

Development: towards 21st century approaches

2017 Mitchell Oration by Dr Ngozi Okonjo-Iweala

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Opening remarks

Thank you both very much, Harold (Mitchell) and Brian (Vice Chancellor, Prof Schmidt), for your kinds words, and for such a warm welcome. I am truly delighted to be here tonight and extremely humbled to have been invited to give this Harold Mitchell Development Policy Lecture. It really is a great honour to follow in the footsteps of such esteemed speakers as Emilia Peres, Jim Adams, Mari Elka Pangestu and Mark Dybul. And thank you Harold for creating this inspirational lecture series. In my view, we need to see more of these - and I am not just saying that because it gives me an opportunity to speak!

Introduction

In all seriousness, these discussions play an important role in helping to shape the future of development; they create a forum where the most pressing development issues can be mooted, and new ideas and potential solutions discussed, all in an environment that brings together experts, academics, government and private sector alike. It is an approach that encourages fresh thinking and new perspectives.

I can say this with a certain degree of authority as, at one point in my life or another, I have worn all of these hats. From my spell in academia during my PhD at MIT, to my two terms as Minister of Finance and one as Minister of Foreign Affairs in the Government of Nigeria, as well as my role as a Managing Director at the World Bank. I am also now working with the private sector in

an advisory capacity. You could say that these very different perspectives have given me the unique opportunity to view the problems of development from all sides.

And, regarding development, while the world looks dark and uncertain at this moment, there is one thing I have observed consistently from each of these viewpoints. It is that we are making progress - so much has improved for the better and we should not forget it. I know that if you just go by the headlines, this may not be immediately apparent. Ongoing conflicts in Syria, Yemen and South Sudan; tens of thousands of people risking their lives to flee their homes, or seek better lives elsewhere, too many of them not making it; and all against a growing backdrop of geopolitical nationalism, and under the shadow of nuclear weapons not seen since the Cold War. And yet despite the headlines, despite the human suffering that continues to exist, and despite the temptation to believe the world is getting worse, things have steadily improved for humanity.

This is very apparent if you look at how far we have come in recent decades. In the 1930s, just three out of ten people were literate. Today, eight people in ten can read, with the fastest acceleration being in Africa. Similarly, in 1950 around three-quarters of the world's population lived in extreme poverty. Today it is less than 10%.¹ And in 1990, the same year Nelson Mandela was freed, more than 12 million children under the age of five were dying every year, or around one-in-ten infants. We have now more than halved that, and over the next 15 years hope to halve it again.

These gains have come about partly because of technological and industrial developments which have led to greater productivity and prosperity; partly through the advances in science and

¹ <http://www.worldbank.org/en/news/press-release/2015/10/04/world-bank-forecasts-global-poverty-to-fall-below-10-for-first-time-major-hurdles-remain-in-goal-to-end-poverty-by-2030>

medicine enabling people to live longer, healthier lives; and partly through the gains of market economics and globalisation.

One of the biggest example of this is China. Over the last four decades, agricultural productivity there has grown by 12 per cent per year, which has not only helped feed its growing population but also led to better nutrition and health, higher rural incomes, and falling poverty rates, all of which have helped drive China's economic development. China has been the biggest driver in the global gains made in reducing poverty. China's economic growth lifted 800 million people out of poverty by 2015, the end point of the millennium development goals². But other developing countries have also made gains. Asian countries have steadily reduced the numbers of people in absolute poverty, particularly in Malaysia, Thailand, Cambodia, Laos. Even Africa has made gains, lowering the proportion of people in absolute poverty from 56 per cent in 1990 to 43 per cent in 2012,³ though the absolute numbers keep rising due to population growth. However, Africa has 400 million people in absolute poverty (living under \$1.90 a day) is the last frontier, where the battle needs to be fiercely waged. But, back to the gains...

Gains like these have been made in developing countries due to the hard work of their people and governments, but also due to partnership and assistance from other countries, such as Australia. According to the OECD, Australia has contributed over \$36 billion in development assistance over the last 10 years⁴ and should be justly proud of what it has done to help break the vicious cycle of poverty and disease for millions of families in poor countries. I know that, for fiscal reasons, Australia has now cut its development assistance from 0.37 per cent of GNI to

² <http://www.worldbank.org/en/country/china/overview#1>

³ <http://www.worldbank.org/en/region/afr/publication/poverty-rising-africa-poverty-report>

⁴ <https://data.oecd.org/oda/net-oda.htm>

0.22 per cent. But politicians would do well to look at the positive results this assistance has had and the global visibility it has afforded Australia, and think positively again.

Now for the future. I will admit that the road ahead for development is now likely to get tougher. Not just because of the current geopolitical climate, which without a doubt is one of the most difficult we have ever faced, but also because the global development landscape itself is steadily shifting in ways that will increasingly threaten to undermine our efforts to eradicate poverty, disease and inequality. I'm talking about formidable global trends, such as demographics, climate change, human migration and urbanisation, all of which will reach new levels in the 21st century and will conspire to challenge us like never before.

The fact that we now have some global consensus, in the form of the Sustainable Development Goals and the Paris Climate Agreement, does offer some hope. These agreements give us a glimpse of the better world we hope to create, and will act as waypoints towards which we can strive, with clear but ambitious targets which almost every nation has signed up to.

But what is less clear is how we get there, particularly in the context of these emerging new challenges. Many of our multilateral development institutions and the organisations that we depend on to fight poverty and create wealth were created decades ago, when the global development landscape was very different from what it is today. In light of this, it is important ask whether they are still fit for the purpose. Exactly what approaches will it take for these organisations to help us reach our ambitious development and climate targets, and to what extent are they able to adapt in the face of such daunting global trends? In addition, what other new or innovative approaches are needed to help us deliver on development and the SDGs in particular.

What role can technology play?

21st century challenges

The intention here is not to reinvent the wheel, but rather to highlight the fact that we cannot simply assume that we will reach these goals with a business-as-usual approach, particularly given the scale of the ambition of the global targets, and in light of what are in some cases tectonic shifts in the global development landscape. Some organisations are already well-placed and stand as shining examples, prepared to tackle what is coming. Others will at the very least need to adapt or reinvent themselves.

But before I talk of the changes in approach that need to be made, let me provide a little context, by explaining what I mean by a changing landscape. Just consider demographics. While most developed and some emerging market countries are grappling with aging populations and the implications this has for productivity and economic growth, many developing countries are grappling with the opposite, rapid population growth and an increasing young population and the implications of this for employment and job creation. Take sub-Saharan Africa, for example: the demographic transition is yet to happen in most of the continent and 60 per cent of the population is 25 years or under.⁵ The population growth rate is 2.73 per cent⁶, with a fertility rate of almost 5 children per woman (4.92⁷). The current population of 1.2 billion is expected to reach 1.7 billion by 2030 and will double to 2.4 billion or 25 per cent of the world's population by 2050.⁸ By 2030, the continent's working age population is set to increase by two-thirds, from 370 million adults in 2010 to over 600 million in 2030, constituting one of the world's largest pools of people searching for jobs.

⁵ OECD <http://www.fao.org/3/a-BO092E.pdf> pg. 71

⁶ <https://data.worldbank.org/indicator/SP.POP.GROW?locations=ZG>

⁷ <https://data.worldbank.org/indicator/SP.DYN.TFRT.IN?locations=ZG>

⁸ http://www3.weforum.org/docs/WEF_EGW_FOJ_Africa.pdf

And that leads me to another challenge familiar to Australia, Europe, USA and elsewhere. The issue of migration. The population in developing countries is not just growing, it is also flowing, withstanding all the barriers put in its way. We are already witnessing the largest number of displaced people since World War II, driven not just by population growth, but also by increased conflict and growing pressure from climate change, with more than 65 million people forcibly displaced in 2016 alone. Migration is, and will remain, one of the most important challenges of our time. Much of this migration is taking place within countries with high populations of young people, many moving from rural to urban areas at unprecedented rates. Urbanisation is another challenge and opportunity of our time.

In 1950, two-thirds of the world's population lived in rural settings, and a third in urban areas. By 2015 the world had become 53.8 per cent urbanised.⁹ The change is most noticeable in developing countries. By 2030, nine of the ten largest cities in the world will be in developing countries (China, India, Bangladesh, Pakistan, Egypt, Nigeria and Mexico), with unbelievably large populations ranging from about 24 million in Mexico City and Lagos to 36 million in Delhi¹⁰. While urbanisation can lead to increased efficiency in basic service provision, it also comes with challenges of how to create jobs, housing, transportation and other infrastructure rapidly enough to cater for the burgeoning population. Providing access to quality health and education services can prove to be an overwhelming task for under-resourced cities and countries with weak institutions. But the inability to do so can lead to slums, crime, and susceptibility of youth to terrorist recruitment and other social ills.

Migration across continents poses another challenge. Technology and the ubiquitousness of mobile phones has allowed people to see that life can be better outside their own geographic

⁹ <https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS>

¹⁰ <https://www.weforum.org/agenda/2016/10/the-world-s-10-largest-cities-by-2030/>

boundaries. So the push of population growth, conflict, and climate change combines with the pull of a better life to lead people to take enormous risks. Today, as we speak, millions of people are moving around the world. They are crossing by boat and ship from parts of Asia to Australia, in airless trucks from South and Central America to the USA and by land and sea across the Sahara and Mediterranean from Africa to Europe. Thousands are abused or die in the process. The recent stories of young sub-Saharan African men auctioned into slavery in Libya, or 26 teenage girls from my country Nigeria dying on rubber dinghies in the Mediterranean should give the world pause. And the numbers indicate it may get worse before it gets better. We cannot solve these problems through a fortress mentality or a turn against the multilateralism that has served us so well in the past. We have shown, in over 70 years or more, our ability as a global community to cooperate and confront such challenges. We can do so again. I am so glad the Australian government agrees, to quote the Foreign Policy White Paper, that “in an interdependent world, a system that promotes collective responses to problems that cannot be solved by countries acting by themselves, best serves our interests. Australia supports “cooperation to stop the spread of weapons of mass destruction, address climate change and promote the 2030 Sustainable Development Goals”, Australians will continue to work internationally to respond to global health and humanitarian crises”¹¹.

And all of these problems can be better confronted if we can improve the lives of people where they live, by creating jobs, improving infrastructure, and increasing access to basic health and education services. This is where countries have to carefully re-examine their bilateral and multi-lateral development assistance for the positive impact this can make on the ground. I know these are challenging times for development assistance. But challenging times demand leadership, and

¹¹ Australian Foreign Policy White Paper 2017 (pg. 7)

Australia is well placed to lead. This is also where the SDGs come in, with their universality and targets. And this is where a joined-up approach is key, with governments, private sector, civil society and multilaterals working in partnership. No one actor can go it alone. But the question is: how do we deliver? How do we solve the types of challenges I have mentioned? How do we finance the SDGs? How do we take development to scale?

We have relied largely on the multilateral development banks working with bilateral organisations and governments to deliver, and we need to rely on them again - this time working much more with the private sector. But are the multilateral development banks fit for purpose? Can they catalyse or mobilise the trillions of dollars needed to achieve the SDGs? Will development as usual take us to scale? What do the MDBs need to change in order to remain central to development in the 21st century? I argue that multilateral development banks face four challenges they will need to confront if they are to be fit for purpose in helping the world deliver on critical development problems and on the SDGs. These are the challenges of relevance, legitimacy, scale and urgency, and business model. I will also argue that development as usual will have to give way to development with innovation and technology if we are to scale. Let me start with the MDBs.

Multilateral Development Banks

To explain what I mean, let us look at multilateral development banks and the way we finance development. Beginning with the first challenge: *relevance*. When most MDBs were first set up they played a central role in funding development. Whilst they are still important in this role, today they have competition. The balance sheet of some national development banks and their lending have in some years surpassed that of the MDBs combined. In 2011, for example, whilst the World Bank Group, African Development Bank, Asian Development Bank, European Bank

for Reconstruction and Development (EBRD) and the Inter-American Development Bank (IADB) committed a total of US\$110.8 billion in lending, the Brazilian Development Bank alone lent US\$103 billion whilst the figure for the China Development Bank was about US\$163 billion. We also now have other significant flows such as remittances totalling over US\$400 billion a year to developing and emerging market countries, while the trillions of dollars of liquidity in the international financial markets and the increasing access of more and more developing countries to this, may lead some to question the relevance of the MDBs. This was certainly the position of the Meltzer Commission set up by the United States Congress in 1998 to look at the function of the MDBs, and remains the position of an important segment of the US establishment today. And it is not only in financing that competition that the question of relevance comes up for the MDBs. It comes even in knowledge transfer and capacity building where over time they have built up a formidable capacity.

Let me use myself as an example. As a Minister in my first term of office (2003-2006), when I needed help on tax administration and tax policy to improve domestic resource mobilisation, I turned to the World Bank, who told me it would take six weeks to put a team together. I then turned to the IMF, who sent a wonderful expert from this great country Australia. But they could only stay for three weeks.

So, in my second term (2011-2015) with the same problem persisting, I turned to the consulting company McKinsey to help me, and within two weeks they were in operation with two people continuously in my tax office for six months, and a monthly assessment of progress by a senior partner. The lesson to be learned here is one of speed and presence if one is to remain relevant.

What about the issue of *legitimacy*? This can be a serious challenge for MDBs in the 21st century, since many shareholders no longer feel that the institutions belong to them or reflect

their interests and priorities. For the Bretton Woods institutions, like the World Bank and the IMF, this may be an even more serious problem because the voting power tied to shareholding structure has simply not evolved to reflect the changing evolution and economic weights of emerging markets in the new global economy.

For example, China alone accounts for 25% of global growth, while emerging markets and developing countries contribute over 50% of global GDP. Yet, despite the recent welcome adjustments made in IMF quotas and related changes to voting power in the International Bank of Reconstruction and Development, China has 4.59% of voting power, compared to Japan at 7.11%, and the United States at 16.45%. Meanwhile the total vote for the BRICs amounts to 13.1%, while for the 54 African members voting power is just 6.88%. Australia recognises this problem; I quote the Foreign Policy white paper “Australia will support reforms that give new and emerging powers a greater role in the international system. Some change to institutions and patterns of global cooperation is inevitable, necessary and appropriate to reflect the greater weight of countries such as China, Indonesia, India, Nigeria and Brazil” (pg. 7). But powerful shareholders in Europe and the United States want little or no change. All this raises the question of legitimacy. Furthermore, the way leadership is chosen (and I am of course not an unbiased observer) and the way in which the board and governance is structured, also undermine legitimacy. These were certainly contributing factors when the BRICs opted to start their own New Development Bank (NDB) and China, the Asian Infrastructure Investment Bank (AIIB) on whose advisory board, for purposes of full disclosure, I sit.

The third challenge is that of *scale*, which is intrinsically linked to *urgency*. To understand why, consider again the issue of how we are to fund the SDGs, and the investments needed for a low carbon growth path to mitigate climate impact. Both will require funding in the order of trillions

of dollars. The United Nations Conference on Trade and Development (UNCTAD) estimates a bill of US\$5-7 trillion a year is needed to address the SDGs, climate change, basic infrastructure, food security, migration, health and education etc.

At current levels of investment there is an annual gap of around US\$2.5 trillion. Given that the annual combined lending of the entire World Bank Group and other MDBs ranges from US\$103 billion to US\$115 billion, it is easy to see why this has been dubbed the “billions to trillions” challenge, or in other words *scale*.

Urgency comes into the equation by virtue of the fact that if you don’t scale investments quickly, already severe climate change impacts, including on poverty and conflict, could escalate. For example, by 2030, without scaled investment we could see another 100 million or more people in Africa joining the 400 million who already live in poverty.

This issue of failing to scale is one of the reasons I strongly believe MDBs have not been able to make as big an impact on their goals of poverty eradication and shared prosperity as they could. One of the ways to overcome this and scale is to leverage the billions in multilateral and bilateral aid to attract the trillions of dollars from the private sector. The MDBs are beginning to do this as they realise they will have to make changes to their business model and will need their shareholders to support them.

First is the push for creativity and innovation to develop financial and risk management instruments attractive enough to the private sector to unleash tens of billions of dollars. Some of MDBs, such as the World Bank and the African Development Bank, are also seeking additional capital to enable them to more effectively pursue this leverage. Next is a broadening of the mandate of these institutions. Virtually all were set up to focus on long-term development, with little or no involvement in humanitarian crises, conflict and security related issues, emergencies

arising from natural disasters or pandemics, or other crises. These all technically fell outside their charter, the original intention being that other organisations, such as the UN, would handle them. That business model no longer suits, particularly with the emerging challenges of the 21st century, because, as we well know, the lines between humanitarian assistance and development have become blurred to the point that now in many cases they are almost inextricably linked. Just think of the food crisis of 2008-2009, the financial crisis of the same year, the Ebola pandemic of 2014-2015, the Syrian, Libyan, Iraqi and other refugee crises and the ensuing migration crises, with more than a five-fold increase in UN humanitarian appeals in the last decade or so, from US\$3 billion to US\$17 billion in 2014. The MDBs are increasingly called upon to step in to these crises when it's clear the UN system alone can no longer handle them.

Yet, the country-based, project-driven lending model of the MDBs simply cannot handle this. How does a country like Jordan, for example, borrow to create jobs and provide infrastructure and services for the 2 million refugees who are not its citizens but are on its territory? Similarly, Kenya, Ethiopia and Uganda are hosting millions of Somali and Sudanese refugees and migrants and vast camp cities – why incur sovereign debt to fund the needs of these non-citizens?

Shareholders of MDBs have indeed recognised this problem and sought to tackle these extra development issues through special resources known as trust funds. The proliferation of trust funds is a clear sign of just how inadequate the present MDB business models have become, and the kind of earmarking it leads to among donors is an indication of how much it can stretch legitimacy too, as funders seek to exert control over how and where resources are spent.

According to OECD DAC, such earmarked funding represents the fastest-growing component of funding for multilateral organisations, increasing by 93 per cent between 2007 and 2013, compared to just 24 per cent for core funding. The World Bank is one of the largest recipients,

with 28 per cent of its total funding in 2013 accounted for by earmarked trust funds.

I have spent some time on the challenges confronting the MDBs if they are to help the world deliver on 21st century development problems. Not because I am pessimistic about the MDBs, quite the contrary - I strongly believe that the MDBs are needed in order for the world to achieve the SDGs and the climate agenda. The truth is that if MDBs did not exist, you would have to invent them. Almost all the studies carried out on these institutions conclude that they possess many unique assets or attributes: objectivity and professionalism, apolitical nature, convening power, unique ability to bundle finance and knowledge, ability to handle policy dialogue that make them the best set of institutions to tackle development, and multi-country issues. They are well placed to handle negative spill-over effects, and externalities of country actors. They are also best placed to deliver on global public goods and contain the impacts of global public bads, such as pandemics.

But they cannot bring these good attributes to the fore unless they reform and reengineer themselves to be fit for the 21st century. And they cannot reform or re-engineer along the lines needed without the willingness of shareholders to change and support them to do so.

Technology

Now I cannot end this lecture without a mention of my favourite hobby horse, one that I feel is essential for development to succeed in the 21st century: technology. Technology is necessary to deliver scale. In other words, if you have your reformed financial institutions, and you have leveraged the billions and trillions of dollars needed, but you do not have the means of reaching the millions of poor people who need help, then you still do not have the right formula.

But there is good news, we now have technology that enables us to reach millions of poor people, and I want to share just two of these with you. The first is the development of the

biometric identity technology for development purposes. The best example of this is of course India's Aadhar Biometric ID system which now has over 90 per cent of India's 1.3 billion people enrolled. This technology has opened the door to better and more directly target millions of formerly-faceless poor women and men, giving them access to services. Millions can now be reached with well-designed social safety nets. The biometric ID system also provides a platform for financial services, including digital payments, that could revolutionise the lives of small and medium sized entrepreneurs. In short, the biometric ID provides an opportunity for developing countries and their partners to bring solutions at a scale that can deliver on the 2030 Sustainable Development Goals and hold the promise of eradicating poverty. Large and poor countries, including my own Nigeria, have taken note of what India has done and are trying to do the same. My second example of technology at scale will not surprise you. It is vaccines. And Gavi, the Vaccine Alliance, of which I am Board Chair, provides one of the world's best examples of deploying this technology. Gavi is an alliance of international organizations such as UNICEF, WHO, and the World Bank; foundations such as the Bill and Melinda Gates Foundation; governments; civil society; and private sector pharmaceutical companies. Australia is a long-standing and much appreciated supporter of Gavi, having contributed about \$370 million to Gavi from 2006 to date, with a pledge to contribute US\$200 million more by 2021. And Gavi has delivered! Using this unique public-private partnership model, Gavi has immunised more than 640 million children since it was created 16 years ago, and saved 9 million lives. It is well on its way to achieving its next goal of immunising a further 300 million children by 2020 and saving another 5 million more lives. There is very little that can beat the scale at which Gavi operates for children. And vaccines are proving to be one of the most effective investments in development: every dollar invested in vaccines yields \$16 in avoided health costs and \$44 in

lifetime benefits.

Gavi uses government-backed guarantees to raise money for vaccines in the international capital markets by floating bonds. Since inception in 2006, this unique financial facility known as IFFIM has raised a total of US\$6 billion bonds to finance vaccines and save lives. Gavi also uses the Advance Market Commitment (AMC) mechanism to incentivise vaccine production and shape vaccine markets to bring down costs for developing countries. For example the Rotavirus vaccine price has been negotiated by Gavi for \$2.50 per dose for poor developing countries, compared to \$91 per dose in the USA, and the HPV vaccine is \$4.50 per dose compared to \$100 per dose in the USA. This is a critical life line for poor developing countries.

Gavi pursues other technologies, such as drones in Rwanda, to deliver vaccines and blood in hard-to-reach geographical areas – an approach we might consider for PNG and Laos with their difficult terrain. Gavi thus meets all performance criteria for development assistance set out in the Foreign Policy White Paper:

- a. It is in Australia's national interest as it deals with global health security issues.
- b. It reduces poverty and promotes inclusion by immunising the world's poor and vulnerable children.
- c. And Australia's contribution adds tremendous value and gets 7 times its leverage – for the \$38 million a year Australia contributes on average, Gavi puts in \$259 million a year in the Indo-Pacific region. And Gavi's \$16 return for every \$1 invested is clearly value for money.

Gavi's unique financial and implementation approach and its deployment of vaccine cold chain and other delivery technology at scale is so successful that it is being studied by other sectors, such as education and water and sanitation, for replication. It is an approach that Australia should

continue to support and strengthen for the 21st century.

Concluding remarks

So let me now conclude. The world has made remarkable progress in the last seven decades of development. But uncertainties have crept in and the development landscape is changing and becoming more challenging. These 21st century challenges will require 21st century solutions for development. Consensus has been built around the vision and strategy for tackling these challenges. The SDGs and Paris Accord offer us unique opportunities to solve problems and get it right. But the instruments we use to deliver, such as the MDBs, must be reformed to offer the legitimacy, relevance, scale and urgency we need, while development as usual must give way to disruptive approaches, built on technology that can deliver scale. And Gavi offers a good example of this. I am optimistic that all these elements can come together to make the 21st century another century for achievement on development. As Nelson Mandela said, “Provided we are dedicated and passionate about the task in hand, we can rise above challenges and achieve success”. Let’s go out together and succeed!