



creating an
international
system fit for
the 21st century

International problems need international solutions.

Multilateral organisations have a critical role to play in delivering aid and implementing policies that work for development.

Developing countries must have a stronger say in how the international system works.



chapter 8 reforming the international development system

The international system must change...

8.1 Much of today's multilateral system – including the UN, World Bank, IMF, and the EU – was created after the terrible destruction of the Second World War. These institutions have served the world well, but the challenges we face in the 21st century are very different to those of 60 years ago.

8.2 Effective international organisations are needed now more than ever to balance competing national interests, and find solutions to problems that cannot be solved by individual countries alone. Only by working multilaterally will it be possible to: act when states fail to protect their people; enforce rules-based trade; tackle epidemics like AIDS or Avian flu that threaten us all; and manage the climate, forests, fisheries and water that we all share. There is no alternative. Without an effective international system, the world would be a more unequal, dangerous and divided place.

8.3 International organisations play a major role in delivering aid. As aid increases sharply, donors will need to rely more on multilateral channels to distribute it. Between them, just three institutions – the EC, the World Bank and the UN – already account for around 30% of global aid flows through loans, grants and technical co-operation. The UK is committed to working with others –

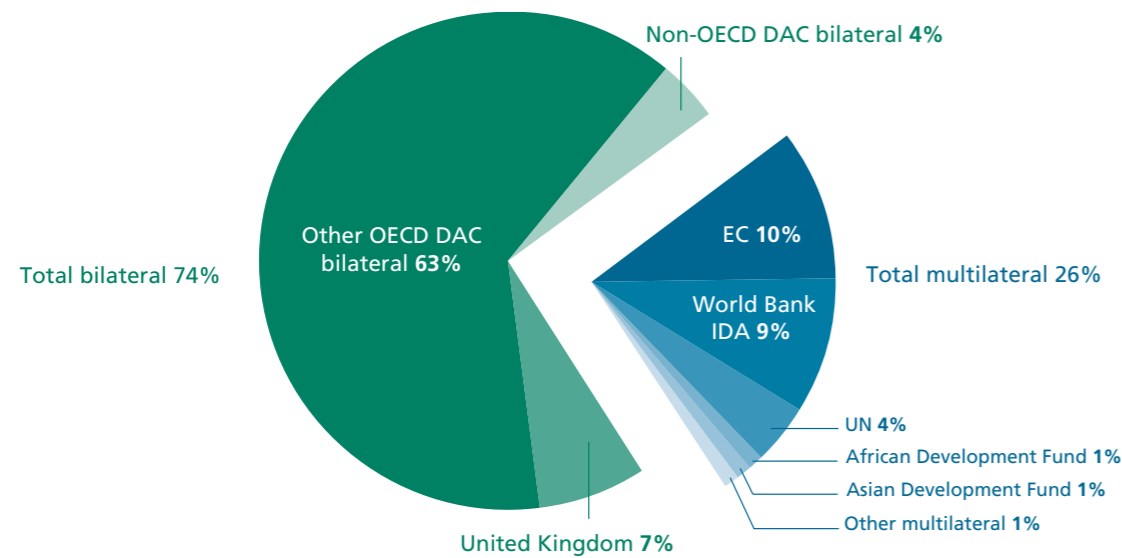
we channel around 40% of our aid through multilateral organisations.¹

8.4 But some parts of the international system have become either too complicated and inefficient or simply do not work at all. They must change. We will use our resources and influence to encourage reform. And in future we will use success – rather than history – as the criterion for deciding how to allocate UK funding.

8.5 This chapter sets out the changes that the UK will work for. The world needs an international development system that:

- Delivers increasing levels of development assistance effectively and shows results.
- Reflects the interests of developing countries and allows them to lead their own development.
- Holds countries (whether donors or recipients) to account for the commitments they have made to each other.
- Upholds human rights and other international standards, and takes action when these are not being met.
- Monitors progress against the targets agreed to reduce poverty.

Where do developing countries get aid from?²



Source: OECD DAC. Total net disbursements (US\$78.3 billion) of ODA to developing countries in 2004.

8.6 Significant change is needed to achieve all this. The UN's role in development needs to be radically reformed, in keeping with its unique political mandate. It should focus on providing strong political leadership in conflict and in fragile states, on setting global standards, and on helping countries agree solutions to climate change and other threats to development. The World Bank, IMF and regional development banks should help developing countries finance investments for sustainable and equitable growth and public services; and help their members manage economic shocks. To do this, they will need to reflect better the interests of all their members. And the EU should ensure that its aid is effective, and that its wider policies also support development.

8.7 The UK is strongly committed to working through the international system to reduce poverty in developing countries. We will use our resources and influence to strengthen the international system for this purpose.

Collective action in a changing world: the United Nations...

8.8 The UN's legitimacy is unparalleled. This comes from its universal membership and unique responsibilities for peace and security, sustainable development, human rights and international law. It enables the UN to agree international policies and standards that are vital for development.

8.9 The UN also provides leadership on international efforts towards the MDGs. Through its funds and programmes, the UN works to reduce child mortality, improve maternal health and achieve universal primary education. It gives advice and helps governments build their capacity to provide public services in a wide range of developing countries.

8.10 But over time, fragmentation, duplication and excessive competition for resources within the UN have reduced the impact of its development operations. The UN Secretary General has recognised the need for change, and has established a High Level Panel to identify ways to improve UN performance on



development, humanitarian assistance and the environment. The UK believes the Panel is the best chance in a generation to help the UN re-organise. Alongside this, the UK also supports enlargement of the UN Security Council, management reform and efforts to strengthen the UN's role in counter-terrorism.

8.11 We think the UN should focus more on two areas. First, it should do more to prevent conflict, broker peace, help fragile and conflict-affected states recover after crises and lead humanitarian assistance where needed. Second, it should continue to develop international agreements and standards – as it has on human rights – and push for and report progress on these.

8.12 If the UN is to do these tasks effectively, reform is needed. UN agencies and programmes must be rationalised, and merged where necessary. There should be a unified UN presence in countries – based around a single programme, with one leader, one office and one budget.

How does the UN make a difference?

- The MDGs were agreed at the UN in 2000. These eight goals have guided international development ever since. Having set the standard, the UN is helping hold countries to account for progress. In 2005 at the UN summit, world leaders re-committed themselves to achieve the MDGs by 2015.
- In 2001, 189 nations agreed a Declaration of Commitment on HIV and AIDS, an action plan to halt and reverse the AIDS epidemic. The UN is leading international efforts to help developing countries deliver their plans to tackle AIDS.
- In the DRC, the UN has helped prepare for national elections, co-ordinated the humanitarian effort, and put 16,800 peacekeepers on the ground to help create a more secure environment.

The UK will

- Urge the UN to play the leading role in fragile and conflict states.
- Seek agreement on implementing the 'four ones' in developing countries: one UN office, one leader, one programme and one budget.
- Work with other donors to reform financing by pooling funding for the UN at country level and centrally.
- Support the UN's work with the World Bank to help developing countries draw up long-term plans to achieve the MDGs.
- Support the UN in developing and implementing international standards.

Improving the international response to humanitarian crises...

8.13 Each time disaster strikes, the job of the international humanitarian system is to be there to help. Many organisations – including the UN, NGOs and the Red Cross movement – and many committed people work hard to provide assistance to people in distress.

8.14 The humanitarian system achieves a great deal, but it could be much better. As a result of climate change, it will need to respond to increasingly frequent disasters. This is one reason why the UK has argued for reform. We proposed major changes to humanitarian funding, which led to the launch of the Central Emergency Response Fund in March 2006 – the UK is the largest contributor. The Fund aims to tackle imbalances between well-funded and neglected crises, and to make money available as soon as a new crisis happens. We argued for stronger UN coordination and leadership – as is now happening in countries like Sudan and the DRC, where international partners, including the UK, have pooled funding under the UN Humanitarian Co-ordinator's leadership. And a new 'cluster system' has been established, in which different agencies have overall responsibility for nine areas of need.³

Internally displaced people

International agencies have not been able to cope with the rising numbers of Internally Displaced People (IDPs) in recent years. Responsibility for IDPs has been unclear. In Darfur, DRC, and Liberia, agencies were unable to protect IDPs, provide adequate camps or help them return home. In future, the UN High Commissioner for Refugees (UNHCR) should be responsible for IDPs as well as refugees. This means extending UNHCR's mandate and providing it with adequate funding to support IDPs as well as refugees.

8.15 The response to the Asian tsunami, the Pakistan earthquake and Niger's food crisis has shown that these reforms are making a difference. But further change is needed. This includes finding more skilled and experienced people to work in emergency situations, and better arrangements to rapidly deploy planes, helicopters and other logistics, for example in co-operation with the military. Gaps have to be filled – such as the lack of clear responsibility for internally displaced people. And the humanitarian system should be more accountable for its performance. In short, the world needs an effective international emergency service.

Flights of hope

Ten year old Abdullah lives in Kot, in Pakistan-administered Kashmir. In October 2005 he and his family were at home when an earthquake measuring 7.6 on the Richter scale struck. Abdullah's village is at 1,600 metres and is almost impossible to reach by road. Without the blankets and iron sheets transported by a United Nations Humanitarian Air Service helicopter flight (funded by the UK), Abdullah, his family and his neighbours would have faced a harsh winter without warmth and shelter.



The UK will

- Push for a single, integrated UN humanitarian system, with a lead role for UN Humanitarian Co-ordinators and the Office for the Co-ordination of Humanitarian Affairs.
- Invest at least £40 million a year in the Central Emergency Response Fund.
- Continue to provide substantial support to NGOs, the Red Cross movement and the UN, for humanitarian assistance.
- Promote changes to the emergency appeals process to make 'flash appeals' more realistic.
- Support the 'cluster system' whereby different agencies lead on specific issues during an emergency.
- Help 'cluster lead' agencies increase the number of experienced, skilled staff available in an emergency, and improve the availability of supplies and arrangements to move them quickly.
- Develop clear arrangements for using UK military equipment and personnel in humanitarian crises.
- Work with partners to publish an independent World Humanitarian Report to monitor how well the world responds to humanitarian crises.
- Support changes to UNHCR's mandate to include internally displaced people, and be willing to provide extra resources to support this work.



Financing development: the International Financial Institutions...

8.16 The World Bank and the IMF play a critical role in providing development assistance to poor countries, monitoring economic conditions and promoting better macro-economic management. But, if they are to remain relevant in a changing world, we believe they must reform.

8.17 Poor countries need to fund health, education and other public services and invest in infrastructure and growth. But in the poorest countries, neither government nor business can generate the finance they need. To help plug this gap, the World Bank provides around US\$8 billion each year to low income countries through the International Development Association.⁴ It also provides middle income countries with loans at close-to-market terms. And it plays a major role in gathering and sharing knowledge about development.

8.18 But to be more effective the World Bank must deal with three major challenges. First, as aid increases, the World Bank should play a leading role in providing more long-term, predictable funding for developing countries. The World Bank should convene 'Results and Resources Meetings' to help countries gather support for their plans to achieve the MDGs; provide flexible finance itself to help developing countries pay the wages of health staff or teachers, for example; and take the lead in managing increasing donor finance for education through the FTI. It should do more to help the private sector and support equitable economic growth, and do more in fragile states where the challenges and the needs are greatest. And – working with the IMF, regional development banks, and potential lenders – the World Bank should help ensure that debt problems do not re-emerge for the poorest countries.

Free treatment, fresh start

Mr Chen is 40 years old and lives in Hunan province, China. In 2005, he was diagnosed with tuberculosis at a local hospital. His family could not afford the cost of the treatment and Mr Chen was forced to stop working. The Chens found themselves struggling to make ends meet but a few weeks later the hospital learned about a World Bank/DFID tuberculosis project and its free treatment policy. Mr Chen received a free physical examination and treatment. The doctor insisted that Mr Chen's family was tested and discovered that his wife also had tuberculosis. The dispensary provided six months free treatment to the Chens. They are now fully recovered and can work and lead a normal life again.

8.19 Second, middle income countries are borrowing less from the World Bank and more from private markets than in the past.⁵ This is because the combination of low global interest rates and the World Bank's social and environmental standards have reduced the advantages of borrowing from

the World Bank. We believe these standards should not be discarded, because they protect people's rights. So the World Bank will need to find new ways to work with middle income countries as they still face major development challenges and are shaping the wider world.

8.20 Third, the World Bank should help tackle the global challenges facing developing countries – focusing urgently on a financing framework for clean energy and adaptation to climate change. And it should use its position and expertise to forge a new international framework to help developing countries tackle corruption and improve their governance.

8.21 Like the World Bank, the IMF must continue to change in order to better meet the needs of poor countries. Recent important innovations include: the new Exogenous Shocks Facility, which ensures that development is not undermined by global economic conditions; and the Policy Support Instrument that helps countries access IMF advice without borrowing from



it. In low income countries, the IMF should focus more on macro-economic policy advice, and less on structural issues like privatisation and trade liberalisation where its track record has been mixed; and provide advice to fragile states that is tailored to the challenges they face. And, in line with its recent medium term strategy, the IMF should help all developing countries plan for larger amounts of aid and help them manage their macro-economic and budgetary policies accordingly.⁶

8.22 Developing countries need more influence in the World Bank and IMF. They are weakly represented on both Boards, where voting rights are decided by financial contributions. This balance must change.

Both institutions must do more to support developing country priorities and not impose economic policy conditions in areas like privatisation and trade liberalisation. And, if their members demand it, both institutions should be ready to change how members are represented, and how decisions are made – for example through greater voting rights for poor countries. There also needs to be greater transparency in the way that the World Bank and IMF operate. More World Bank analysis should be disclosed. And the practice of picking the heads of both institutions based on nationality should end – Presidents should be chosen on merit, as happened recently with the African Development Bank.



Regional approaches to regional issues...

8.23 Many regional problems are best solved at a regional level. Developing countries benefit from close economic co-operation with their neighbours, enabling them to exploit regional markets and manage shared resources.⁷ The regional development banks in Asia, Africa, Latin America – and others like the Islamic Development Bank and the Kuwait Fund – are vital in their regions. They can be particularly helpful on issues like infrastructure, the spread of diseases, regional markets, cross-border investment, and access to scarce water. But the Asian and the African Development Banks, in particular, need significant organisational change to serve their members better.

8.24 Stronger regional banks would give developing countries a choice between sources of finance and advice on policy. And that choice would encourage innovation, and improve the quality of aid. But competition must not compromise economic, social and environmental standards. To guarantee this, the UK believes the World Bank and regional development banks (and other international financial institutions such as the European Investment

Bank) should agree ground rules with each other to govern their lending operations.

8.25 Regional political organisations also matter. The AU is beginning to prove Africa's determination to deal with Africa's problems – particularly through its Peace and Security Council, the African Peer Review Mechanism, and action on migration. Similarly, Asian countries want more progress on regional integration and co-operation. The Association of South East Asian Nations and South Asian Association (ASEAN) for Regional Co-operation (SAARC) are setting up free trade agreements in East and South Asia, and there is growing political support for more regional co-operation on energy, environment and infrastructure issues.

Working beyond borders

The Asian Development Bank has supported the countries of the Mekong region (Cambodia, Lao PDR, Myanmar, Thailand and Vietnam) since 1992. The Greater Mekong Subregion Economic Co-operation Programme helps make sure that shared natural resources are well managed, tackles health and social issues, makes transport across borders easier, lays modern roads, telecommunication and power links, and promotes tourism and investment.

The UK will

- Press the World Bank to be more effective and responsive to developing country priorities; and adapt its aid instruments to better suit the differing needs of low and middle income countries.
- Encourage the World Bank and IMF to do more to help countries cope with economic shocks, corruption, and to respond to trends such as climate change.
- Encourage the multilateral and regional development banks to develop guidelines that ensure they do not compromise on economic, social and environmental standards, when they compete with each other for business.
- Press the World Bank, IMF and others to avoid economic policy conditionality in such areas as privatisation and trade liberalisation.
- Encourage the IMF and World Bank to help developing countries manage the macro-economic consequences of larger aid flows.
- Press the World Bank, IMF and regional development banks to ensure that any new lending to poor countries is consistent with the 'debt sustainability framework'.
- Support developing country calls for a stronger say at the World Bank and IMF.
- Seek transparent, competitive selection processes for the heads of all international development agencies – including the World Bank and IMF and UN – to ensure the best candidates are appointed, regardless of nationality.
- Work with others to strengthen the African and Asian regional development banks, especially for regional and cross-border infrastructure.
- Work with others to support AU, SAARC, ASEAN and other regional efforts to address regional issues critical for growth and poverty reduction.

A new alliance for development: the European Union...

8.26 The EU is now more important for development than ever. The EU acts politically, makes policies that matter for developing countries and spends 55% of the world's aid money.⁸ The UK is committed to working more closely with EU member states and the EC on international development policy.

8.27 EU expansion has brought stability to Europe. In countries that aspire to join, political dialogue, European aid and the prospect of EU membership are leading to rapid change.⁹ And the EU has significant political and economic relationships with developing countries in Africa, the Caribbean

and the Pacific, Europe's 'neighbourhood', and with influential middle income countries.

8.28 Common European policies on issues like trade, agriculture, migration, climate change and security have significant implications for developing countries. Recognising this, the Council of EU Member States and the EC have agreed to report every two years on the impact of EU policy on development.¹⁰ We will work closely with EU member states to tackle international corruption, and take forward EITI and other such initiatives.

8.29 By 2010, nearly 80% of the new aid promised in 2005 will come from European Member States.¹¹ Decisions made in Europe will determine how effectively that money is

used. And Europe's influence in shaping aid policy is growing. The European Consensus on Development, agreed in 2005, united Europe – Member States and the EC – for the first time behind a shared view of development co-operation. The Consensus is clear that: the primary objective of European aid is eradicating poverty; the poorest countries should get priority; developing countries should 'own' the development process; EU Member States should increase and harmonise their aid; and the EU's wider policies should support development.¹² The challenge now is to make sure that these principles are applied in practice in all countries receiving EC aid.¹³

8.30 After five years of reform, EC aid is now much better than it was. EuropeAid was set up to implement all external assistance, replacing the previous fragmented system. Management of aid has been largely decentralised to the field. And the European Development Fund, which supports African, Caribbean and Pacific countries, has become more effective and flexible.¹⁴ Europe's humanitarian work is highly respected. And new, streamlined 'instruments' for the EC's aid to different regions and themes will be in place by 2007.¹⁵

8.31 But to realise Europe's potential as a leader on international development, we



believe more change is needed to improve co-operation between EU donors, and to make EC aid more effective. Policy and implementation of aid remains split between different parts of the Commission. And field offices have less responsibility and capacity than they need. If performance does not improve, a second wave of reform will be needed.



Europe makes a difference to development

- EU aid helps tackle poverty. In Burkina Faso, the EC's Euros 125 million budget support (2002-05) has helped increase primary education enrolment by over 25% since 2000, and doubled vaccination rates for measles and yellow fever since 1998. In Nicaragua, the EC's Euros 11 million water project has helped repair 145 kilometres of pipes, built over 100 wells, and helped 10,000 homes to improve hygiene standards.
- EU Member States - the UK, Spain, Italy and France and Sweden - launched the IFFIm which could save 10 million lives.
- The EU is using its bilateral partnerships to foster sustainable development in countries such as China and India, for example through the EU-China 'clean coal' initiative, launched in 2005.
- The EU has provided Euros 300 million through its Peace Facility for peace support operations in Africa in 2004-2007, particularly in Darfur, helping put thousands of African Union peacekeepers on the ground.

The UK will

- Work with others for further reform of European development assistance and institutions, so that the EU can play a leading international role on development.
- Work closely with EU Member States to implement the EU Development Policy Consensus, covering commitments on aid and wider international policies.
- Develop more joint strategies and seek opportunities for co-financing with the EC and EU Member States, wherever appropriate.
- Work with the EU as the main partner for our development aims in the 'Accession' and 'Neighbourhood' countries, and as an important partner to further development objectives in middle income countries.
- Work more closely with EU Member States to increase our influence in international development organisations.



Holding each other to account...

8.32 Aid relationships are, by nature, unequal. If developing countries are to lead their own development, they must have more authority to ensure that the international development system responds to their needs.

8.33 Within developing countries, governments need to be clear about what they want. Tanzania and Mozambique, for example, have set out clearly how they want to work with their international partners.¹⁶ These arrangements should not be the exception but normal practice. And there should be better arrangements at the international level, for international partners and developing countries to hold each other to account for delivering their commitments.

8.34 International partners must find ways of working together to make aid better. The Paris Declaration on Aid Effectiveness – agreed in March 2005 – made clear that aid works better where:

- Developing countries determine their own policies and programmes ('ownership').
- Donors provide long term, predictable

Better aid for Sudan

In Juba, South Sudan, the UK is working with the Netherlands, Norway, Denmark and Sweden in a Joint Donor Team to support development in the south following the Sudan peace agreement. The new office (above) combines the bilateral programmes of the five countries into one operation. The aim is to create a fully harmonised programme to make it easier for the Government of South Sudan to manage aid, and to make aid work better. The Dutch are leading the initiative, and have provided a joint office which is staffed by a combined team from all five partners.

support based on local needs and priorities, and use developing countries' institutions and procedures rather than building their own parallel systems ('alignment').

- Donors reduce the burdens on developing country governments – for example by reducing the number of individual projects and administrative requirements and by 'untying' aid ('harmonisation').¹⁷
- Donors and developing countries focus on making the most difference to the lives of poor people ('managing for results').

- Donors and developing countries hold each other to account for their promises ('mutual accountability').

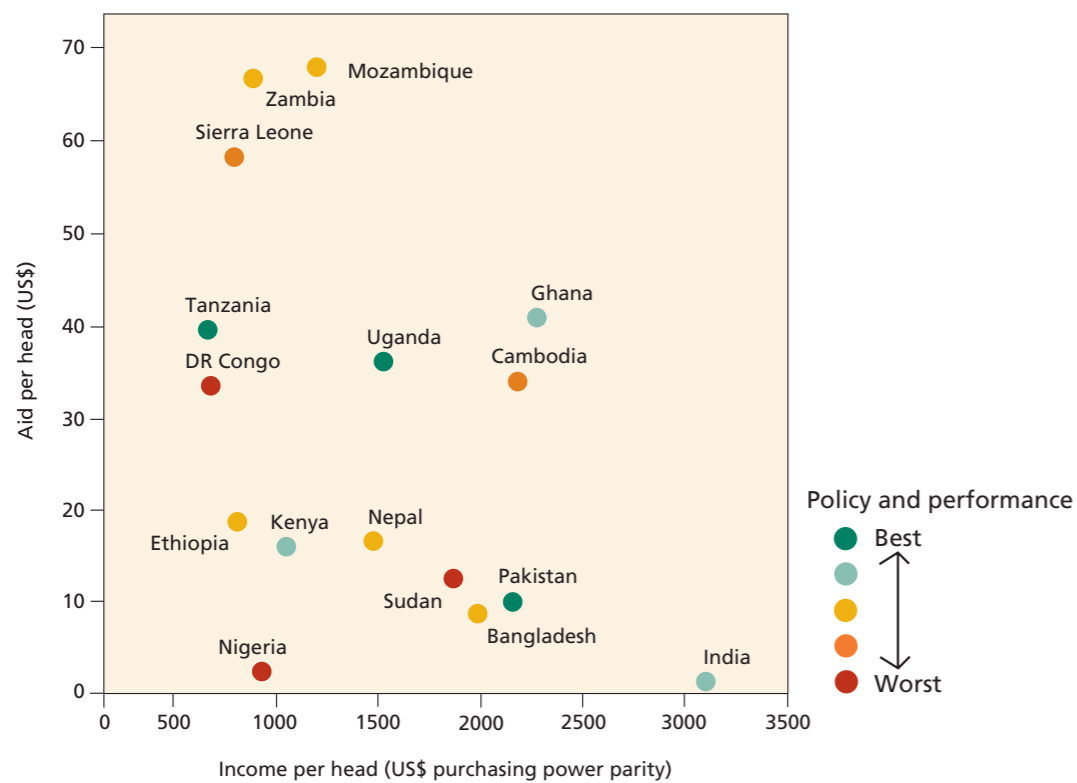
8.35 There are now good examples of bilateral and multilateral partners working together in this way. The UK already pools funding with other donors in more than twenty countries, has joint strategies with other donors in six countries and joint offices in two more. But there are still too many donors with different spending and monitoring requirements. The UK believes that we, and other international partners, need to make faster progress to meet our commitments under the Paris Declaration, especially as aid increases.

8.36 The UK would like to see an independent organisation monitoring aid commitments, allocations and performance. This would significantly increase accountability. The OECD DAC – which has traditionally

collected and published statistics on aid and developed guidelines for OECD members – could do this. But this will mean strengthening its capacity, and working much more closely with new non-OECD donors such as India and China.

8.37 We also need to overcome the unequal way in which aid is currently distributed. Countries often receive different amounts of aid regardless of their poverty or population size. This is partly because bilateral partners have stronger commitments to some countries than others for political or historical reasons. The result is that some countries are under-aided. The DAC should highlight where this is the case. The UK will work with others to agree a mechanism to resolve this problem, probably involving multilateral donors balancing out aid flows.

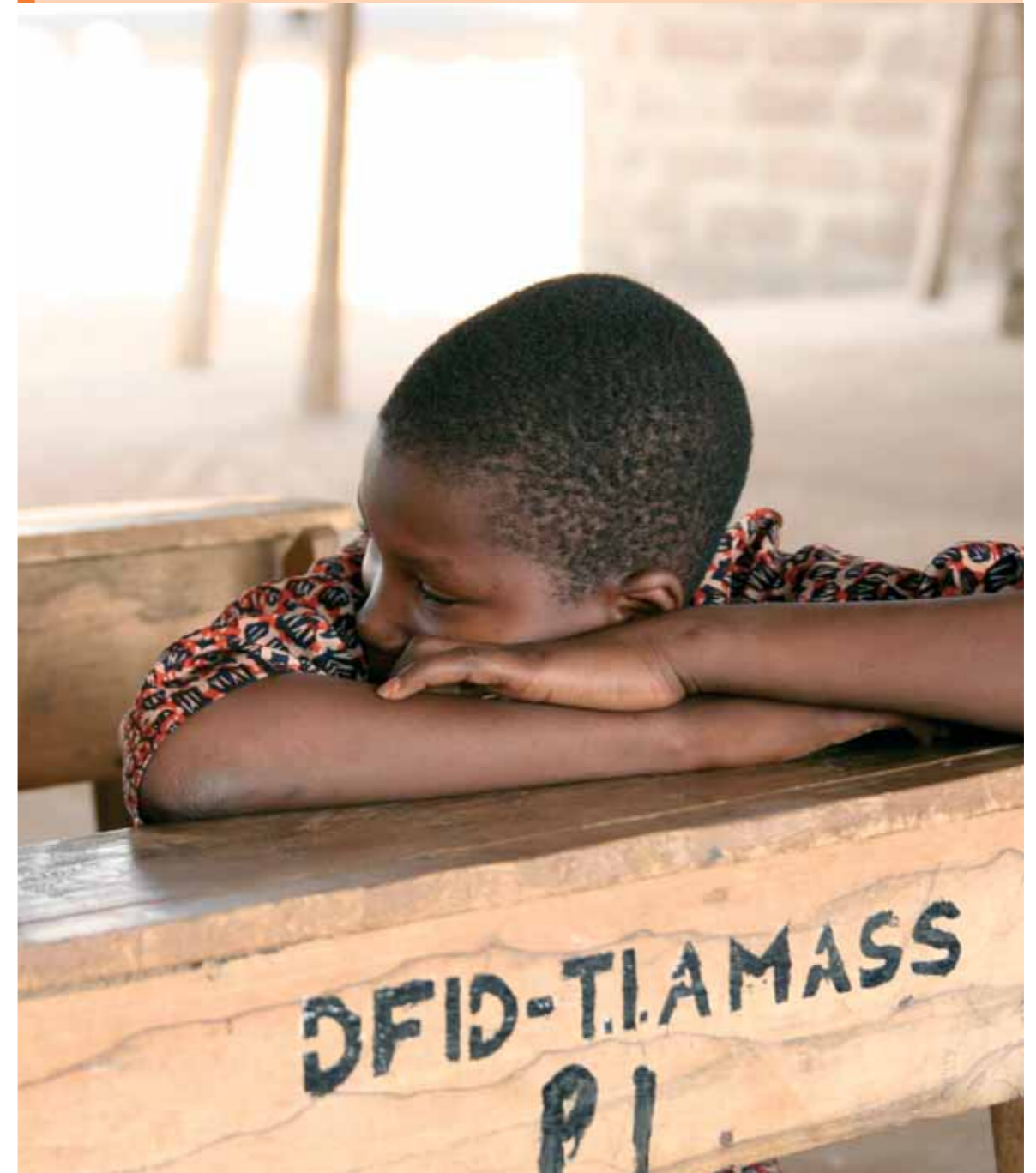
Aid is not distributed evenly ¹⁸



Source: ODA per capita 2000-04 average from OECD-DAC and World Development Indicators (WDI); GNI per capita 2004 from WDI; Policy and performance from World Bank CPIA 2004.

The UK will

- Work with others to implement the Paris Declaration.
- Participate in multi-donor arrangements in all developing countries by 2010 where we have a bilateral programme.
- Work with others to create arrangements for international partners and developing country governments to monitor their commitments to each other.
- Push for a stronger role for the OECD DAC in monitoring and holding international partners to account on their commitments, and in leading debate on how aid is allocated overall.
- Encourage the OECD DAC to work more closely with new non-OECD donors such as India and China.
- Support developing country efforts to manage their relationships with donors more actively so that they lead their own development effort.
- Encourage civil society and other organisations to monitor international donor performance in developing countries.



How change happens: Poverty Reduction Strategies

In 1999 the World Bank and IMF came up with a new approach to help developing countries. In order to qualify for debt relief under the HIPC, countries were asked to prepare Poverty Reduction Strategies (PRSs), to set out their priorities for development and to explain how aid and debt relief would be used to benefit the poor.

Almost all international partners now support the PRS approach, and many – including the UK – have put them at the heart of their development assistance. This is much better than multiple donors working to different objectives. PRSs have helped put the fight

against poverty at the centre of the public policy debate in developing countries. This has improved the quality of their budgets and financial management, and raised the level of public spending to tackle poverty. For example, Ghana increased its expenditure on poverty reduction through its PRS from 4.8% of GDP in 2002 to 8.3% in 2005. This allowed the government to hire 10,000 additional teachers and boost primary school enrolment from 81% to 92% of children.¹⁹ The economy also grew at rate of 5.2% in 2003 and 5.8% in 2005. Forty-nine countries have now drawn up PRSs.

