



## Repositioning but Where – Is the UNDS Fit for Middle-Income Countries?

### Summary

After intense negotiations, the United Nations General Assembly has endorsed the reform of the United Nations Development System (UNDS). Most players in New York, including Secretary-General António Guterres and ambassadors to the United Nations, are optimistic that the UNDS will now take the multi-adjective route requested by the General Assembly (“more strategic, accountable, effective, transparent, collaborative, efficient, effective and result-oriented”).

However, the reform’s actual litmus test will take place at the country level. Governments are expecting the UNDS to support the domestic implementation of the 2030 Agenda for Sustainable Development. The ever-expanding and diverse family of middle-income countries (MICs), in particular are demanding increased and better engagement with the UN agencies, commissions, funds and programmes working on sustainable development challenges and opportunities. Indeed, the 2030 Agenda and the UN’s role in the agreement’s success are to a large degree dependent on progress in both lower and upper MICs.

All essential elements of the 2030 Agenda are under stress in MICs: The MICs economies are transitioning from survival to prosperity; their societies are facing stark inequality and accelerated modernisation, and their ecosystems are under

extreme demographic and economic pressure. MICs also are struggling with increasingly urgent cross-sector challenges, such as climate resilience, migration, security and rule of law.

Despite the relevance and specific demands of MICs, the UNDS remains largely incapable of catering to their priorities at strategic and operational levels. The UNDS is not the only development actor that supports MICs in their efforts, but it needs to become a valuable partner for governments, especially in advising and supporting government-led implementation of the 2030 Agenda. To seize the momentum of global development, the ongoing reform must make the system “fit for MICs,” starting with the following fields of action:

1. Fully align with MICs priorities: the UNDS needs to be up to speed with country initiatives in terms of governance, planning, statistics and partnerships.
2. Provide relevant high-quality support: Beyond the poverty lens, UNDS should increase its capacities to deliver support that is relevant to complex national priorities of MICs.
3. Make financing a top priority: the UNDS has a key role to play in supporting MICs exposed to manifold financing challenges, from decreasing Official Development Assistance (ODA) to unsustainable debt.

## The country context of the 2030 Agenda

In more than 100 countries, the 2030 Agenda for Sustainable Development has started to inspire renewed public policies and institutional arrangements to eradicate poverty and inequality, while ensuring economic prosperity and protecting the environment. In many ways, the dimensions of the 2030 Agenda at the national level are outpacing those at the global and regional levels.

As stated by the Secretary-General in June 2017, UN agencies are still trapped in a model that “has reached its exhaustion point and is insufficient to match the ambition, effectiveness and cohesion required by the new agenda”. At the centre of his concerns is the ability of UNDS to “deliver at the country level” and to “ensure country-contextual responses”. As part of the ongoing reform, “country context” is particularly critical for MICs pursuing the 2030 Agenda under volatile institutional and operational conditions.

### Why do MICs matter?

The degree of national commitment to sustainable development is captured in one of the salient features of the 2030 Agenda, its reporting system. The 2015 agreement encourages member states to submit Voluntary National Reviews (VNRs) to the annual High-Level Political Forum on Sustainable Development (HLPF). During the HLPF’s first cycle 2016-2019, 118 countries have reported on their efforts to implement the 2030 Agenda and its Sustainable Development Goals (SDGs).

To date, out of the 118 countries reporting to the HLPF between 2016 and 2019, 59, or 50 per cent of them, are MICs, compared to 42 high-income countries and 17 low-income countries.

Within that group, 34 upper MICs (with a gross national income (GNI) per capita varying from \$3,956 to \$12,235 in 2018) constitute the larger subset. Given the wide income range, this is a rather heterogeneous universe embracing countries as distinct as Argentina, Botswana, Fiji, Romania, Turkey and Thailand. Despite the differences among them, the upper MICs can credit economic success, rather than ODA, as the factor, which has enabled them to thrive. Upper MICs still need to address a very complex set of challenges, particularly in the areas of human capital development, technological innovation, urbanisation, public-sector reforms and access to international financing (mostly through loans and Foreign Direct Investment). In essence, they must move rapidly to keep pace with the accelerated globalisation of their economies, while also extenuate social inequality and build up climate resilience, particularly in their industries and infrastructure.

At the same time, 25 lower MICs (with a GNI per capita ranging from \$1,006 to \$3,955 in 2018) have submitted their VNRs to the global community. This subset encompasses large economies, such as Bangladesh, Indonesia and Nigeria, as well as smaller ones, such as Cape Verde, El Salvador and Lao DPR. Governments of lower MICs often

sense that their needs deserve more attention in global policies. No longer poor enough to qualify for large-scale ODA and concessional loans, those countries have limited capacities to attract other types of development finance.

Across the board, diverse vulnerabilities affect lower MICs’ capacity to break the ceiling towards an upper MIC status. Natural disasters, migration, security and social inequality tend to severely affect societies and economies. Economic growth encounters enduring caveats in terms of global competitiveness, innovation and market size. Therefore, many lower MICs – for instance, in Central America – continue to oscillate between sheer survival and wealth creation.

### Implementing the 2030 Agenda: What have MICs learned over the past two years?

An analysis of the VNRs submitted in 2016 and 2017 shows that the 2030 Agenda is motivating both upper and lower MICs to sharpen the strategic focus of their development policies, adjust institutional arrangements and deepen capacities to plan, deliver and account for sustainable development. The following key areas of action have emerged:

*Fine-tune development strategies towards sustainable development and reinstate long-term development as a key priority:* While the Millennium Development Goals (MDGs) failed to cover adequately MICs’ needs and priorities, the 2030 Agenda enables governments to direct strategies towards areas that previously lacked a globally accepted framework, such as clean energy or infrastructure. The Agenda has also brought development back on the public agenda, building up new energy for governments to not only focus on sector-level solutions, but also to pursue a long-term development model as a *raison d’être* of government.

*Governance for sustainable development:* Many MICs have created or upgraded existing inter-ministerial coordination mechanisms with political and operational arms for the implementation of the 2030 Agenda. In a number of MICs, this comes at a time when development leadership has moved from ministries of finance to presidencies and ministries of development planning.

*Make statistics a priority for government action:* At this stage, most MICs are only able to measure, on average, between 40 and 50 per cent of the 232 indicators of the SDGs in a meaningful way. Along with a renewed commitment to sustainable development, the demanding statistical framework of the 2030 Agenda has become an inspiration for many MICs to continue to enhance their statistical capacities.

*Innovate development finance:* MICs are facing wide gaps in their efforts to finance the implementation of the 2030 Agenda because of the volatility associated with international trade and investment and decreasing ODA. Governments are developing comprehensive financing strategies, with additional attention paid to boosting domestic resource mobilisation. For MICs, the latter is particularly vital for carrying out ongoing fiscal reforms, fighting tax evasion and combatting illicit financial flows.

**Box 1: Early lessons for UNDS in Central America**

Central America has become a reference for the implementation of the 2030 Agenda while receiving only intermittent UNDS support. Facing severe challenges, such as social violence, large-scale migration, natural disasters and macroeconomic volatility, the small lower MICs, El Salvador, Guatemala and Honduras, have made strides in updating public policies related to critical SDGs, further developing statistical capacity and extending partnerships with non-state actors. For instance, Guatemala is designing “SDG nodes” within its national development plan. In El Salvador, 58 government institutions are reviewing policy gaps in ten priority SDGs. Also sub-national governments, such as the one for capital of Honduras, Tegucigalpa, are updating their municipal development plans in the light of the SDGs and their indicators. Although El Salvador and Honduras are part of MAPS, to date, UNDS support has been slow, mainly focused on the United Nations Development Programme (UNDP) financing events and regional support from the Economic Commission for Latin America and the Caribbean (ECLAC) on mapping statistical capacity. In the three countries, progress in ensuring support and alignment of UN agencies with national processes is sketchy, mostly because of strategic and capacity constraints of the UNDS. Although Resident Coordinators maintain close communication with the government’ entities leading national implementation of the 2030 Agenda, this does not translate into a system-wide approach.

*Deepen partnerships with non-state actors:* Until the adoption of the 2030 Agenda, the relations of many MICs with domestic non-state actors, such as civil society, academia and the private sector, had become an increasingly small, unattended niche. The new global agreement, however, offers vast potential for renewing partnerships and engaging in a broader dialogue on development models and pathways.

*Rethink the role of the international community:* Particularly for lower MICs, the 2030 Agenda has inspired new action to reinvigorate dormant donor coordination by opening a new dialogue on national development. There is now additional pressure on bilateral and multilateral donors to align their funding with domestic policies for sustainable development.

### Key areas for future UNDS support to MICs

Despite the prominent role of MICs in the implementation of the 2030 Agenda, the current UNDS reform has little to offer in terms of the specific support options for MICs. Much remains to be done to adjust the UNDS portfolio to those countries’ processes to achieve sustainable development.

To date, support extended to MICs is mainly channelled through the Mainstreaming, Acceleration and Policy Support (MAPS) programme, which has provided resources to UNDS country teams supporting the initial phases of governments’ adaptation of the 2030 Agenda. The programme, however, has to date failed to consistently address the core challenges faced by MICs, particularly at the policy and programmatic level.

The following are particularly relevant areas that the UNDS needs to address in collaboration with MICs:

- *An accountable and consistent country presence:* The reconfiguration of UNDS country teams is a core issue of the ongoing reform. The Secretary-General has called for a new generation of country teams “based on country priorities and context.” In many MICs, country teams are divided by fierce competition over limited UN resources at the country level (\$2.52 per capita in MICs, compared to \$12.03 in least developed countries). Their lack of knowledge and understanding of adaptation of the 2030 Agenda at the national level often leads to delays in the interaction with governments. MICs also express concerns about the lack of accountability of the UNDS, as the system tends to work in a parallel universe without reporting their activities consistently towards host governments.
- *UNDS portfolio aligned with country priorities:* Based on the current reforms, the existing format of the United Nations Development Assistance Frameworks (UNDAFs) is intended to galvanise all UNDS support (i.e. “system-wide”) to the 2030 Agenda at the country level. To date, however, in most MICs, new or updated UNDAFs merely relabel existing UN programming with SDG tags. In essence, UNDAFs in MICs need to leave behind the separate universe of country programming and reverse the inertia of many UN agencies. For MICs, it is, therefore, vital to ensure that government leadership – rather than the interests of the UNDS – shapes the next generation of UNDAFs.
- *Demand-driven and on-time expertise:* As stressed by the secretary-general, the UNDS should transition from the poverty-focused MDGs towards the more complex SDGs, particularly with regard to the “new” economic goals, which are at the heart of most of the national development agendas of MICs. Weak UNDS expertise in those areas is sensitive, particularly for lower MICs unable to buy much-needed expertise elsewhere, for instance from multilateral banks. The ongoing reform should mobilise cross-country support at regional and global levels and further invest in UNDS human capital, particularly in the area of upstream policy advice.
- *Convening national dialogue:* In MICs, the convening power of the UNDS is essential, as political systems tend to be confrontational, relations with non-state actors are difficult and dialogue with the international community is fragmented. A challenge for many MICs is to ensure medium-term continuity of the efforts to implement the 2030 Agenda already underway, especially across election cycles. The UNDS could become a guardian of national priorities and global agendas, while also help to articulate the national dialogue on contested issues.
- *Country-led financing strategies:* Financing the 2030 Agenda has become a priority for virtually all MICs because of decreasing ODA, tight fiscal frameworks, volatile trade patterns and increasing debt. Concerned with UNDS’ own funding, the current reform plans do not offer any insights that support MICs in mobilising domestic

and international resources, for instance in line with the Addis Ababa Action Agenda (AAAA). Under the lead of the United Nations Development Programme (UNDP), there are incipient, case-dependent experiences with conducting AAAA-based Development Finance Assessments (DFA), primarily in Asia and the Pacific. However, to prevent national efforts to adapt the SDGs from fizzling out in a financial vacuum, MICs require more strategic and consistent support in that area.

- *Regional structures relevant to country processes:* The regional level of the ongoing reform process is highly contentious after the Secretary-General bluntly pointed to the excessive costs of regional UNDS structures. Particularly for MICs – affected by increasingly limited country presence and needing access to relevant expertise provided by UN entities at the regional level – this is a top-priority issue. At the core, the regional economic commissions could provide more efficient and relevant regional platforms centred around supporting the implementation of the 2030 Agenda at the national level. MICs would also benefit from a reconfiguration of the balance between regional and national support options and service delivery.

Considering the weight of MICs in global and regional development, as well as their efforts to implement the 2030 Agenda, it is high time for the UNDS to design and deliver relevant support to those countries. Going beyond inward-looking changes, the implementation of UNDS reform must deal with the distinct needs of MICs in the following three fields:

1. Fully align with MICs processes: the UNDS needs to be up to speed with country initiatives in terms of, among other areas, governance, planning, statistics and partnerships, leaving behind the inertia of parallel programming and the lack of accountability towards host governments.
2. Provide relevant high-quality support: Beyond the poverty lens, UNDS should expand its capacities to deliver support that is relevant to the increasingly complex national policies, especially among lower MICs less capable of acquiring expertise elsewhere.
3. Make financing a top priority: The success of the 2030 Agenda depends on the ability of MICs to finance the implementation of the 2030 Agenda. The UNDS has a key role to play in supporting MICs exposed to manifold financing challenges, from decreasing ODA to unsustainable debt.

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