

# The “Amazon Moment”—A New Business Model for the United Nations at the Country Level

Patrick J. Tiefenbacher, Global Goals Consulting

## Introduction

When diplomats reflect on the contribution of the UN to development in their countries, they often credit the fact that UN entities “were there on the ground” to accompany them. Over the course of forty years, this mantra fueled the creation of offices across 180 countries, and today, UN presence around the world is close to unrivalled.<sup>1</sup> While a few peacekeeping missions have become permanent fixtures,<sup>2</sup> the mandates of peace, political, and humanitarian operations, and their presence in countries are regularly reviewed. The UN Development System (UNDS)<sup>3</sup> does not fall under such strict scrutiny, which has resulted in a sprawl of over 1,400 individual premises at last count (United Nations 5 May 2016). The types of presence vary widely, from being barely more than a postbox and a flag to high-tech structures maintaining their own off-grid energy and water supply. The physical presence of the UNDS comes with a heavy price tag, and exact figures are not easily available since the costs are spread over the budgets of many independent entities.<sup>4</sup>

Development is a complex, long-term process, and the academic literature and UN evaluations have documented the shortcomings of aid workers “parachuting” into a country with ready-made solutions. That knowledge has long stifled debate, but questions on the right level of presence are neither new, nor are they exclusive to the UNDS (Bjola 2015). Several governments are downsizing their networks of bilateral embassies,<sup>5</sup> and diplomats have become skeptical of the relevance and performance of field offices.<sup>6</sup> Overall, however, the debate in UN oversight bodies has largely shied away from questioning the UNDS’ fundamental operating model at country level.<sup>7</sup>

The argument for such an extensive network of offices draws back to the mandates of UNDS entities: Advocate for change in line with universal human rights; provide advice based on analysis of the local development context; assist with the implementation of projects; and serve as a platform for dialogue among development stakeholders from inside and outside the host country. Less frequently mentioned is the traditional accountability function of UNDS offices to ensure that donor money is safeguarded. At one point, presence on the ground was closely tied to the need for proper checks. National entities were considered as having insufficient capacity to handle donor funds directly, and so the UNDS built up parallel financial and procurement services under their direct control (United Nations 1 February 2017). While the

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1. The U.S. maintains embassies in 176 countries, and Deloitte, as the world’s largest professional services firm, has subsidiaries in about 150 countries.

2. UNTSO and UNMOGIP exist since May 1948 and January 1949, respectively.

3. The UN Development System typically encompasses forty-eight entities that are members or observers in the UN Development Group, but no exact definition exists.

4. In 2016, the Independent Team of Advisers to the president of ECOSOC attempted to establish a figure but did not include it in their final reports.

5. Austria, Nigeria, Norway, South Africa, and the U.S.—just to name a few—have all announced the closure of embassies in recent years.

6. The latest illustration is the recent UNESCO Executive Board decision (UNESCO 18 November 2016).

7. Only three of the fifty recommendations by the Independent Team of Advisers set up by ECOSOC explicitly target the country level.

UNDS can look back on successes in helping governments lift their countries out of poverty, its current business model has likely run its course and needs to be replaced.

### **Challenges Facing the UN Development System**

The first comprehensive—and arguably most visionary—critique of the UNDS harks back to the so-called “Jackson Report” issued in 1969. Sir Robert Jackson pulls no punches when discussing the shortcomings of UN operations at country level:

Below headquarters, the administrative tentacles thrust downwards into an extraordinary complex of regional and sub-regional offices, and finally extend into field offices in over ninety developing countries. [. . .] No one today in the UN development system is fully informed about all aspects of the present operation. (United Nations 1969)

Almost four decades ago, Jackson did not advocate for the closure of field offices, and his prescriptions were largely intended to bolster the role of the UNDS compared to the World Bank; however, the problems he uncovered still ring true today.

The inadequacy of a primarily country-based model is becoming more glaring in light of recent trends: (a) the number of middle income countries with improved domestic capacities is increasing and inequality is rising; (b) transboundary issues, such as climate change, migration, and terrorism are becoming more prominent; (c) goods, capital, labor, and knowledge are increasingly mobile; (d) the flow of resources needed for development is changing, with stronger emphasis on domestic resource mobilization and private international flows, such as remittances and private foundations; (e) decision-making on development is shifting away from national capitals, both to the supra-national level, as well as the sub-national level; and (f) information and communication technologies enable real-time interaction and provide new insights thanks to “big data.” Together, these trends exacerbate the challenges the UNDS is already facing.

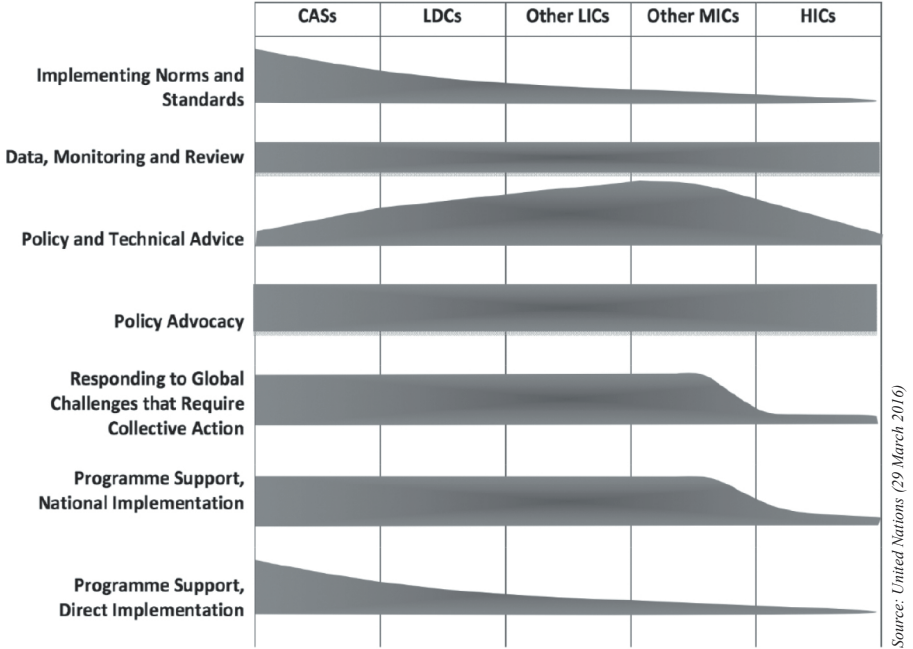
First, the UNDS is still stuck on delivering projects, even though most of them play a rather marginal role given their small size. In a quarter of all developing countries, the total UNDS expenditure was less than \$5 million in 2014, prompting the “Independent Team of Advisers” to the ECOSOC president to pronounce:

This level of delivery is too low to justify physical presence in many of these countries. The UNDS clearly needs to come up with alternative means of representation, including for instance through appointment of honorary UNDS representatives in countries where current physical presence cannot be adequately justified. (United Nations 21 April 2016)

As countries and their populations climb the development ladder, the assistance they demand shifts from continuous generalist functions (e.g., programme support and implementation) to short-term, high-impact functions (e.g., policy and technical advice), as illustrated in Figure 1. The increasing number of middle income countries goes hand-in-hand with a more diversified set of development actors who manage their own projects (World Bank 2016). Private entities, such as nongovernmental organizations and private-sector foundations, pursue their independent priorities, and their role cannot be reduced to that of an implementing partner of the UNDS. The challenge for the UNDS is to find ways to add value to the development efforts of others, thereby multiplying its impact, instead of just delivering its own projects

Second, collaboration within and among UNDS teams at country level is inadequate. This is equally true for teams working on the same topic in neighboring countries and, even more tragically, teams from different UNDS entities in the same country. The response of the UNDS was to create 837 so-called “results groups” at country level tasked with guiding the work of their experts (United Nations 18 July 2016). The lack of coordination among UNDS entities on the ground is a well-known issue, and the UNDS budgeted \$127 million for the UN resident coordinator system this year alone to orchestrate its own work at country level (United Nations 17 March 2016). However, none of these measures address the challenge of collaboration across boundaries, nor do they enable learning across countries. The Ebola crisis illustrated the limits

**Figure 1.**



of the UNDS country-based model, which had to be complemented through a specific mission<sup>8</sup> with a regional approach.

Third, it is increasingly challenging to have the right people at country level. Originally, UNDS entities sent expatriates into field offices to perform most functions, similar to bilateral embassies. In the 1990s, the concept of “national officers” was created, which meant that local employees could work in their home country and gradually filled almost all functions, except for representation vis-à-vis their own country. The emergence of national offices corresponds to budding concerns about local costs since their salaries are tied to local market conditions, resulting in lower costs compared to international staff members. With rising levels of development, the need to bring in expatriates for day-to-day functions diminished, and the demand for international know-how shifted from generalists to highly sought-after top-class specialists. Not everything the UNDS does is “rocket science,” and deploying such expertise on a country-by-country basis would be impossible; however, when the situation does require a “rocket scientist,” the UNDS needs to be able to field one. Moreover, an increasingly international labor market and changes in family structures, such as an increasing number of dual career couples, make it more difficult for the UNDS to attract and retain the right people, particularly in far-flung places and crisis countries. The UNDS has one significant advantage, though, compared to other international actors. When a government decides to close its bilateral embassy, the departure of diplomats cuts off all local knowledge. In contrast, the international makeup of the UNDS cadre means that firsthand knowledge of a country is retained even without a field office. The challenge for UNDS entities is that they typically do not leverage the knowledge of their staff members.

Fourth, the record levels of official development assistance imply that the UNDS faces an increasingly crowded marketplace at country level. Bilateral aid still accounts for

<sup>8</sup> i.e., U.N. Mission for Ebola Emergency Response.

the lion's share, but private flows in the form of social impact investments, blended finance, and foreign direct investments take on more significant roles that largely pass by the UNDS (OECD 2016). Still, the resources needed to achieve the Sustainable Development Goals (SDGs) are estimated to be in the "trillions," so the \$26.7 billion in aid is woefully inadequate (United Nations 21 December 2016). Not aid, but domestic and private resource mobilization is required; however, few UNDS entities have been successful in attracting significant private donations or crowdfunding, with UNICEF being the exception.<sup>9</sup> Several governments, mostly in Latin America, limit the extent to which their domestic resources can be transferred to international organizations, which further complicates the situation.<sup>10</sup> Consequently, UNDS entities remain dependent on traditional aid flows, which exposes them to the vagaries of donor governments. To finance their global and local structures, UNDS entities levy a percentage fee on earmarked resources they receive.<sup>11</sup> This creates several perverse incentives for UNDS entities: Since monies must be deposited in their accounts in advance, projects are often slow to commence. UNDS entities earn interest on fund balances, which they can retain depending on their financial rules. UNDP alone had an accumulated surplus of almost \$4 billion that earned the agency \$41 million in investment revenue in 2015 (United Nations Development Programme 8 August 2016). Also, UNDS entities have little reason to search for savings in development projects, since that would reduce overall spend and hence their income.<sup>12</sup> It is often more profitable for a UNDS entity to accept transaction-high but impact-low projects (e.g., paying salaries of civil servants every month), given the lower operational and reputational risks. In addition, such projects inflate the financial statement, which in turn buttresses the appearance of importance.

Fifth, with regard to results, it often feels like the UNDS can never win. On the one hand, the achievement of development outcomes is attributed to the countries themselves in the name of national ownership, which leaves the UNDS scrambling to explain its contribution. Since capturing and communicating development results is tricky, UNDS entities use the monies they receive as a proxy for their impact. On the other hand, when things go wrong with national development partners, blame is often put at the doorstep of UNDS entities instead. For instance, one of the largest fraud cases discovered by UNDP involving a government agency prompted the UN Board of Auditors to observe:

Although the Board [of Auditors] did not assess fraud awareness within the entity [i.e., UNDP], given the frequency of fraudulent events, it is essential that fraud risks be reassessed and strong counter-measures put in place, for instance, by raising awareness of fraud training in order to tackle the problem more proactively. (United Nations Development Programme 16 December 2014)

The fact is, UNDS entities largely rely on either government agencies or other local partners to implement projects, and their role is reduced to a quality assurance function. Donors' concern with results-based management led to an obsession by the UNDS to capture and communicate its contribution to development change. It also caused the UNDS to think more short-term, from one review cycle to the next, in the hope to demonstrate their improvements in response to donor reviews were bearing fruit.<sup>13</sup>

Sixth, UNDS entities stress the importance of field presence in the context of emergencies, particularly sudden onset disasters. When such an event occurs, the UN resident coordinator is typically video-conferenced in to provide top managers with a situation report. While this

9. During 2015, UNICEF raised \$1.34 billion in private sector revenue (E/ICEF/2016/AB/L.7).

10. Bolivia, Panama, and Peru are examples of countries limiting the flow of funds to UNDS entities for implementation.

11. Un-earmarked, co-mingled resources to the UNDS only increased by 17 percent compared to a 229 percent increase in humanitarian assistance over the last fifteen years. (United Nations 21 December 2016)

12. The issue isn't fraudulent but rather frivolous spending, at times.

13. The Multilateral Organisations Performance Assessment Network (MOPAN) was launched in 2002 and includes eighteen donor countries that account for 95 percent of official development assistance. Many MOPAN countries conduct their own individual assessments in parallel as well.

can be useful to plan the UNDS response, the information shared at that stage rarely goes beyond what is reported in global cable news media.<sup>14</sup> Diplomats and international aid workers in capitals are often shielded from the realities in their host country by virtue of their secure compounds and the elites they interact with (Ross 2009). In fact, a staff member of the country concerned sitting in headquarters, who speaks the local language, and has ties to the community, can be a more strategic information source. However, due to neutrality and impartiality concerns, a recently arrived expatriate, who has not yet ventured out of the capital, might get more airtime than a national with ties to government, civil society, and local business. Being in a country's capital can also be limiting considering the ongoing decentralization efforts in many developing countries. Significant decision-making power is moving to provinces and municipalities, and the emphasis on inequality in the 2030 development agenda implies that the UNDS needs to shift its focus on underserved pockets of people who often live a world apart from their compatriots in the capital. For all these reasons, being resident in the capital might actually make it more difficult for UNDS entities to reach those trailing behind in development.

Seventh, modern information and communication technologies (ICT), such as enterprise planning systems, have transformed how UNDS entities operate. Some entities have fully embraced new levels of information sharing, for instance UNDP, which was rated the most transparent aid organization two years in a row.<sup>15</sup> Several entities can now initiate financial transactions and share data in real-time from anywhere on the planet simply with a laptop and a satellite phone, which has, among others, revolutionized business continuity in crisis situations. So, while technology allows the UNDS to operate without boundaries in the field, it is barriers in headquarters that hold the system back. For instance, in September 2014 the UNDG embarked on its first pilot to create a "joint operations facility" in Brazil (UNDG March 2016). The original idea was for all twenty-two UN entities present in the country to receive procurement, human resources, and ICT services through a single, cost-shared back office, instead of a multitude of individual operations teams. The goal was to increase efficiency and the quality of service but also to reduce costs. In the end, only seven entities joined the pilot, largely due to disagreements over a common set of standards, since each entity has its own procedures and financial rules, with different levels of authority delegated to their respective field office. It was the lack of harmonized headquarters manuals, not resistance at the local level, that almost doomed the pilot, but in January 2016, the joint operating facility went "live" with a clear plan to save millions in operating costs every year, even with only seven entities participating. The experience shows how much value is locked up in redundant operating structures—even in middle-income countries without humanitarian missions—that could be realized by leveraging already existing technologies.

### The New Business Model

The UNDS might now be ready for its "amazon moment." Before amazon.com was founded in 1994, books were purchased at the local bookstore, which either had a book in stock or could order it. Cutting out local bookstores was only the beginning of continuous innovation of its business model that transformed amazon.com into "the largest bookshop and a marketplace for a dazzling array of products" (*Wired* 2014). Similarly, the UNDS needs to take a hard look at its business model. The "Blue Ocean Strategy" (Kim 2005) with its four elements of "eliminate," "raise," "create," and "reduce" is a useful framework to examine changes that would free up new space for the UNDS and increase value:

**Eliminate—which elements are taken for granted and can be eliminated?** For the UNDS to eliminate local presence as we know it today would be nothing short of traumatic, but as in the case of amazon.com, "bricks and mortar" in as many locations as

14. I was part of headquarters crisis boards for typhoon Haiyan (2013), the Houthi takeover in Yemen (2014), and the Nepal earthquake (2015).

15. Aid Transparency Index of Publish What You Fund for 2015 and 2016.

possible is no longer a comparative advantage and instead holds back the system due to their prohibitive costs. Eliminating duplicate operational capacity and separate financial procedures and standards will go a long way to reduce costs and give the UNDS a lean and effective back-office that allows entities to focus on their core mission. The “joint operations facility” provides a blueprint that could be expanded to cover not just individual countries but whole regions.

**Raise—which elements can be raised above the current standard?** The profile of UNDS staff members needs to increase. With less need for generalists, the UNDS must showcase the expertise of its top-class talent to attract clients, similar in style to international professional services firms. This, of course, has implications for recruitment, retention, and professional development of UNDS staff members. Maintaining top-class talent in a few central locations in the north and south will make it more expensive to deploy, but it will still be less costly than keeping a permanent physical presence at country level. As a prerequisite, the UNDS must map the expertise of its staff members and put in place simplified procedures how partners inside and outside the UNDS can draw on the right expertise at the right time.

**Create—which elements can be created that were never offered before?** The UNDS needs to develop a service menu it can offer to development actors implementing their own projects, e.g., the growing number of payment-by-results schemes. UNDS values of neutrality and impartiality predestine it for quality assurance and advisory services for such projects on a fixed-fee basis. This model would also apply to initiatives of private and public actors in the “global south,” either with or without involvement of traditional donors. George Soros emphasized the importance of businesses as investors to achieve the SDGs and the need to find common ground between self-interest and the public good (OECD 2016). Businesses are about as far removed from the UN reality as one can get, and previous attempts to bring the two worlds closer together have mostly failed. Still, ample opportunities exist for the UNDS to offer services on a fee basis, and a few entities have had successful experiences.<sup>16</sup> They operate more like businesses, not subsidized monopolies, to stay relevant.

Development stakeholders suffer from a lack of visibility that is exacerbated by the increase of new and atypical actors entering the development arena. This is true for government officials tasked with coordinating their national development efforts, as well as domestic and international investors and donors. The International Aid Transparency Initiative, with support from the UNDS, has recognized this but is currently still limited to a small, albeit growing, portion of the international resource flow. An extra effort by the UNDS could transform the marketplace with the goal of helping all development stakeholders make better investment decisions. Multi-donor trust funds are another promising example of how the UNDS can create coherence and visibility for investors interested in a specific topic while keeping transaction costs low. So far, the cumulative portfolio of pooled funds already exceeds \$9 billion. (UNDG 2016)

**Reduce—which elements can be reduced below the current standard?** The UNDS will always have a role in implementing some projects, either because of temporary events (e.g., crises) or because no other development actor can do it (e.g., legitimacy). The UNDS needs to rediscover what it means to be “an implementer of last resort.” Instead of trying to take on big projects with little impact to cover its running costs, the UNDS should only implement projects when no other development actor can do it effec-

16. The UN Office for Project Services is a fully self-financed entity that charges a flat fee for certain services.

tively. The implication is that the UNDS' residual portfolio will be comprised of high-risk and high-cost projects, and the overhead fees it will need to charge must reflect that. The UNDS has spent a lot of energy on trying to track its contribution to development change with rather mixed success. By focusing more on value-added services to the development intervention of others, UNDS efforts dedicated to improving results-based management to discern its distinct contribution can be redirected elsewhere.

The UNDS plays an essential advocacy function, particularly given the unprecedented scope of the new development agenda. Playing that role requires deep understanding of and engagement with governments and other stakeholders; however, permanent physical presence is not required to achieve that. Examples demonstrate that the use of social media can more directly affect policy change than episodic face-to-face meetings, precisely because they involve more stakeholders directly in a public way (Bjola 2015). Hence, it might be a smarter strategy for UNDS leaders to tweet a president or prime minister than to request a meeting in the capital. Some UNDS functions, like advocacy and norm-setting, might not easily fit this new business model and reputational risks are a real concern in any dealings with commercial companies. The trend, however, is clear: if the UN Development System remains hooked on public funds it squanders on local offices, then it will doom itself to play in the margins.

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