

## Presentation of the

### OECD DEVELOPMENT CO-OPERATION REPORT 2009

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The *Development Co-operation Report 2009* sends three clear messages to the industrialized countries. Firstly, reaching the targets of the Paris Declaration requires action. The report clarifies that the Gleneagles and Millennium targets set for 2010 are slipping further out of sight. Indeed, the trend growth rate of ODA needs to increase from an underlying annual 2% to 11%. Secondly, fragmentation and tying of aid should be further reduced and development strategies should be fully owned by the developing countries. Thirdly, the multilateral approach is absolutely necessary in all fields of policy, including development co-operation.

#### **Beyond 2007: impact of the crisis**

The Report makes these points against the background of the most serious global economic crisis that we have witnessed in our lifetime. We do not have the data yet but we can try to glean beyond the report what is happening and what this means. It is to be expected that low income earners will be hit hardest, especially in countries where no social security safety nets exist. Developing countries that opened up to the world economy are now experiencing the down side of strategies that - for good reasons - relied on international trade and foreign direct investment to achieve national development. Presently international trade volumes are collapsing and foreign direct investment decisions are probably being postponed if not cancelled as a consequence of the credit crisis. Also other sources of foreign finance will dry up: remittances from expatriates, bank lending, and portfolio investment will, in all likelihood, not provide a leeway. And we do not know what will happen with non-DAC development co-operation which constitutes some 5% of aid flows according to OECD estimates. The upshot is that the share of DAC aid in the external financing of developing countries will increase. Accordingly development co-operation would probably have to increase even further than presently foreseen in the OECD's analysis.

#### **Sustain investments in social and physical infrastructures**

The case for more ambitious targets for ODA does not only rest on the external finance argument. As the financial constraints on governments become more stringent, investments in physical and social infrastructures in developing countries may be abandoned. Finishing the job, however, is important both from the perspective of sustaining effective macro-economic demand and because such investments ultimately build the starting position from which the economy can later make progress again. Also infrastructures already in place need to be sustained. It will, however, be difficult to organize the resources through the private sector. Thus ODA will probably become increasingly important to sustain these critical drivers of development. For the foreseeable future we will not only need stable and predictable but also more ambitious levels of development co-operation.

#### **The threat of protectionism and economic nationalism**

Unfortunately, the crisis is feeding both right-out protectionism as well as - more subtly - economic nationalism. This is of course bad news for any country and we should do

everything in our power to prevent that the fatal policy errors of the 1930s are repeated. Here the developed and developing countries do have a shared responsibility. This, in a nutshell, is the case for multilateralism and a stronger governance of the global economy. It is important that the governance is broadened to include the BRIIC countries and the G20 would probably be the best place for that discussion.

Protectionism and economic nationalism are bad news for any country but even worse news for developing co-operation. This is so because the quality of aid will be under pressure from national interests in the donor countries. The report provides indicators that show that the quality of aid did not improve sufficiently in 2007. In particular, donors made relatively little progress on their stated objectives to use country procurement systems and to co-ordinate aid delivery mechanisms, missions and country studies. The present political climate does not appear to be conducive for untying aid. Moreover, one would expect to see continued and possibly increased fragmentation if national economic interests and trade strategic consideration become more important elements of aid allocation decisions.

### **The crisis changes the arithmetic**

Finally, it is very unfortunate that commitments, targets and/or norms have been formulated in the past as a percentage of the donor's national income. With recession underway in most donor countries this implies a reduction of the volume of ODA, as indeed policy makers in the Netherlands are suggesting. So rather than having the automatic stabilizers do their work, the wealthy countries appear to be injecting automatic destabilization into the economies that to a large extent depend on development co-operation (for example, in 2007 ODA by DAC countries to the Less Developed Countries amounted to about 10% of GDP on average).

Thus the outlook for development co-operation is bleak. Rather than the necessary and expected growth in development co-operation funds, a decrease in aid volumes seems to become an increasingly more likely scenario. The Report is right: we need concrete action in order to keep the Millennium Goals in reach.