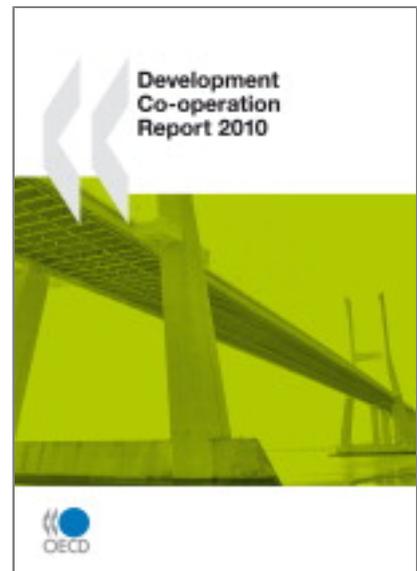


# OECD *Multilingual Summaries*

## Development Co-operation Report 2010

*Summary in English*



- The Development Co-operation Report, issued by the OECD Development Assistance Committee (DAC), is the key annual reference for statistics and analysis on the latest trends in international aid.
- With only five years left to achieve the Millennium Development Goals (MDGs), much remains to be done. The task has become even more challenging given the economic, food and climate change crises of recent years. This report describes how the DAC has responded swiftly, putting the development dimension of these crises firmly on the political agenda and keeping the development community focused on providing more aid, and delivering it more effectively.
- In times of economic uncertainty, it is particularly important for aid to provide value for money, and to ensure that it is not misused. The development community has responded by sharpening its focus on corruption; targeting and communicating clear development impacts; working increasingly through developing countries' own systems to build capacity; and intensifying efforts in the poorest 30% of developing countries - a critical step toward achieving the MDGs. The report also describes how the DAC member countries intend to make their aid truly effective in the decades to come, by ensuring that climate change is addressed in each of their policy choices and by developing a broader, more inclusive approach.
- This report is also published on line to improve the accessibility of key OECD DAC work and to respond to the needs of the aid community by giving prompt and easy access to its analyses and statistics.

“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

The Development Co-operation Report is issued annually by the Chair of the OECD's Development Assistance Committee (DAC), a forum for major bilateral donors that enables them to work together to increase the effectiveness of their common efforts to support sustainable development. The report provides data on, and analysis of, the latest trends in international aid.

In his introduction to this report (Chapter 1), Eckhard Deutscher notes that with five years left for the world to achieve the Millennium Development Goals (MDGs), much remains to be done. Because of the economic, food and climate change crises facing the planet today, the task is now even more challenging than it was when the goals were agreed in 2000.

Over the past year, the DAC has responded to this challenge by making efforts to keep the development dimension of the crises high on the political agenda, while helping the development community to formulate its best response. Deutscher notes that the development community must avoid assuming a crisis or fire-fighting mode. Instead it must maintain a clear and consistent focus on the principles of effective aid enshrined in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action (Annex A): “The world has changed profoundly, but our development goals remain the same.”

## Keeping our promises

As the extent of the financial and economic crisis became clear, the development community closely observed if official development assistance (ODA) levels would be hit. The relief was palpable when the DAC published ODA figures for 2008 which showed that aid volumes had reached their highest ever absolute levels: USD 121.5 billion. Most DAC donors are planning further aid increases, but there is still some way to go to meet the pledges made at the Gleneagles G8 and UN Millennium +5 summits, slated to increase aid to USD 130 billion by 2010 at constant 2004 prices.\* Not all donors have lived up to their commitments, and this puts the credibility of all at stake (Chapters 1 and 8). The DAC will continue to monitor donors' delivery on their aid promises.

An important indication of donors' progress in improving their aid delivery is the extent to which their aid is given free of commercial strings, i.e. “untied” from suppliers in the donor country. DAC member countries promised under the Accra Agenda for Action to make rapid progress on untying their aid. Yet although donors report that 79% of all bilateral official development assistance (ODA) is untied (2007 figures), the share of aid still going to donor country suppliers is still a cause for concern.

\* Given that a number of the targets were expressed as a percentage of GNI, falling GNI in donor countries has subsequently reduced the aggregate value of this projection to USD 124 billion in 2004 prices.

## Showing that aid works

In this time of economic austerity, the citizens of donor and developing countries alike want assurances that aid is working, that it provides value for money and that it is not being misused by corrupt governments. The development community is addressing these challenges by:

- **Tackling corruption.** The Paris Declaration on Aid Effectiveness sets out a clear, practical plan to improve the quality and positive impact of development aid through efforts to combat 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. 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 (Figure 7.1, Chapter 7).
- **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 entirely oriented towards having the maximum impact on poverty reduction and the other MDGs (Chapter 2). For example, more donors now identify projects and programmes based on their and/or their partners expected results; they are also ensuring these

programmes have clear objectives to enable better measurement of impacts. And more donors are building in mechanisms to make sure that information on results can be used to inform other projects and policies. But embedding such systems - and moving the focus from outputs to palpable impact on poverty and other development priorities - is a challenge for all donors.

- **Measuring impact.** Evaluation - permitting the measurement of impact on development goals - is a very important mechanism of transparency and accountability. To help donors improve their evaluations and increasingly work together toward shared goals, the DAC is developing new quality standards for evaluation (Chapter 2).
- **Communicating impact.** It is not easy to demonstrate and communicate that aid money is well managed and that it is having an impact. Because the principles of the Paris Declaration focus on process - for instance, channelling aid through country systems and joint work by donors - it is difficult to attribute particular results to specific donors. DAC members are exploring innovative ways of meeting the challenge of communicating impact. For example, Japan is using partner countries' own performance assessment frameworks (created to monitor development progress) for its reporting. This approach allows donors to use shared indicators, in particular those agreed with partner countries (Chapter 2).

## Building capacity for effective development

For aid to be effective, donors need to respect partner country development priorities and processes over their own development policies and practices. This means, among other things, using a country's own administrative systems to deliver aid (Chapter 3). Decades of development experience show that bypassing country systems and policies weakens a country's ability to determine its own future. Are donors reaching the OECD 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' financial management systems (Figure 3.1, Chapter 3) and in some cases, the use of partner country systems fell between 2005 and 2007.

Because of fears of corruption or lack of capacity, for example, many donors feel that it is too risky to let a developing country have full say over what it does with its aid money. However, the perceived risks of using country systems need to be balanced against the benefits, which are often not understood or communicated well enough. One reason is that the benefits are institutional, long-term and diffuse.

The OECD/DAC is encouraging and supporting donors in the use of country systems and is pleased to note the progress being made by some donors in systematically supporting and gauging the use of country systems in their programmes. For example, the European Commission has created an internal information system to monitor progress on use of country systems. Some donors are likewise putting pressure on civil society partners to work through country systems. The DAC has created a Global Partnership on Strengthening and Using Country Systems; it includes donor and partner countries and is jointly chaired by Ghana and the United States.

## The road ahead: Development as usual is no longer an option

The challenges we face in meeting the MDGs will not be tackled by a cautious and narrowly-focused development agenda. Recent years have demonstrated how global factors beyond aid have a huge impact on development. More fundamental reform and concerted efforts, reaching beyond the traditional aid arena, are now vital.

Firstly, without addressing climate change, progress towards resolving other core development priorities will be seriously undermined (Table 5.1, Chapter 5).

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. And the developing world needs help to adapt to the impacts of an already changing climate. Adaptation measures need to become integral components of economic policies, development projects and international aid efforts. The DAC has developed policy guidance for integrating climate change adaptation into development co-operation at all levels, from the local level, to the project level, and up to the national policy level. While developing country partners must lead efforts to integrate climate change adaptation, international donors have a critical role to play in supporting their efforts, either through direct funding or by promoting capacity building, for instance for monitoring climate or assessing future climate change impacts and adaptation priorities at the national level (Chapter 5).

Secondly, while many countries are making progress towards achieving the Millennium Development Goals, a third of all developing countries are falling behind (Figure 6.1, Chapter 6). This group of about 50 countries represents the poorest of the poor. In most of them the situation is exacerbated by violent conflict and poor governance. And even though they receive 38% of all ODA, further improvement in the conditions of these fragile states 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 proven that they offer a useful framework for guiding action in such complex and difficult settings.

Thirdly, most low-income countries consider trade to be a key component of their growth and poverty reduction strategies. The increasing openness of markets needs to be accompanied by policies that will distribute the benefits of trade equitably across and within developing countries to help lift their people out of poverty (Chapter 4). This is especially important in the context of the economic crisis, which has caused trade flows to decline by around 10%, undermining confidence in the role of trade as an engine for growth and poverty reduction. The Aid-for-Trade Initiative works to help developing countries overcome information, policy, procedural or infrastructure 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 scaling up of resources by donors.

Within 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; with ensuring that policies are coherent across the board, not just within the aid or development realm; and with bringing global issues like climate change and equitable world trade to bear on policy formation and implementation. This will require better and sharper policy tools, notably peer reviews and statistics (Chapter 8). It will mean placing greater emphasis on monitoring impact and 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.”

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