melding the perspectives and priorities of the different sector agencies. In other cases, e.g. Zambia and Malawi, the centrality, or otherwise, of UNCT engagement was in part related to the strength of presence of other development partners in specific sectors or in the PRSP secretariat.

60. The UNDG Guidelines identify four functions for UNCTs in sector work: coherence/conceptual (support to policy dialogue), capacity development, convening, and financial contribution (UNDG 2005b). The financial contribution to sector basket funds is not often feasible, donors can put in directly, but the other functions were important elements of successful engagement in the countries studied. However, a recurring concern was the technical capacity to contribute to this upstream work. This was a concern observed both at HQ level, in agency documentation, e.g. UNICEF, and in some of the country studies. In some cases, there was also little appreciation for the support provided by regional offices. Despite this, in many cases, government respondents reported positively on the quality of UN technical inputs. It was also clear in some cases, Zambia and Azerbaijan for example, that there was strong leadership and good capacity, with access to additional consultancy services of course; for these countries, critiques on capacity were misplaced. Nevertheless, as noted above, there is recognition, as aid reform proceeds, of the need to strengthen capacity in line with the new skills sets required.

61. It is not clear either to what extent the concerns really reflected limitations in a quality sense or were merely a quantitative concern *relative* to the TA available from other development partners. Certainly, in some case it was clearly the latter (Malawi). There were also mixed reports on how well the UNCT had used local capacity within its operations. In some cases, e.g. Azerbaijan, it was clear that local staff had been very important in sector work and that this was appreciated by the government. In other cases there was an apparent problem in the international-local staff relationship that undermined commitment and effectiveness.

62. The sector-level engagement of the UN agencies is central to their role in the new aid arrangements and PRSPs. In terms of the model given above, such sector-level work should *not* be seen to displace stand alone projects, except those that are off-budget. Projects, within sector budgets, will remain an important means of engagement but should be as a consequence of sector policy dialogue and programming that identifies local needs rather than projects that are only responsive to global mandates. However, progress along these lines is extraordinarily

mixed with stand alone off-budget programmes remaining common even whilst other UNCTs are winning plaudits for leading on coherent sector strategies. Clearly, the commitment of HQs to this sector emphasis in PRSP processes is needed to ensure that their directives are consistent and that funding is driven by sector dialogue rather than its availability driving programme choices. Some agencies, (e.g. UNDP certainly and UNICEF), have made a strong effort to strengthen capacity on upstream sector-level work and there was wide appreciation of the importance of engaging in upstream sector work (UNICEF 2005). The further development of practice requires deeper engagement with preferred modalities of assessing results and poverty outcomes based on Public Expenditure Reviews (sectoral) and Poverty and Social Impact Analyses.

63. A particular concern, that is addressed through JAS processes in part, is coordination of sector-support and building on comparative advantage. The UNCT is very much engaged in partnership and should not expect to seek to be comprehensive in its contributions to sector groups linked to the PRSP. These capacity needs are very context specific and general assessments of capacity limitations, based on limited examples, are of limited value. As reported earlier, there was considerable satisfaction reported, e.g. in Azerbaijan and Mongolia, around technical support from the UNCT but this was not universal; generalisations across so many agencies are inappropriate. Nevertheless, as the focus on the reform agenda grows, and PRSP engagement evolves as a part of that, it will be important to know whether capacity constraints are being addressed effectively. It is **recommended**, that the best practice on support to sector programming is documented, shared and mandated for UNCTs. It is further **recommended** that the demand-driven role of regional offices in support of UNCTs be more clearly specified and determined more clearly by UNCT engagement in national policy processes. The experience of UNAIDS in supporting coordination of HIV/AIDS programming around PRSP processes in a group of pilot countries is an excellent example of the type of approach advocated – see box.

#### **Joint programme on integrating AIDS into PRSPs**

##### **Four key entry points of the Joint Programme**

The Joint Programme uses four key entry points as the framework for country analysis and planning. These key entry points are based on the main processes involved in the preparation of PRSPs, each of which needs to reflect the adequate integration of AIDS. The four key entry points are:

- 1. Participatory process:** increasing the participation and representation of all relevant segments of the population in designing and implementing AIDS responses within the framework of the PRSP
- 2. Diagnostic studies and analysis:** providing evidence for PRSP formulation and implementation through analysis of the linkages between AIDS, poverty, gender, income and other inequalities, and other factors contributing to HIV vulnerability and AIDS impact
- 3. Policies, strategies and resources:** taking account of AIDS in macroeconomic and sectoral policies and ensuring these are costed
- 4. Monitoring and Evaluation (M&E):** monitoring and assessing the implementation of the AIDS strategies in the PRSP, as part of the overall M&E framework of the poverty reduction strategy

Source: UNAIDS, UNDP and World Bank (2007)

64. **Partnerships** with government and with other donors have been addressed at some length in this paper but the UN family has a special role in its partnership arrangements with civil society. The country experience showed, in all countries, that civil society partnerships, notably of course NGOs, were a central part of much agency work. This was particularly true

also specifically in PRS/NDS context where UN support for NGO participation was important in most countries. This has been an important activity from the very inception of PRSPs for the UN. Nevertheless, a common weakness of PRSPs, reported in most of the country studies, has been in regard to effective civil society engagement in the PRSP process. It is difficult to generalise here since there is such a variety of experience but even when there were very positive accounts from NGOs of UN support it was not apparent that this support was strategic in its application. It tended to be agency agenda specific and *ad hoc* rather than supporting a coherent long term plan for the civil society functions within PRS/NDS processes. Sometimes it was grounded in specific aspects of HRBA support, without clear programme outcomes, and even when strongly targeted around PRS processes it generally offered little funding continuity. There was no evidence of a concerted development of strengthening civil society participation in PRS processes that was strategic in nature, based on a political analysis. For example, there was no reference to the drivers of change studies that other donors have supported to understand the politics of the policy process, including the role of parliament, and the opportunities to influence pro-poor policy change through strategic support. Of course, if governments are not supportive of the civil society role then the UNCT is severely constrained and very often the progressive agendas of rights-based NGOs will not find favour easily in senior government circles. And, the NGOs have their own agendas, and may be uncomfortable if they perceive the UN agenda too narrowly focused on the MDGs. In reality, the focus on MDGs *is* consistent with broader rights-based approaches but it has taken some time for many involved, both from the UN and NGO sides, to fully appreciate the coherence of the two agendas. A further complication is that other donors, with other agendas, are effectively competing for the loyalties of leading NGOs.

65. Four possible roles – advocacy, watchdog, monitoring and service provider have been identified, e.g. by the UNDP governance centre, as functions that civil society could fulfil. It is **recommended** that UNCTs consciously identify how they can support different NGO roles based on a strategic assessment of which roles should be prioritised for the PRSP and the MDGs and of how civil society strengthening can most effectively support these roles. Such assessment will necessarily examine the role of different actors including parliament, the media and the private sector, but NGO roles will usually be of central strategic importance in providing the organisational basis for effective civil society engagement in PRSPs. UN agency support to NGOs has, properly, had a much wider remit than the MDGs of course. This proposed strategy is *not* a departure from a focus on the normative rights agenda. It *is* a departure from uncoordinated support to NGOs from different agencies in support of their own programming and a proposal for greater coherence around opportunities to empower NGOs in PRSP and MDG processes.

**66. Needs assessments** MDG needs' assessments have been used in a large number of countries to further the identification of national MDG strategies. These national assessments have not always been a smooth process and resulted in difficult negotiations with development partners, rather than with the government. They have been an important part of the MDG agenda but have not always been conducted in the most effective way to really influence priorities and budgets within the PRSP process which is unfortunate. As described below, there are in fact important allies within the development partner community that could be engaged with more constructively to increase the MDG focus and size of PRSP budgets.

67. As listed in the Malawi country report, the MDG needs assessments had these aims:

- translating the Malawi Growth and Development Strategy (Poverty Reduction Strategy) into operational targets and developing a strategy for increasing 'absorptive capacity'

- providing detailed MGDS (PRS) plans for improved coherence between planning and budget processes and to guide programming of expenditures through the development of a medium-term expenditure framework (MTEF)
- developing a framework for assessing the needs of individual sectors
- providing a monitoring and accountability framework
- supporting the national policy dialogue and negotiations between development partners

68. Central to this work is a costing exercise that seeks to establish the resource envelope needed to achieve the MDGs. Such exercises are dependent on making sensible assumptions that are as accurate as the available data and the costing tool developed through the Millennium Project may sometimes be a rough metric (Millennium Project 2004). The global figures presented in the Millennium Project report were nevertheless valuable in promoting the case for more MDG-related aid, reinforcing pressure to deliver on the Monterrey Consensus (2002); and firmer commitments to increased aid did emerge, at the Group of Eight meeting in Gleneagles in 2005. At the country-level, MDG costing exercises have sometimes been a major source of contention. The Malawi case study identified issues of donor buy-in and government ownership as key concerns. In both Malawi and Mongolia, the quality of training in support of the exercise was questioned.

69. The MDG costing exercise, whilst in high demand from aid recipient governments, has been a source of more general concern in poor economies because of two issues. **First**, there is perceived disjuncture between the substantially increased expenditure implications of the needs assessment and the expenditure options assumed realistic for sound macroeconomic management. Some UN staff interviewed saw the IMF, as arbiter of macroeconomic management in aid dependent economies, as an oppositional force. The IMF macroeconomic analyses are no doubt authoritative but were perceived to undermine MDG-sensitive budgeting. Instead of poverty-sensitive budgeting, the current account deficit and the inflation rate were determining the ability of governments to spend or save additional aid resources (see box below). The policy conditionalities from the IMF do include protection for priority sectors but, in an Independent Evaluation Office survey (IMF 2007a), a substantial majority of IMF staff themselves asserted that the IMF's chief instrument, the Poverty Reduction and Growth Facility, was not responsive to PRSPs and even less to MDGs.

70. The IMF has produced a number of papers recently (e.g. IMF 2007b and 2007c) which have examined the fiscal constraints on spending including aid spending. They are understandably sensitive to criticisms that their policies have resulted in shortages in health and education provision. They have committed to a stronger engagement with medium term expenditure plans, such as would be reflected in an MDG-based public investment and expenditure plan.

### Evaluation report – the IMF and aid to sub-Saharan Africa

*PRGF-supported macroeconomic policies have generally accommodated the use of incremental aid in countries whose recent policies have led to high stocks of reserves and low inflation; in other countries additional aid was programmed to be saved to increase reserves or to retire domestic debt.*

Reserves in the two-three months-of-imports range were found to be the threshold for determining whether the increased aid should be used to expand the current account deficit or to increase reserves. The estimated inflation threshold for determining whether the country got to spend or save additional aid lies within the 5–7 percent range. These findings are consistent with Board-approved policy on the accommodation of aid, management guidance and feedback to staff, and staff views. However, they also help to explain why outside observers perceive the IMF as ‘blocking’ the use of aid: PRGFs in countries with inflation above the threshold are likely to program the saving of at least part of additional aid.

Source: International Monetary Fund, Independent Evaluation Group (2007a: 32).

71. Senior UNDP economists, associated with the Millennium Project, do not feel that the IMF is responsible, by and large, for constraints on aid spending. In fact, the IMF evaluation report (IMF 2007a) provides a set of country study results on this and shows that in some cases they *are* the constraint but only because of ‘deficient’ fiscal management relating to inflation rates and reserves targets. It is not generally exchange rate appreciation through Dutch Disease effects of aid that worries the IMF though they recognise the risks to the exchange rate of heightened domestic investment and consumption through public funds. Their main concerns or triggers, as noted above, are how fiscal management influences the current account deficit and the level of inflation. Nevertheless, the *perception*, including in the World Bank amongst social sector specialists according to the IMF evaluation survey, that the IMF is to blame for limiting poverty-sensitive budgets and spending, is widespread. At a time of challenge for the IMF, observers have also pointed out a disconnect between HQ rhetoric and country realities on PRS processes which has further damaged the credibility of the IMF.

72. The IMF survey also found little difference in perspective, when surveying developing partners, between the international NGO community and the UN in their views on IMF operations. This may suggest that UN critique of the IMF will be seen, as with the NGOs, especially those touting a single cause, as fiscally naïve, e.g. on MDG costings. Certainly, the case detailed in the Malawi country report of donor conflict over the MDG costing exercise did not seem an effective way of engagement. Perhaps it is more useful, as was reported for Mongolia, to see the costings exercise as part of the wider process of MDG advocacy and of sensitising medium term frameworks and annual budget preparations to MDG targets. The Mongolian experience suggests that the exercise had lasting gains in energising sector budget staff to engage with a results-based MDG approach to their work. There is now real opportunity for UN agencies to ensure that sector policy work engages constructively but purposefully with review of spending limits and MTEF frameworks. The Mongolia support was provided through the Regional Office of UNDP in Colombo and they are an important regional resource for this type of work. A main **recommendation** is that the UNDP should build on its experience with MDG costings and take advantage of the current debate on fiscal constraints to offer coherent country-level support to budgeting processes in relation to the

attainment of the MDGs. But, to be successful, this must be developed through existing country processes – sector working groups for example – and must be housed and conducted within the relevant line ministries. It is vital to engage technical and specialised agencies in addressing costing issues and debates on fiscal constraints especially with regard to MDG specific sectors like health, education, agriculture. The literature on costings exercises is extensive (UNDP 2003a, 2003b, 2004) and includes important work (e.g. Reddy and Heuty 2004) that can be used to help strengthen the domestic buy-in from the state and civil society to MDG needs assessment. In support of this recommendation, the IMF should provide greater clarity on when budget ceilings can be lifted.

73. This is an area of policy engagement which is of concern to other development partners supporting PRSPs and where stronger alliances could have been made. The World Bank has been active in analysis of chances to scale-up MDG-related expenditures – see box below. A strong focus of their work is on absorptive capacity, the **second** main issue associated with debate around the costings of the MDGs.

**Opportunities to scale up: delivering on commitments**

*Building blocks for linking resources and results*

A national poverty reduction strategy with a results matrix. Developed by government in consultation with national stakeholders and development partners, it includes plans for addressing weaknesses in the strategy's content or implementation modalities.

- A resource matrix including domestic financing and financial support from aid partners which can be matched against the results matrix; and
- A mutual accountability framework to monitor aid flows and aid utilization as well as assess country and donor performance against prior commitments. Periodic assessments of both country and donor performance by independent observers could provide even more credibility.

Source: World Bank (2007b).

74. Given the commitment to spend through government programmes a problem arises when those programmes are deemed inadequate to allow absorption of substantially increased funding from external resources. The MDG costings exercises, as in Malawi, have been challenged for not being sufficiently sensitive to this concern. The World Bank identifies Building Blocks in relation to scaling up that reflect this concern, but are quite consistent with UN perspectives.

75. Somewhat pettily, PREM, in their 2007 newsletter note on scaling up make no reference to MDGs at all and so no reference to how country processes of MDG planning can and should drive the utilisation plans for larger resource envelopes. Nevertheless, there is shared concern with the issue of increasing aid. Much evidence suggests that pledges, at Gleneagles in 2005, to double aid by 2010 are off track but still there is an expectation of substantially increased resources, especially for the poorest developing countries with acceptable macroeconomic performance. Thus, there is coherence – called scaling-up or attaining the MDGs – according to where you sit, between the World Bank and other UN agencies on the need to invest in planning for more external support for poverty reduction.



76. The World Bank have a major focus on strengthening the articulation of the linkage between patterns of resource use and results, as well as the monitoring of those results. Major worries, with both DBS, and with scaling up aid, concern fiduciary risk, absorptive capacity and the quality of public expenditure. Their emphasis upon the results matrix is the response to those worries.

77. A further element of their approach is an emphasis on accountability, especially of donors, which has emerged with higher priority for donors following the Paris Declaration. Recipient governments complain bitterly of the difficulties in effective budgeting when donor commitments are delayed or dropped; even donor darlings, such as Uganda, have suffered, as did the trust in partnerships, as a consequence of such donor behaviour. Part of the post-Paris pact around domestic ownership is to make good your (donor) pledges both in full and on time, early in the financial year in the case of DBS. Such improved behaviour will encourage macroeconomic plans for resource use, prepared with IMF support commonly, that *budget* for higher levels of expenditure and hopefully then also deliver enhanced pro-poor public expenditure. This mutual accountability is an area which UN advocacy could be strategically used, an honest broker monitoring financial pledges and commitments from both government and development partners. It may not often be appropriate to name and shame but we certainly **recommend** that ensuring local awareness of the probable costs to the MDGs, of donor or government intransigence on financing should be part of the UNCT strategic approach to enhanced MDG resourcing.

**78. Transactions costs** were often cited as one of the undesirable consequences of the reform agenda from the UN agencies in that so much time was spent on getting coherence internally around PRSP engagement through sector groups, in compliance with the UN reform agenda. However, several agencies, especially UNICEF, were appreciative of the process because they could see the results in terms of UNICEF perspectives being strongly advocated in UNCT-government dialogue.

79. UN coherence at sector level was clearly of value in a number of countries in reducing transactions costs to government. The model of a lead agency speaking on behalf of the UN family in PRSP sector groups was particularly successful in Azerbaijan but also worked in other countries (Mongolia, Laos) to a lesser extent. This is a significant achievement and the associated and heightened transactions costs for the UN agencies are an inevitable but necessary element of this coordination reform. However, there are transactions costs transitions as agencies learn the new ways of doing business and to strategically utilise the chance to influence UN family agendas. The agenda is about changing mindsets from a pure agency focus to one of team support for national development processes, and offers its own reward when successfully achieved.

80. Transactions costs are also a concern where the PRSP process brings the UN reform agenda and the wider aid reform agenda into close proximity. The interplay with government development of sector working groups has been a strong aspect of UNCT partnership. In several countries the UN was recognised as a lead partner because of its focus on strengthening government sector group processes through technical assistance, MDG agenda setting and convening. The country research suggested two areas of concern. First, as reported from Malawi, there was a lack of clarity on the division of labour between UNDAF-related thematic groups and partner-based sector groups convened either for PRSP development or for developing sector programme approaches. A general theme of this report, informing many of the recommendations, is to examine more strategically the links between the two reform

agendas and UN programming practices. Here, a specific **recommendation** is to examine opportunities to reduce transactions costs through greater convergence between UNDAF thematic processes and government-managed sector processes connected to the PRSP. A second concern is that relative success of UN inputs in convening PRSP formulation activities in sector working groups is not easy to translate into longer-term sector programming. Policy dialogue tends to become less coherent as agency-specific agendas are sending different signals and HQ mandates become more urgent. Addressing the quality of policy dialogue in sector programming is a major element of the wider reform agenda and this concern is not restricted to UN coordination of course. SWAp experience suggests that opportunistic behaviour becomes more tempting and coherence is more difficult. A specific **recommendation** is that UNCTs should use their brokering role to strengthen the quality of policy dialogue in sector-related planning and programming for PRSPs. This sector-level dialogue and the emergence of programmes ought to be the building blocks for the budget process but the links are often poor (Malawi for example). Even when the links are good (e.g. Uganda) governments repeatedly complain of the very high transactions costs imposed by development partners involved in programme approaches that were supposed to reduce these costs. Moreover, the dialogue is often too strongly focused on process issues –managing inclusive dialogue, the decisions and the money – and not on the strength of poverty reduction outcomes. But it is inherently difficult for the big funders to address issues of trust and objectivity in their sector dialogue and the UN agencies have an opportunity to play a brokering role. This can seek both to improve the analytic focus and quality of dialogue and hopefully therefore the outcomes of the process and to reduce transactions costs.

**81. UN coordination.** The wider aid reform agenda has been flagged as a concern in this paper more than the internal UN reform agenda because the progress on the latter agenda, especially its connection to national policy processes, is much more rapid than might have been assumed likely even only two or three years ago. In the most advanced countries in terms of UN reform, PRSP processes are being increasingly well-served. This aggregate view is perhaps hardly surprising since the internal agenda is so critical to agency and individual futures and performance against the MDGs has become a central goal of that reform process. Some UN Funds and Agencies, notably including UNESCO, UNICEF and UNFPA, have been sensitive with regard to their broader mandate in relation to the PRSP-MDG process. Even though these broader mandates are either directly or ultimately supportive of the MDGs the overwhelming emphasis sometimes placed on the MDGs has been a challenge. It has taken time especially to marry commitment to HRBA with the MDG agenda particularly as funding options are not always driven by the narrow MDG agenda. Moreover, the broader mandates, for example in relation to the Education for All agenda, the Convention on Elimination of Discrimination against Women or the Convention on Rights of Children, partially or mainly driving the programming of some UN Funds and Agencies, are not well articulated in an MDG world and this will remain a source of tension. This is also true with respect to some development fundamentals such as population growth and changing age structures – the demographic trap – which are notably poorly addressed. However, as is evident from the stocktaking (see the UNDG website) on early experience in the ‘One UN’ pilot countries, programme priorities for the UN agencies are driven by comparative advantage. With a clear focus on the NDS as a driver of engagement the UN specialised agencies can serve their mandate as part of a unified PRSP-driven approach as the broad areas of programming, listed in the table below, from the ‘One UN’ pilots makes pretty clear.

<b>‘DELIVERING AS ONE’ PILOT COUNTRIES<sup>8</sup> Extract from stocktaking factual table 26 February 2008 (UNDG)</b>						
<b>Post-pilot programme areas</b>						
<b>Pakistan</b>	<b>Rwanda</b>	<b>Albania</b>	<b>Mozambique</b>	<b>Vietnam</b>	<b>Tanzania</b>	<b>Cape Verde</b>
Agriculture, rural development/poverty reduction	Governance	Governance	Policy and advocacy	Social and economic Development Policies, Plans and Laws support equitable and Inclusive growth and conform to the values and goals of the MD and other relevant international agreements and conventions	Wealth Creation, Employment and Economic Empowerment	Economic Growth
Health & Population	Health, HIV, Nutrition and Population	Participation	Normative and technical support	Quality Social and Protection Services are universally available to all Vietnamese people	Reduction of Maternal and Newborn Mortality  Support to National HIV and AIDS Response	Environment,
Education	Education	Basic Services	Capacity Development	Viet Nam has adequate policies and capacities for Environmental Protection and the Rational Use of Natural Resources and cultural heritage for poverty reduction, economic growth and improving the quality of life	Capacity Strengthening for Development Management Capacity Building Support to Zanzibar	Health,
Environment	Environment	Regional Development	Civil Society Partnerships	The principles of Accountability, Transparency, Participation and rule of law are integrated into Viet Nam’s representative, administrative, judicial and legal systems	Managing Transition from Humanitarian Assistance to Sustainable Development in North western Tanzania	Education
Disaster Risk Management	Sustainable Growth and Social Protection	Environment		Viet Nam has adequate policies and capacities to effectively reduce risks of, and vulnerability to Natural Disasters, communicable diseases, and other emergencies	Strengthening National Disaster Preparedness and Response Capacity	Security vulnerabilities and the achievement of the MDGs by 2015

<sup>8</sup> Uruguay, as a non-IDA country in the eight pilots and not having a PRSP, is not included.

82. The Honduran study is specific in its assessment of the UN coordination problems potentially faced with these competing perspectives on priorities. It uses Albert Hirschman's Voice, Exit and Loyalty metaphor arguing that agencies can choose to exit (limit engagement) in UNCT processes if their underlying interests are not being represented; in turn RCs can buy loyalty by ensuring that voice – agency agendas – is respected. For smaller agencies, loyalty may be a tactical move anyway to piggy-back on RC initiatives and resources. The overall impression from country studies, at least those with very recent PRS/NDS processes, was that voice was being respected and that the specialised agencies were appreciative of the opportunities created. However, frequent reference was made to the importance of personalities, especially around the way in which RCs conducted the UNCT processes. In at least one case, agencies were unhappy with the way in which the RC (UNDP) managed relations rather unilaterally with the BWIs, and fear of UNDP dominance, often not really supported, was expressed on some occasions. A main finding from the study was the relative strength of internal coordination processes when actively and thoughtfully pursued with clear demarcation in RC and UNDP Resident Representative roles and in line with undg guidance. The need is not, primarily, to strengthen the guidance in any fundamental ways but to promote its implementation and it is very much a case of pushing against an open door – agencies are willing. The **recommendation** here is simple – share best practice on internal UN coordination. The main concerns emerging from this study relate to the engagement with wider reform processes in the context of the PRSPs not on internal reform. The detailed guidance available on UNDAF, especially on locating it in NDS/PRS as well as the country experience demonstrated that internal coordination issues are being increasingly effectively addressed.

**83. The information base.** The UN System has of course played a hugely important role in strengthening information systems in developing countries and this role is widely acknowledged. It leads on some of them, especially those responding to international monitoring needs (MDGS, DevInfo), of which there are a lot, and, as a consequence, it has been especially directed to strengthening the credibility and capacity of locally-run and accredited information systems. The UNDP especially has been heavily involved in the development of PRS monitoring activities and seeking to link them to the MDGs. This is crucial for the assessment of policy quality and, where DBS is important, is obviously key to an assessment of the poverty-reduction content of aid.

84. There was a very positive view of this support reported in the country visits notably including support to the important national need of the development and monitoring of localised MDGs. Even so, in this study context the fissures in this globally-driven programme are immediately apparent in specific country context when the practice of PRSP monitoring is assessed against MDG reporting. Very often, there is no link between reporting on the PRSP and reporting on MDG targets and separate reports are issued. This occurs even in countries where the development of monitoring indicators for the PRSP has been aligned to the MDGs. Given the 'vision' of PRSPs as MDG delivery instruments this is a clear deficit. The UN system has specific MDG reporting needs of course but it is **recommended** that more systematic attention be given to alignment of MDG and PRS/NDS monitoring.

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*This study has drawn on a wide range of literature but the reference list is restricted to those publications explicitly cited.*

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**Annex**  
**Terms of reference**

**Review of UN country team engagement in national development strategies/Poverty  
Reduction Strategy Processes**

**January 2007**

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**Objective**

The purpose of this review is to assess how effective the involvement of UN agencies, collectively and individually, have been in the PRS processes. The review should identify lessons learned/constraints in integrating the UN development agenda, particularly the MDGs in the PRSs/NDSs.

**Background**

In 2005 the World Bank and IMF undertook a PRS review to assess progress, challenges, and good practice, with a view of enhancing the PRSP's effectiveness as a vehicle for attaining the MDGs. The review included consultations with staff from the UNDG agencies. The final report issued in September 2005 rarely mentioned the UN in the PRS process.

Involvement of UN country teams in the PRS processes started with the inception of the PRS approach in December 1999. The Executive Boards of the World Bank and the IMF approved a new policy instrument, the PRSP, designed to serve as a framework document for concessional lending. The declared objective of the PRSP is to promote poverty reduction strategies that are country driven, results oriented, comprehensive, prioritised, partnership based, and framed within a long-term perspective.

In November 2001, the UNDG issued a *Guidance Note to UNCTs on the PRSP* to support national efforts on PRSs and to pursue the UN's poverty focused goals. In May 2003, the Managing Director of the World Bank and the Chair of the UNDG sent a joint letter to UN Resident Coordinators and WB Country Directors emphasising that the PRSs provide a key opportunity to mobilise national actors to achieve the MDGs.

An assessment of the role and experiences of UN agencies with the PRSPs was made in November 2003, providing the basis for an update of the guidance note to UNCTs in January 2004. The assessment focused on how the UN system could improve the effectiveness of its contribution, without assessing successes, weaknesses and problems faced by UN country teams.

The purpose of this review is to assess and suggests ways in which the UN agencies at country level can reposition themselves to maximise their comparative advantages to assist effectively and strategically the national development process. The importance of this exercise is underlined by the implications from the Summit Outcome Document and the request to 'adopt, by 2006, and implement comprehensive national development strategies to achieve the internationally agreed development goals and objectives, including the Millennium Development Goals'.



Currently, 49 countries have prepared national poverty reduction strategies. Of these, half of them are in sub-Saharan Africa, and a similar proportion corresponds to heavily indebted poor countries (HIPC).

UN country team participation in the PRS processes has increased. In 2005, 39 UNCTs provided support to and were involved in the preparation and implementation of the PRSPs.<sup>9</sup> Engagement in the PRS processes has provided UN agencies with an opportunity to push for the inclusion of the MDGs and advance social, humanitarian and environmental strategies for poverty reduction.

### **Outputs**

A comprehensive report that contains:

- ⌋ A review of the quality and effectiveness of UN country teams' involvement in the formulation/implementation of national development strategies/PRSs in terms of strategic positioning of the global UN development agenda and MDGs at country level in support of national priorities;
- ⌋ A set of recommendations and lessons learned to assist UN country teams in improving their effectiveness.

### **Methodology**

- ⌋ Desk review of evaluation documents undertaken by the UNDG as well as individual UN agencies in their involvement in the PRS process;
- ⌋ Desk review and analysis of national development plans/PRSs in selected countries;
- ⌋ Interviews and consultations with key UN staff at country level, regional bureaus and HQs for structured discussions at appropriate stages in the review process.
- ⌋ Field visits to selected countries for closer examination and consultations with national partners.

### **Timeframe**

The entire review should be undertaken within a three month period in order for the recommendations to be fed into the revision of the UNDG Programming Guidelines.

- ⌋ Desk reviews: February
- ⌋ Interviews and field visits: April/May
- ⌋ Report writing: June

### **Other Information**

The consultants would report to the DGO Associate Director for Policy and Global Quality Standards and the chair of the UNDG Working Group on MD/MDGs and work in close cooperation with members of the Working Group on MD/MDGs, the WG on Programming Policy, the Country Programming Support Group and DGO staff.

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<sup>9</sup> This information comes from the Annual RC Report s submitted to DGO.