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An International Development System fit for the 21st Century

Thank you John.

This is the last of a series of speeches I have been making as part of our consultation on DFID’s forthcoming White Paper. I’m sorry they’re coming to an end; I’ve really enjoyed the debates about how best we can help developing countries make poverty history for themselves. I suppose in one sense it’s appropriate that this last speech is to this audience in Parliament - the place where government is ultimately held to account.

I want today to talk about what we need to do to ensure that the international development system is able to deliver the promises of 2005, at the same time as facing up to a rapidly changing world.

The system we’ve got now was created in response to two World Wars and a long and terrible economic depression. During the second of those awful conflicts, not far from where we are meeting today, fourteen governments signed the Declaration of St James’s Palace. It said:

“The only true basis of enduring peace is the willing cooperation of free peoples in a world in which, relieved of the menace of aggression, all may enjoy economic and social security.

“It is our intention to work together, and with other free peoples, both in war and peace, to this end.”

Even during the very dark hours of World War 2, there were people who held fast to a vision of what the future could be, and as you’ll know on the 24th October 1945, when the wars in Europe and Asia had finally ended, the United Nations was born.

The UN was brought into this world to end wars between nations by replacing bombs and bullets with cooperation and compromise. Founded on a belief in the rights of all human beings and the self determination of all peoples, it represented the burning hope of a generation for a better world.

The founding declaration of the United Nations contained a commitment to “employ international machinery for the promotion of the economic and social advancement of all people”. Part of this was given expression in the United Nations Monetary and Financial Conference - mush better known as the Bretton Woods conference - of 1944.

This agreed to set up two major institutions:
• the first was the International Monetary Fund to promote international cooperation, financial stability, and growth, and so avoid the economic depression and downturns of the past; and

• the second was the International Bank for Reconstruction and Development to finance re-building after the war and development elsewhere. Its first loan was to France – its biggest loan ever - but as industrialised nations recovered, what then became the World Bank provided loans and grants to developing countries to help them reduce poverty.

Now, at the same time, from the ashes of Europe, arose a new spirit of cooperation. Its intention was also to end the conflicts that had plagued the continent for centuries, and to build peace and prosperity.

And it led to the gradual creation - through cooperation on coal and steel; then on trade; then a separate Commission, Council of Ministers and Parliament - to the European Union of 25 member states we have today.

For all their faults and for all the problems that we have faced over these past 60 years, and still face today - these institutions have served us well. In particular it seems to me they have promoted three things:

• human rights and the rule of law;
• peace and security;
• and prosperity.

The Universal Declaration of Human Rights, adopted by the UN General Assembly in 1948, was unique. Because it set out what all human beings are entitled to so as to live their lives in dignity. And it was Eleanor Roosevelt who made the point that to have meaning, these rights must begin with the world of the ordinary person. She said:

“… the neighbourhood he lives in; the school or college he attends; the factory, or farm, or office where he works. Such are the places where every man, woman, and child seeks equal justice, equal opportunity, equal dignity without discrimination. Unless these rights have meaning there, they have little meaning anywhere.”

And it was on this foundation, the UN has set and monitored international standards on human rights which help to protect people. In the last two decades, it has led the world in establishing new ways of providing justice to people who have suffered abuse at the hands of their own governments.

Most recently, and I think most importantly, the creation of the International Criminal Court has sent a powerful message to political and military leaders everywhere that they can, and will, be held accountable for their actions, in war as well as in peacetime. And the adoption of Responsibility to Protect was a very significant moment, although it will only really have meaning, in Eleanor Roosevelt’s words, if it is accompanied by a responsibility to act when crimes against humanity are being committed.

Now these institutions have helped reduce conflict. The UN, once freed from Cold War
politics, increased its peace keeping operations from five in the late 1980s to around twenty a decade later. This was a major factor in the steady reduction in the numbers of armed conflicts and violent deaths which have occurred in the last 15 years.

They have helped spread prosperity and reduce poverty at an unprecedented rate in human history. In the past 40 years life expectancy in developing countries has increased by over a quarter. In the past 30 years illiteracy has fallen by half. And in the past 20 years over 400 million people have been lifted out of absolute poverty - equivalent almost to the total population of the EU.

So these institutions have served us well and achieved much. But the world we now live in 60 years later is very different from the world of the post-war years. Things have changed. The system we have was set up when peace meant peace between states. When there was a Cold War balance between two superpowers. When there were fixed exchange rates and limited movement of people and money.

We live now in a very different world. Many conflicts are not between states, but within states. Terrorism and the proliferation of weapons of mass destruction threaten us. Globalisation makes corruption, money laundering, and bad governance of natural resources, much easier.

Climate change threatens to undermine development hitting hardest the countries least responsible. Energy security is now the driving force of some countries’ foreign policy. Oil prices are twice what they were two years ago, and stocks are depleting. As water becomes increasingly scarce, so securing its supply will become increasingly important. Global health crises - HIV/AIDS and bird flu - represent new threats.

Huge variations in wealth are giving rise to global inequality, and in the influence different countries have on global decisions. From the devastation of Europe after the war, the EU is now the world’s largest donor and its largest trader. New powers are emerging - Brazil, Russia, India, China, South Africa - that challenge the status quo.

And underlying this, information is flowing around the world faster than ever before. Traumatic events in one part of the globe are in our living rooms within hours. We are witnesses to the suffering of our fellow human beings. We can no longer look away or pass by on the other side of the road.

And all this means that the structures we created after the 2nd World War are not able to deal with these changes as well as they might. And yet we need the international system to become better at responding to them - because each of us can’t do it alone. And that can’t mean adding yet more institutions to a system that may crumble under its own weight. It does in my view mean making the institutions that we have work better.

I want to illustrate this by looking at natural resources, the allocation of aid and the transaction costs of different approaches and different institutions.

• Let’s start first with natural resources. In Liberia, timber from forests is a very important natural resource. Charles Taylor used earnings from illegal logging to finance his military activities, as well as funding the RUF rebels in Sierra
Leone. And remember that the speciality of the RUF was to go round cutting off peoples’ limbs with machetes.

In 2000, of the $106 million income from the timber trade, only $6 million went into the Liberian treasury. $100 billion went somewhere else. Much of this was about bad governance, but it’s made easier because tyrants and greedy elites can transfer illicit earnings in seconds through electronic accounts, and because there is no global framework for controlling illicit trade such as this.

In Nigeria it’s oil. The recent unrest in the Niger Delta is the result of the oil flowing out of the region where it is extracted and little in the eyes of the people in the way of development flowing in to benefit them. Global oil prices rose by $2 a barrel following the attacks in January. In Angola, Global Witness estimate that $1.7 billion is lost each year to the exchequer. That’s more than enough to enough to put the entire Angolan HIV positive population on ARVs for a year, immunise every child under 14 against the major killer diseases, and train 19,000 extra doctors. So there’s an example of development gains being lost in that country through corruption.

So how is the international system responding? Well, the EU Forest Law Enforcement, Governance and Trade action plan - which bars illegal timber from entering the EU - will help to control illegal logging in countries that join in - in West and Central Africa and some south-east Asian countries.

But it only works for the EU. More generally, an agreed UN definition of conflict resources would help create an international framework to better control illegal trade and the flows of conflict finance. In Liberia, when timber was defined as a conflict resource in 2003, sanctions were imposed, denying the warring parties an important source of money. Charles Taylor fell from power later that year.

The Extractive Industries Transparency Initiative, created by the UK and now led by the International Financial Institutions, with over twenty countries involved and most of the major oil and mining companies, has meant that in Nigeria the results of the first audit of oil and gas accounts was published last month. For the first time, Nigerians now know how much money their government received from sales of oil. And if you know how much money is coming in then you can ask the next question. What have you done with the money? Can you spend some of it on us?

So far so good, but China is now the second largest consumer of oil after the United States, and India’s consumption will treble over the next 25 years. Both legitimately see securing energy supplies as a strategic priority. Both are investing heavily in Africa and in Central Asia; China for example with a $2 billion loan to Angola, and India building a $260 million pipeline in Sudan.

Now this thirst for energy is helping to push up global prices, and it also risks undermining global governance. Neither India nor China is a member of EITI, for example. They could repeat our mistakes from past decades - looking away on human rights and governance in order to secure their need for energy. We
need an international system that doesn’t allow this to happen, but equally we need a system that is open and fair allowing emerging powers to secure their legitimate interests.

- Secondly, aid. Last year we made promises on aid that the international system as it currently stands, is not equipped to handle well.

We need to allocate aid better. India, with a population of over a billion people - a third of whom live in extreme poverty - gets the same amount of aid as Mozambique with a population of 19 million people. Some countries are favoured by donors - average income in Nicaragua is over three times that of Niger, yet it gets five times more aid per person. What we need instead I think is a system which ensures that appropriate assistance is available for different countries and different situations - fragile states, post conflict countries, countries with large populations.

But let’s be absolutely honest, this isn’t easy to achieve. Why? Because most bilateral donors - including DFID - value their relationships with particular developing countries and are unlikely to volunteer to walk away. Those relationships are a function of history and a lot of other things. So we’re not going to be able to achieve the evening out of aid flows we want, through changes in bilateral aid. I think the multilateral agencies or global funds will have to do this, to help us balance out aid flows across the world, not least because they’re less subject to some of the political pressure that individual donors face.

We also need to improve the way that we work. Over four fifths of 35,000 aid transactions that take place each year are worth less than $1 million; and require 2,400 quarterly progress reports. In Vietnam 11 different UN agencies account for only 2% of aid. Most are active in HIV/AIDS - all pursuing the same donor money - and each agency has its own overheads. Zanzibar, with a population of only 1 million people, has 20 different UN agencies operating in it.

Or look at water for a moment. We need to supply 150,000 people with new water connections every day, every year for the next 10 years if we are to achieve the water Millennium Development Goal; that’s equivalent to supplying a city the size of Birmingham every week. So how is the international system responding? Well, the UN has 23 agencies working on water - including the World Bank, and a body that’s been created - UN Water - to coordinate them. Everyone is partly responsible, so no one is fully responsible.

Or look at health, where donor interest has led to a proliferation of initiatives. There are now more than 90 global health programmes, ranging from large funding instruments - such as the Global Fund for AIDS, TB and Malaria - to technical and advocacy organisations - such as Roll Back Malaria - to drug development and public-private partnerships - such as the Microbicide Development Partnership.
Now we have made a lot of progress in getting the international system to work better on fighting AIDS. The Global Fund, for example, is getting better at supporting countries’ own plans, rather than creating separate projects and reporting structures.

Question. If we can make this progress on HIV/AIDS, then surely we can do the same with the health sector in general, so that we move towards predictable funding for ten year plans that tackle the most urgent health needs that people face in their daily lives? In exactly the same way, as I said in an earlier speech, as we need to for education.

We always need to think carefully when we create vertical funds such as these, but where they work, let’s support them. But let’s also get better at shutting down bits of the architecture when they’ve served their purpose. The truth is, we’re not very good at that.

- Thirdly, as well as improving the quality of our aid and the way we work, we also need more aid. We made enormous progress last year, but it is not enough, and that is why we have been pushing hard on innovative funding like the International Finance Facility, the IFF for Immunisation - and we look forward to the first bonds being issued shortly - and the Airline Levy. Last month’s conference in Paris on innovative financing brought together almost 100 countries. And France and the UK will jointly establish a working group to consider the implementation of an IFF supporting health and education, and funded by an air ticket levy as well as by other revenues.

Now in all of these areas, international problems can only be solved through international means. Alone, none of us has the resources or, more importantly, the moral authority to deal with the challenges of tomorrow. Multilateralism isn’t an empty slogan. It is a call for collective action.

A call for a new international development system that is fit for the 21st century and not the last, and one that can help us to achieve the promise of 2005 to eliminate poverty.

So what might a vision for this look like? I think it’s about three things: First, responding effectively to conflict and disasters; Second, improving global governance; and third, becoming better at supporting development. And I want to address each of these in turn.

- First, we need an international system that can deal effectively with conflict - prevent conflict before it’s begun, resolve conflict once it’s started, and rebuild once it’s over - and a system that can deal with humanitarian disasters, whether human made or natural.

The UN has to lead. More than anything else, this is where political legitimacy and moral authority count, and only a reformed UN can do this.

We are making progress on humanitarian reform. Last Thursday I was in New
York for the launch of the new Central Emergency Response Fund, which is a big step forward.

But we need a peace and security architecture - including the UN, EU, and in the case of Africa the AU - that works so that we make sure Darfur will never happen again.

We are committed to making the Peace Building Commission work to coordinate what we all do in post-conflict countries, and we need the EU to contribute to efforts to bring peace and stability to Africa and Asia through the Peace Facility and peacebuilding operations.

- Secondly, we need better international governance, where all countries have a say in how international affairs are run, setting standards and aspirations, and protecting human rights.

Again, it is legitimacy that counts. It is the UN’s legitimacy and neutrality that sets it apart. Take for example the visit of the UN Special Envoy, Anna Tibajjuka to Zimbabwe in July last year. She produced an objective, high quality, technical report that highlighted the appalling human consequences of the Government of Zimbabwe’s ‘clean up’ operation. a report that had credibility in Africa, as it did elsewhere, and which made it much harder for the Government of Zimbabwe to play the old colonial card in trying to explain what was going on.

On human rights, there has been an urgent need for reform in the UN. That’s why we agreed at the World Summit last year to create a new Human Rights Council to replace the Commission on Human Rights. The new Council should be more responsive, taking swift and authoritative action in response to human rights abuses anywhere in the world - such as in Darfur. It could make recommendations to any part of the UN system, reflecting the centrality of human rights to development. We need this, because without it, violation of human rights will continue to set back the cause of development.

So the UN has a role, but so do regional bodies, and for us, the EU is particularly important. And in order to meet the new challenges we face, the international system needs to better recognise and deal with the fact that there are many policies and actions which affect development, not just about aid - but also climate change, global corruption, managing shocks, peace and security and human rights - and we need a more effective system to deal with every single one of them.

Global governance means better representation. One step is reform of the Security Council to make it more representative in a changed world. That’s why we, the UK, support permanent seats on an enlarged Council for Germany, Japan, India and Brazil, and for Africa.

It’s an issue for the IMF and World Bank too. The UK and others worked very hard to enable the voice of developing countries to be heard more loudly over the past few years. But we haven’t made much progress. But fairer global
governance, like development itself, needs leadership from developing countries too; we won’t get anywhere without that.

And even if things change, staff will also need incentives to listen - the executive directors of G7 countries in truth have far more influence on decision making than those from Africa. I think the debate that will take place on IMF reform at Singapore will be a really important test. I welcome it.

And perhaps we should move towards a rules and merit-based process for appointing the senior management of all the IFIs? Question. Is it really acceptable that the presidencies of the World Bank and the IMF should be restricted to European and US nationals respectively because of a cosy deal made 60 years ago?

• Finally, supporting development. I think we’ve got to be steely about streamlining the international system, pruning out duplication and waste, and making it work better.

We have now a “once in a generation” opportunity to reform the UN. And significantly, this reform is being led by the UN itself - from Kofi Annan’s “In Larger Freedom” report, to the World Summit, and now the new high level panel that’s just been established to advise on reform.

The UN has become excessively bureaucratic and slow, and in terms of staffing is far from being a meritocracy. Too many agencies, with overlapping mandates spend too much time chasing funds and brand recognition.

Now, I recognise that if change is going to happen it will require a change in donor behaviour particularly on financing. We need to provide longer term, more predictable finance. Too much funding for the UN is heavily earmarked. In some agencies as much as 80 percent of the overall budget takes the form of earmarked finance which may or may not be consistent with an agency’s medium term strategic plan. This is the case for WHO, for example. So when Bird Flu comes along, because WHO doesn’t have the flexibility it would like to shift resources to fight this, it has to go round cap in hand to donors again. The truth is that we as donors have used the UN to do things we want it to do.

The idea that we need radical reform of the UN development system, is certainly not new or unique to us. Listen to what our Dutch, Belgian, Nordic, Canadian, and French colleagues are saying about how to make the UN better at development. I hope we can come to a consensus that is radical, doable and most importantly what will achieve real results on the ground.

If we think of what reforms would best improve the UN’s role in a country, then it seems clear to me that we should adopt the principles of four ones - One UN Office, One UN Representative, One Programme and Budget, and One Funding Mechanism. The deal would be you give us a clear, common UN plan for what you plan to do in the country to help development and if we think it’s right we will then fund it.

This would be a big step forward, but without change at the centre this reform will be
undermined.

One thing we have to sort out is UN financing. I have learned from our work on the humanitarian system and the launch last week of the Central Emergency Response Fund that the way we choose to finance the UN can make change happen in a way that endless debate about institutional structure probably never will. One option for the UN development system that should be seriously considered is the establishment of a single approach to UN fundraising and allocation.

Why should the UN not have stability and long-term, predictable finance for the work that it does? Consolidated funding would reduce time spent asking for money and allow staff to concentrate on delivering results rather than asking for cash. Governments ask for no less, so why not the UN? But in return we’d have to have clear plans and stronger reporting systems that would track performance against targets.

I also think UN reform needs to be built on a frank and honest assessment of what the UN and the International Financial Institutions should and shouldn’t do. A clear division of labour.

The International Financial Institutions need to adapt too, in the same way as the UN is starting to. This is happening on shocks where the IMF has launched a new facility, or on climate change where the World Bank and other development banks are now working on how to increase investment in clean technology, and on the Extractive Industry Transparency Initiative where these institutions have a really important role in ensuring budgets are more transparent, but there is much more to do, including better representing the interests of developing countries.

So while the World Bank is helping countries achieve growth, and that matters enormously, I think it needs to do more to help countries raise the incomes of poor people - promoting equity - so that their incomes rise faster than those of others. I think they should let developing countries determine their own path to growth, respecting countries taking their own decisions more, and stop imposing impossible economic policy conditions. And I think they should lead the way in the international system in helping countries invest in renewable energy and adapt to climate change.

I share Paul Wolfowitz's concern about corruption in developing countries, but I think we need to balance zero tolerance of corruption with a willingness to work with countries to build their capacity to manage all their resources transparently, and in the end to deal with corruption themselves, using their own systems and politics. This is a job for all of us.

The IMF itself is undertaking a major review of its role 60 years on - across all issues - including its role in low-income countries, where much more can be done by the IMF to help countries raise and use more aid - as global aid increases - to increase growth and eliminate poverty. I really welcome this.

Looking beyond the World Bank and IMF, regional banks are now playing a much greater role than they have done in the past, for instance, the African, and Asian development banks have both recently increased their concessional finance by two fifths.
I think we should help the Regional Development Banks to become strong competitors in their respective regions, so that developing countries have more choice about where they go for the finance and technical expertise they need. Looking at the African Development Bank, I think its African leadership gives it real legitimacy and the merit based process by which its President was chosen - debate and then election - was good. Maybe that’s a model for others to follow?

And in this new system, the EU is emerging as a major influence on development. It is now the biggest donor. EU member states will provide 80% of all new aid; two thirds of all aid by 2010. European Commission aid now exceeds World Bank IDA. Europe is a powerful voice in the IFIs and in the UN.

It’s clear that in future, what the EU does will be central to our chances of achieving progress, and we should continue to think really hard about what reforms are needed to enable Europe to play the role we want it to.

And it’s not just about aid. Action in other areas matters too, and here Europe has come a long way. A new EU Strategy for Africa was agreed in December setting out the steps that the EU and Africa will take between now and 2015 to support African efforts to build a peaceful, democratic and prosperous future. Europe now has a clear policy framework - the Development Policy Statement. It has streamlined its decision making processes over the last five years so money flows more quickly to developing countries than was the case in the past. It is leading efforts to provide better and more predictable budget support. But there’s room for improvement. Resource allocation in the main budget is not transparent enough. And more decentralisation of decision-making is required.

So, in conclusion, what does all this mean for DFID? And for the White Paper? How do we make the system work better as a whole? Who is going to do what?

I think we should put our money where it is most effective in helping to eliminate poverty, regardless of the institution.

I think that in order to make those judgements, we need to be much better at measuring how effective each part of the system is - multilateral and bilateral, including DFID’s own programmes. We’re not as good at that as we need to be.

I think we need to be held to account for our performance individually and collectively. I’m interested in your ideas about how we can do that. Do we need for example, an independent body to oversee the entire development system objectively and publicly? A body that reminds us of what we promised and shows us which institutions are succeeding and where we’re failing to deliver? I think it would help.

I think we mustn’t forget the private sector. What is does - or doesn’t do - has a huge impact on development. The same for NGOs. They both wield great influence now. They hold us to account in their own ways. Who holds them to account?

So there we are. That’s it. It’s your turn now. What do you think? I want, however, to leave you with this one last thought.
Those who came together out of the ashes of the Second World War could see clearly what was then needed to turn their burning hope into the better world that they were trying to create.

Sixty years later, we’re still trying to build that world. Indeed, we need it more now than at any other time in human history because our very survival depends on us doing this together. But the means by which we seek to do this are going to have to change, just as the world itself has changed. I think that this generation can see now what is needed - just as clearly as the generation of 60 years ago - and it’s our responsibility to fashion the institutions that are our only and best hope of building that world and passing it on safely and securely to the generation that will come after us.