



DEVELOPMENT CO-OPERATION REPORT 2010

SUMMARY - JANUARY 2010

The combined effect of the food, energy and economic crises is presenting a major challenge to the development community, raising searching questions about the real impacts of development, how to demonstrate them, what really underlies them, and our ability to control and account for them.

– Eckhard Deutscher, OECD DAC Chair

How do the economic, food and climate change crises impact on efforts to meet the Millennium Development Goals? The Development Co-operation Report (DCR) 2010 looks at the growing challenges for both donors and developing countries alike.

In his introduction to the Report, Eckhard Deutscher warns, however, that the development community should avoid entering into a “fire-fighting mode”. Instead, it must maintain a clear and consistent focus on the principles of effective aid set out in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action: “The world has changed profoundly, but our development goals remain the same.”

Over the past year, the OECD Development Assistance Committee (DAC) has worked to keep the development dimension of the crises high on the political agenda, while helping the development community to formulate its best response.

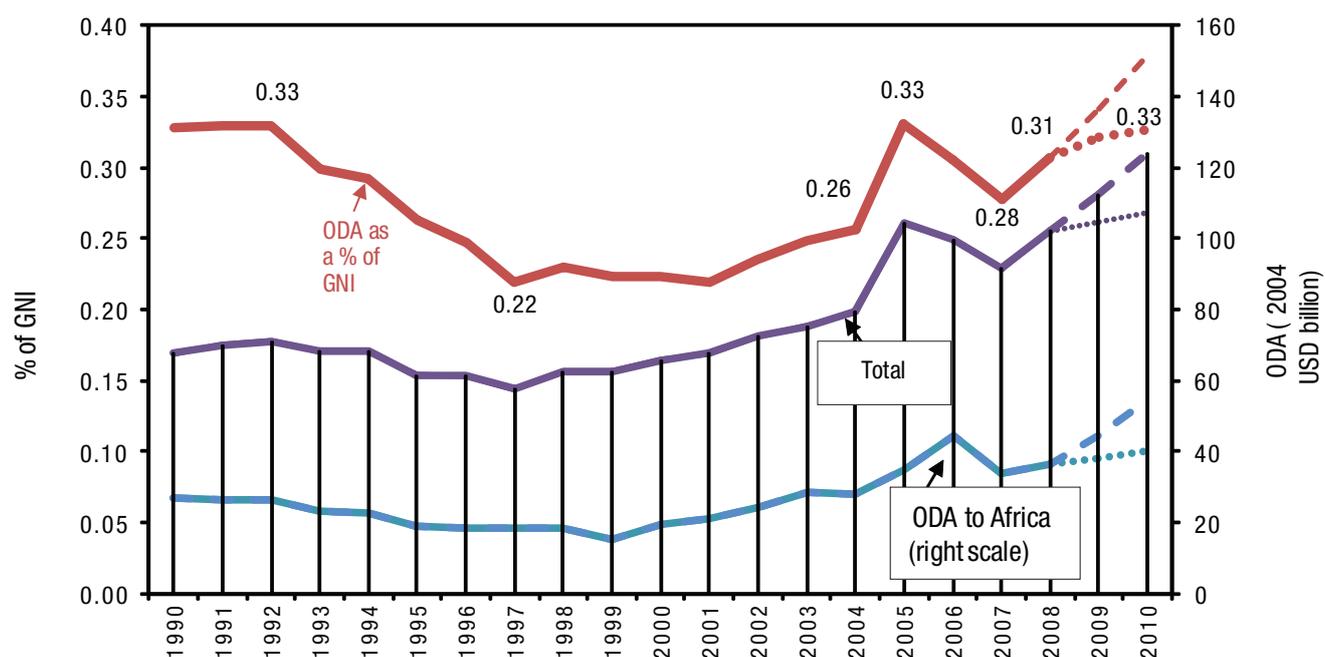
KEEPING PROMISES

DAC analyses show that aid volumes reached their highest historical level in 2008: USD 121.5 billion. Nonetheless, reduced growth in that year and the economic contraction in 2009 have lowered the dollar value of pledges made in 2005 at the Gleneagles G8 and UN Millennium +5 summits from the projected USD 130 billion to about USD 124 billion (in constant 2004 dollars).

DAC’s monitoring of funding projections shows that most donors plan to continue increasing their aid. But some donors have not lived up to their promises, and may fall further behind their commitments as ODA budgets stagnate or shrink. Based on current information, the overall expected ODA level for 2010 is estimated at USD 107 billion (expressed in 2004 dollars).¹ The shortfall vis-à-vis the 2005 projections has a particular impact on Africa.

1. This is the first estimate of the outcome in 2010 of the commitments made by donors at Gleneagles and may change slightly when the 2009 ODA figures are released in April.

DAC members' net ODA 1990 - 2008 and DAC Secretariat simulations of net ODA to 2009 and 2010



- Note:** ----- dashed line indicates the growth-adjusted trajectory envisaged at Gleneagles.
 dotted line indicates estimates based on reported intentions or current 2010 budget plans made by DAC members.
 dotted line for Africa indicates a Secretariat estimate of likely actual spending.

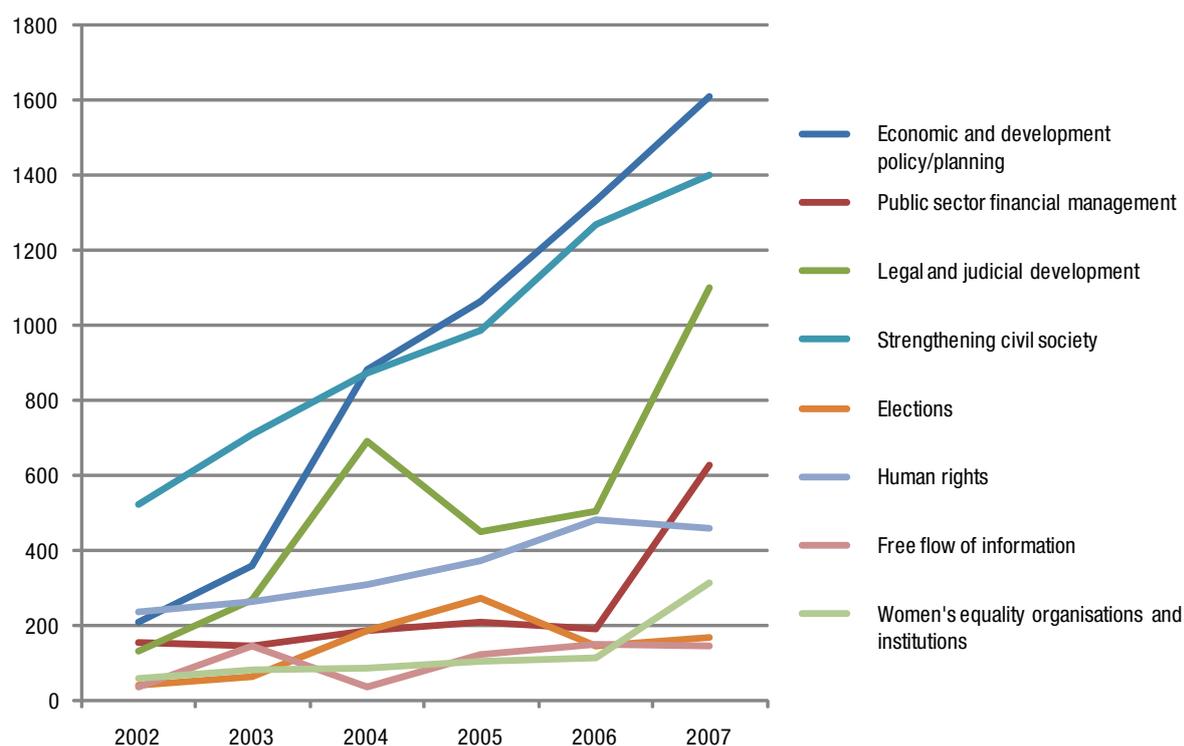
Source: OECD Development Co-operation Report 2010

SHOWING THAT AID WORKS

To increase support for aid – especially in times of economic austerity – it is fundamental to show that aid works. Citizens of donor and developing countries alike want assurances that aid provides value for money and that it is not being misused by corrupt governments.

TACKLING CORRUPTION. The Paris Declaration on Aid Effectiveness sets out a clear, practical plan to improve the quality and positive impact of development assistance through efforts combating corruption. It commits donors to increasing their support to developing countries' anti-corruption efforts, aligning with country-led initiatives, and promoting local ownership of anti-corruption reforms. DAC analyses show that donor spending on initiatives to improve governance in areas where corruption is most likely to occur, such as procurement and financial management systems, has steadily increased.

DAC donor spending on strengthening governance, 2002-2007



Source: OECD Development Co-operation Report 2010

MANAGING FOR IMPACT. Many DAC members are reforming their development systems so that they are managed “by and for results” — in other words, so that they are oriented towards a maximum impact on poverty reduction and the other MDGs. More donors now identify projects and programmes based on expected results, and are making sure that these programmes have clear objectives so that impacts can be better measured. Nonetheless, embedding such systems – and shifting the focus from producing outputs to generating results in poverty reduction and other development priorities – means changing deep-rooted habits, and is a challenge for all.

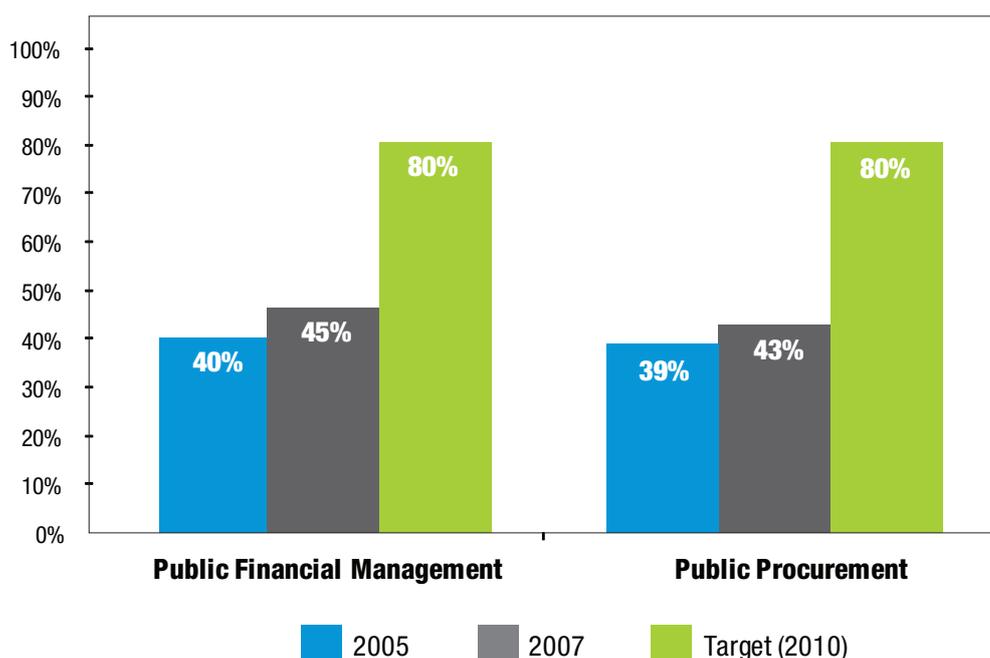
MEASURING IMPACT. To ensure transparency and accountability, it is fundamental to use high-quality evaluation based on solid evidence for measuring impact on development goals. To help donors improve their evaluations and increasingly work together toward shared goals, the DAC develops and makes available quality standards for evaluation.

COMMUNICATING IMPACT. Because the principles of the Paris Declaration focus on process – for instance, channelling aid through country systems and promoting joint work by donors – it is often difficult to attribute particular results to specific donors or sources of funding. DAC members are exploring ways of meeting the challenge of communicating impact, such as by highlighting their own contribution to wider development results, and investing in development education.

BUILDING CAPACITY FOR EFFECTIVE DEVELOPMENT

For aid to be effective, donors need to be guided by partner country development priorities. This means, among other things, using a country's own administrative systems to deliver aid. Decades of development experience show that bypassing country systems and policies weakens a country's ability to determine its own future. But are donors reaching the agreed Paris Declaration target of using country systems for the vast majority of their aid efforts? Only 45% of aid to the 54 developing countries surveyed in 2008 used those countries' own financial management systems, and, in some cases, the use of partner country systems declined between 2005 and 2007.

Aid using partner country systems (as a percentage of total aid disbursed by donors for the government sector)



Source: OECD (2008a), 2008 Survey on Monitoring the Paris Declaration, OECD, Paris.

Fears of corruption or insufficient capacity may make many donors consider it is too risky to let a developing country have full say over what it does with its aid money. However, this perception of using country systems needs to be balanced against potential benefits, which are often difficult to communicate because they are institutional, long-term or diffuse.

To help promote the use of country systems, the DAC has created the Global Partnership on Strengthening and Using Country Systems, which includes donor and partner countries and is jointly chaired by Ghana and the United States.

In his introduction to the DCR 2010, Eckhard Deutscher warns that following a cautious and narrow development agenda is not enough for countries to meet the challenge of the MDGs. In recent years, it has become increasingly clear that global factors beyond aid have a huge impact on development. Fundamental reform coupled with concerted efforts that reach far beyond the traditional aid arena are vital.

CLIMATE CHANGE. Without addressing climate change, for example, progress towards resolving other core development priorities will stall. While the developed world is working out the best strategies for reducing greenhouse gas emissions, all countries need to be pursuing low-carbon growth paths. Meanwhile, the developing world needs help adapting to the impacts of an already changing climate.

Making adaptation measures an integral component of economic policies, development projects and international aid efforts will help mitigate the negative effects of climate change. The DAC has developed policy guidance for integrating climate change adaptation into development co-operation at all levels, from local, to project, and up to the national policy level. While developing country partners must lead these efforts, international donors have a critical role to play in supporting their efforts, either through direct funding or by promoting capacity building.

FRAGILE STATES. While many countries are making progress towards achieving the Millennium Development Goals, a third of all developing countries are falling behind. This group is made up of about 50 of the world's poorest countries, and in most of them, the situation is exacerbated by violent conflict and poor governance. Even though these fragile states already receive 38% of all ODA, further improvement in their conditions is fundamental if we are to achieve the MDGs.

Recognising that fragile states require specific attention, OECD development ministers have endorsed a set of ten *Principles for Good International Engagement in Fragile States and Situations* (2007). Work on monitoring the implementation of these principles in six fragile states has shown that they offer a useful framework for guiding action in such complex and difficult settings.

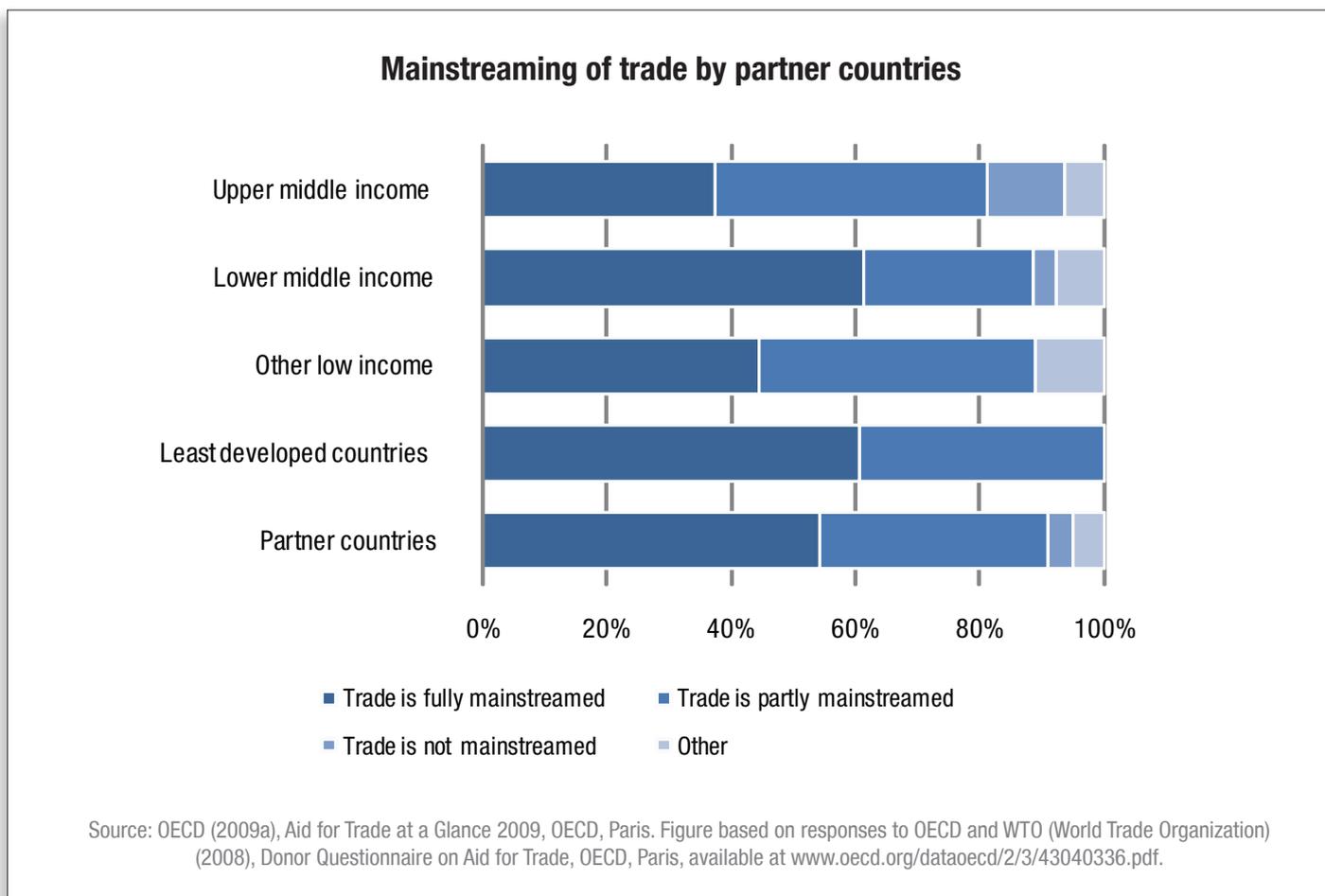
Ten Principles for Good International Engagement in Fragile States and Situations (2007)

- 1. Take context as the starting point**
- 2. Do no harm**
- 3. Focus on state-building as the central objective**
- 4. Prioritise prevention**
- 5. Recognise the links between political, security and development objectives**
- 6. Promote non-discrimination as a basis for inclusive and stable societies**
- 7. Align with local priorities in different ways in different contexts**
- 8. Agree on practical coordination mechanisms between international actors**
- 9. Act fast... but stay engaged long enough to give success a chance**
- 10. Avoid pockets of exclusion**

Source: OECD, 2007

AID FOR TRADE. To make this work for developing countries – and in particular for their poor – the increasing openness of global markets needs to be accompanied by policies that will distribute the benefits from trade equitably across and within developing countries.

The WTO-led Aid-for-Trade Initiative works to help developing countries overcome bottlenecks that prevent many of them from benefiting from greater access to international markets, or from competing with wealthier countries. Recent OECD monitoring of this initiative reveals many achievements since its launch in 2005 in the form of improved aid-for-trade delivery and increased allocation of resources by donors. Developing countries also have come actively on board, making trade a central component of their national priorities and action plans.



A NEW DAC

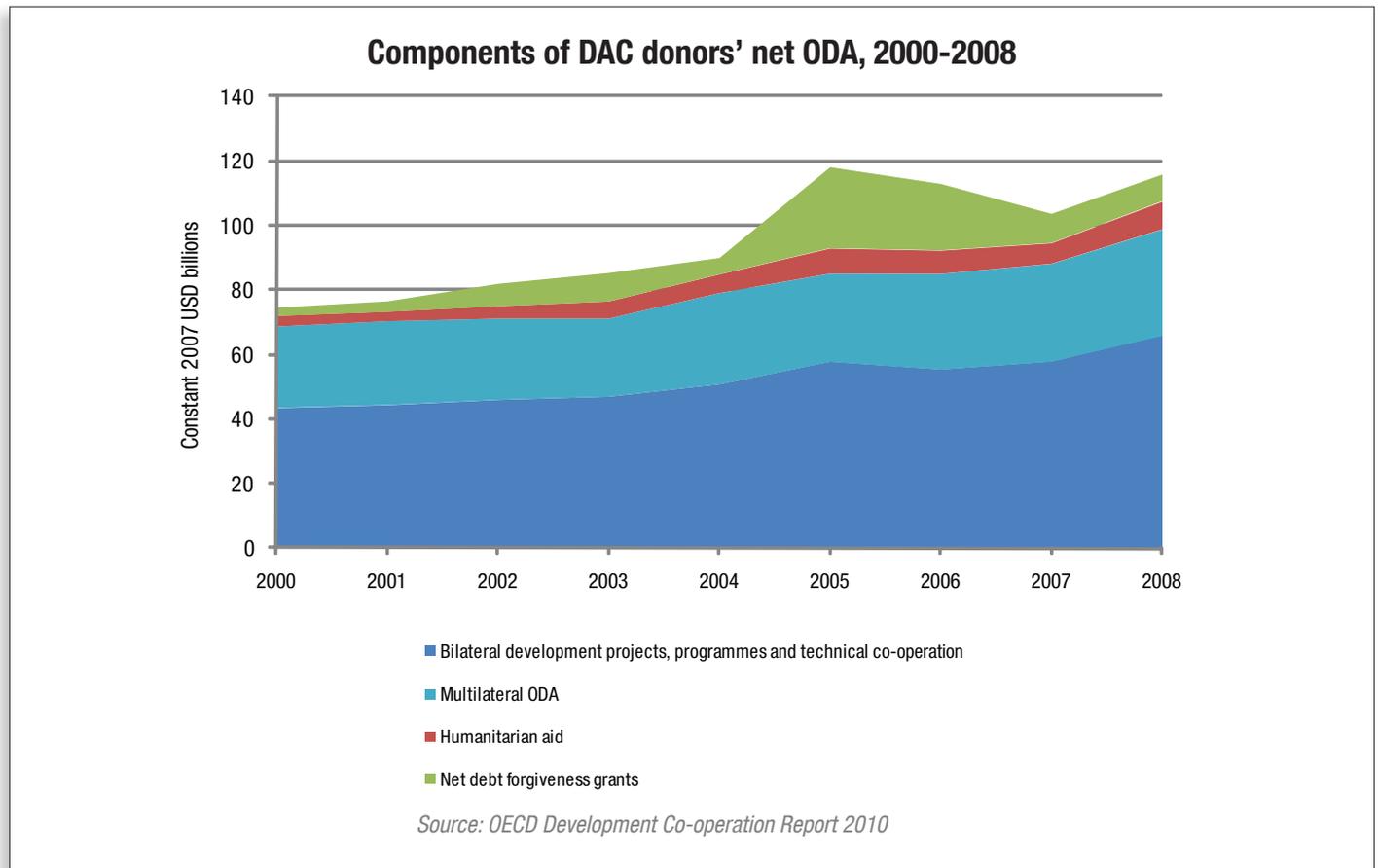
In the new global context, making progress in these and other important areas will mean transforming the DAC as we know it today. The DAC of the future will be much more involved with the wider global development community, ensuring that policies are coherent across the board – not just within the aid or development realm – and bringing global issues like climate change and equitable world trade to bear on policy formation and implementation. This will require developing better and sharper policy tools, notably in peer reviews and statistics. It will mean placing greater emphasis on monitoring impact, and on holding each other to account. Finally, it will mean being much more inclusive and proactive in working with others, for example by expanding DAC membership.

In the words of the DAC Chair: “We need to view development co-operation as a strategic investment in a common future. In a globalised world, it is a key instrument to achieve stability, economic integration, human security and opportunity for everybody.”

DAC DONORS AID PERFORMANCE IN 2008

As mentioned earlier, in 2008 total net official development assistance (ODA) from members of the DAC rose by 11.7% in real terms, to USD 121.5 billion – the highest absolute level of aid ever recorded. This represents 0.31% of members' combined gross national income.

Between 2007 and 2008 the volume of DAC donors' (bilateral) development projects and programmes also rose substantially (by 14.1% in real terms).



The figures on the following page give a view of who the top aid recipients were between 2007 and 2008, by country, income group, region and sector.

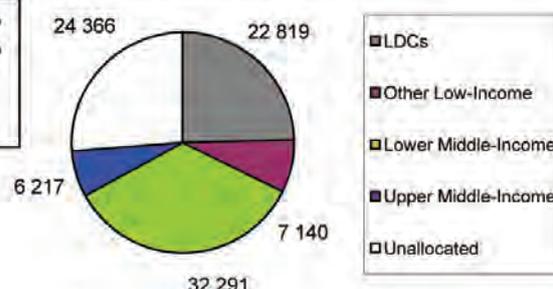
TOTAL DAC COUNTRIES

Gross Bilateral ODA, 2007-08 average, unless otherwise shown

Net ODA	2007	2008	Change 2007/08
Current (USD m)	103 485	121 483	17.4%
Constant (2007 USD m)	103 485	115 632	11.7%
ODA/GNI	0.28%	0.31%	
Bilateral share	70%	71%	

By Income Group (USD m)

Clockwise from top



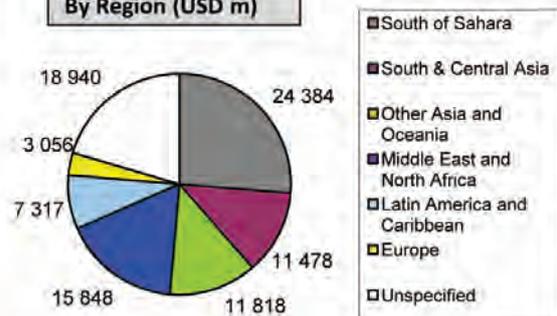
Top Ten Recipients of Gross ODA (USD million)

1 Iraq	9 462
2 Afghanistan	3 475
3 China	2 601
4 Indonesia	2 543
5 India	2 263
6 Viet Nam	1 745
7 Sudan	1 743
8 Tanzania	1 603
9 Ethiopia	1 551
10 Cameroon	1 396

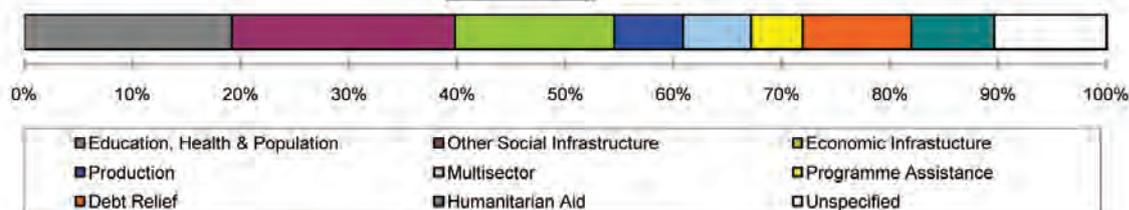
Memo: Share of gross bilateral ODA

Top 5 recipients	22%
Top 10 recipients	31%
Top 20 recipients	43%

By Region (USD m)



By Sector



Source: OECD Development Co-operation Report 2010