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**MAKING POVERTY REDUCTION WORK:
OECD'S ROLE IN DEVELOPMENT PARTNERSHIP**

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This is the Executive Summary of OECD's contribution to the UN General Assembly Summit of 2005, as well as other international meetings related to development. The Executive Summary is submitted to the Council at Ministerial Level for information.

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EXECUTIVE SUMMARY

The Millennium Declaration and the internationally agreed development goals, including those contained in the Declaration, derive their force from firm commitments by Heads of State. They were reaffirmed in the spirit of shared responsibility and global partnership enshrined in the Monterrey Consensus. The year 2005 focuses on mutual accountability for delivering on these international development commitments, commonly referred to as the Millennium Development Goals (MDGs), culminating in the UN summit in September.

Contributing to global development is a key objective of the OECD as an intergovernmental agency and through its collective membership. *What* does the OECD bring to the international effort to achieve the international goals?

- A full range of policy experience and its special brand of capacity building;
- over 90% of the world's official development assistance (ODA);
- 80% of the world's foreign direct investment (FDI) flows, of which over a third goes to developing countries;
- Analysis and ways to join-up government policies to support development;
- Policy dialogue with partners in a non-negotiating context;
- Information to both shape and monitor public opinion.

How does the OECD contribute to the global development partnership?

I. By ensuring the fundamental conditions for economic growth. Fundamental conditions for economic growth begin with a peaceful and secure environment. Efforts to reduce poverty are most effective in countries with sound institutions and policies, which is why OECD members direct their assistance efforts increasingly towards the better performing developing countries. Yet one third of the world's poorest people – those surviving on less than one dollar a day – live in 'fragile states', characterised by weak governance and often prone to conflict. The OECD recommends that development and other agencies stay engaged, even in countries where institutions and policies are weakest and partnership is difficult, to help build capable states and prevent or resolve conflicts. It is working to ensure that awareness of conflict-related issues and appropriate responses get integrated into policy areas such as development co-operation, foreign affairs, defence and trade. The OECD's policy and good practices in security systems and governance, as well as its package of integrity instruments, are useful tools for working in difficult environments.

To ensure high and sustainable rates of growth, a stable macroeconomic environment is necessary. For developing countries, robust and stable output growth in OECD member countries has considerable benefits, offering *inter alia* more stable markets for exports from developing countries. Sound medium-term public finances help to reduce pressures on global interest rates, providing more favourable financing

conditions and low and stable rates of inflation, thus reducing uncertainty about returns from long-term investment and loans. These benefits will increase as national economies become ever more integrated with each other through globalisation.

OECD member country experience also offers useful lessons for the design of macroeconomic policy frameworks in partner countries, especially in ensuring attention to investment in both physical and human capital, the main determinants of economic growth everywhere. Stable, sustainable economic growth and all its determinants are central to the DAC (Development Assistance Committee) agenda, which emphasises the integration of growth into its poverty reduction objectives. Addressing persistent gender inequalities, together with promoting a dynamic private sector, agriculture and infrastructure, are the key strands of the pro-poor, growth agenda that the DAC Poverty Network (Povnet) is advancing, building on the DAC Guidelines on *Poverty Reduction*.

Analysis by the International Energy Agency – the energy forum for 26 industrialised countries, including most OECD members – demonstrates the strong link between income and access to modern energy services. Reaching the poverty reduction target of the Millennium Development Goals requires a significant reduction – by at least 600 million – in the number of people without access to electricity by 2015. Public-private partnerships (PPPs) that may include host-country governments, donors, multilateral development banks, NGOs and private companies represent an important option for mobilising the significant investment required.

II. By improving effective policy implementation and policy synergies in OECD member countries. The *Paris Declaration on Aid Effectiveness* of 2 March 2005 commits donors and partner countries to “take far-reaching and monitorable actions to reform the ways [they] deliver and manage aid.” Developing country partners commit to producing operational development strategies linked to national budgets and making country systems reliable. Donors resolve to base their overall support on partner countries’ national development strategies, institutions and procedures. Donors commit themselves to providing reliable indicative commitments of aid over a multi-year framework and to disbursing aid in a timely and predictable fashion according to agreed schedules. Developing country partners and donors will measure progress in aid effectiveness in terms of ownership, alignment, harmonisation, managing for results and mutual accountability against 12 specific indicators, with five preliminary targets to be reviewed and targets to be set against six of the remaining indicators before the UN General Assembly Summit in September 2005.

Tied aid undermines aid effectiveness. Untying aid generally increases its effectiveness by reducing transaction costs for partner countries and improving country ownership and alignment. By conservative estimates, tied aid reduced the value of bilateral aid by USD 5-7 billion in 2002. And it is incompatible with country owned procurement systems and their integrity, a basic component of the *Paris Declaration* package. Efforts to untie more aid continue as an integral part of the actions to improve aid effectiveness, and progress will be monitored.

Ensuring that aid and other policies are mutually supportive lies at the heart of the MDGs. The OECD seeks to improve joined-up policies in member countries through institutional and sectoral approaches. Analytical work reveals how successful coherent OECD member country policies are when they complement effective partner country policies. By engaging policy makers from all relevant parts of government, the OECD can help ensure that each member country pursues policies that support and do not undermine efforts to reach the MDGs. The DAC’s peer review mechanism regularly monitors member country policy coherence in relation to development objectives. An innovative mechanism to promote mutual accountability between some African countries and their development partners is functioning through the *Mutual Review* of Development Effectiveness in the context of NEPAD.

The OECD continues to press for strong synergies between aid, trade and investment policies. Tariff reductions in manufactures and agricultural products and liberalisation in services trade will generate significant global welfare gains. Access to OECD country markets can positively influence domestic and foreign investment. Developing countries benefit from trade liberalisation in developed countries, and they also benefit when they cut their own tariffs. Studies have found that countries that do the most by eliminating or reducing distortions and discriminatory practices, register larger welfare gains relative to others. Greater efforts to liberalise trade could significantly enhance trade flows and welfare: these include further rationalising non-tariff policies and reducing transaction costs generated by inefficient import and export procedures. The OECD is promoting trade capacity building and documenting good practice.

Despite positive trends in the last decade, business investment and enterprise development in most countries outside the OECD area need to grow more strongly to meet development needs. The OECD is developing a Framework for Investment composed of a wide spectrum of policies that can serve as a checklist and reference point for creating a favourable investment climate. The OECD *Guidelines for Multinational Enterprises* provide voluntary principles and standards for appropriate business conduct. The *Guidelines* are part of the broader package of OECD integrity instruments designed to help those working in both the business and the public sectors.

III. By helping countries mobilise resources to achieve the MDGs. The Monterrey Consensus recognises that development is a shared responsibility starting with developing countries' own efforts to strengthen their economic and political governance and improve their economic performance. This will be all the more important if existing and new bilateral and multilateral initiatives lead to significant further increases in aid. Such increases, along with other resources, are critical, especially for the poorest countries. Although aid monitored and reported by the DAC reached its highest ever level at USD 78.6 billion in 2004 as a result of increases by most donors, at 0.25% of GNI, it is short of previous averages and far from the UN target. If donors meet their Monterrey and other commitments to increase aid, ODA will reach some USD 115 billion by 2010 – but it will still be well short of estimates of the amounts that may be required to help many more countries to attain the MDGs by 2015 than those currently expected to do so.

To advance the MDGs, donors and partners need to make aid delivery more efficient and use it more effectively. To be truly effective, aid must be much more predictable than in the past. Partner countries' medium-term budget and expenditure planning needs to be transparent and should be integrated into donor-supported Poverty Reduction Strategies. Without multi-year indicative commitments from donors, the credibility of medium-term budget planning is eroded. The OECD continues its research into successful models and best practices for strengthened and transparent public finance and more predictable levels of finance.

With respect to mobilising other resources to achieve the MDGs, OECD research has helped rationalise the debate on alternative forms of development finance. In line with the recognition embodied in the Monterrey Consensus that partner countries need to finance their own development, OECD member country experience can help them improve tax administration, reform tax design, and reduce tax avoidance and evasion.

Partner countries need to mobilise their own domestic resources to achieve the MDGs. Bringing enterprises into the formal economy has important fiscal implications, and countries can further broaden the tax base through such measures as a low, but consistently applied tax rate. OECD member countries' experience can provide useful input to the improvement of tax collection. The OECD Model Tax Treaty provides a framework within which countries can agree bilaterally about how to minimise and resolve cross-border tax issues and ensure taxation in the appropriate country. At the same time migrants and multinational companies can be certain of their tax liabilities and ensured of no double taxation.

The experience with non-tax revenue sources in OECD member countries is growing and can be tapped by partner countries. These sources include user charges and other economic instruments and finance strategies, which can be particularly effective in addressing environmental and sustainable development objectives closely related to meeting several MDGs.

Emigrant workers' remittances constitute a considerable source of hard currency for their home countries. The OECD with other international organisations is identifying ways to help migrants from partner countries transfer remittances more efficiently, and to assist receiving countries to take account of these significant flows in economic development plans. Such resources have played a major role in the development of several OECD member countries, experience that can be shared with partner countries for the channelling of remittances, for example through savings and investment schemes that could help reduce poverty and improve levels of education and healthcare.

Partner countries lose considerable resources through corruption, bribery and conflict of interest in the public and private sectors. Several OECD instruments, including the Convention on Combating Bribery of Foreign Public Officials, and other tools and guidelines, can help to curb illegal and dubious practices. Effective results depend on anti-corruption measures and on policies that address conflict-of-interest in both OECD and partner countries. The OECD is helping donors and partners in developing good practices for anti-corruption assistance.

IV. By strengthening capacity in partner countries. Strengthened capacity is essential for all other efforts to meet with success. Efforts to ensure the fundamentals of economic growth, to improve OECD policies and policy synergies, and to scale-up resources to meet the Millennium Development Goals require adequate capacity, which is seriously lacking in many partner countries. The final chapter of this report highlights a few of the policy domains – notably in statistics, investment, taxation, trade, entrepreneurship, environment, budget management, and science and technology – where the OECD is engaged in fortifying capacity in partner countries.

Through its unique networks of policy practitioners in most domains of government policy making, the OECD contributes its special brand of partnership to the capacity building needs. Partner countries are participating increasingly in a number of flexible and innovative consortia, fora, and other consultative, capacity building processes at the OECD. Examples include the PARIS21 consortium for statistical capacity building, the OECD Bologna Process for SME and entrepreneurship, the International Tax Dialogue, and global and regional fora in major policy domains ranging from agriculture, education and sustainable development policies, to competition, international investment and trade policies. Significantly more capacity is needed in partner countries, and long-term commitment to building it is essential to meeting the Millennium Development Goals.

Policy design, analysis and co-ordination and sharing the lessons of well-tested member country institutional and policy approaches are the OECD's *leitmotif*. Its unique approach to building capacity relies on networks of member country practitioners who make and implement policy in their own capitals everyday. The 'how to' takes shape through a variety of 'soft law' instruments, policy principles and guidelines, best practice, model provisions and treaties, checklists, tools, training materials and consultative mechanisms. By putting these human resources, knowledge, experience, and supporting tools at the service of partner countries – and by exploring with partners how best they can use and adapt them to their own needs – the OECD is contributing to the international development partnership.