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of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)



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Statement by

Mr. Richard Manning
Chairman
OECD Development Assistance Committee (DAC)

DEVELOPMENT COMMITTEE SPRING MEETING
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1. 2005 has been labelled the ‘year of development’. It is a milestone year for taking stock of progress towards the Millennium Development Goals five years after the Millennium Summit and with ten years remaining for their achievement. As the Global Monitoring Report notes, there has been progress with the compact underlying the MDGs and the Monterrey Consensus. This statement focuses on the response of the developed countries represented in the OECD Development Assistance Committee. It covers:

- More aid: trends in ODA and its composition,
- More effective aid: follow-up to the Paris Declaration,
- Issues of fragile states, security and development.

More aid

2. ODA has increased in real terms in each of the last seven years to reach record levels in both real and nominal terms in 2003 and again in 2004. In real terms it increased by 4.3% in 2003 and by a further 4.6% in 2004 to US\$ 78.6 billion (equivalent to US\$ 72.2 billion at 2003 prices and exchange rates). This represented 0.25% of DAC members’ combined national income. This is the same as in 2003, up from the low of 0.22% at the turn of the century, but below its long term average of 0.33% maintained from 1970 to 1992.

3. Several factors accounted for the US\$ 3.1 billion rise in real terms in 2004. Among these were:

- Contributions to international organisations increased by US\$ 3.7 billion,
- Aid to Afghanistan and Iraq was up at least US\$ 1.5 billion, to over US\$ 5 billion in total,
- Technical co-operation grants rose by US\$ 1.2 billion, maintaining their share of total ODA,
- Gross debt relief grants fell by US\$ 2.1 billion, from a peak of \$8.6 billion in 2003, and
- Net lending fell by US\$ 1.3 billion, mainly due to an acceleration in loan repayments.

4. This growth in ODA is set to continue, but the pace will need to accelerate dramatically in 2005 and 2006. If the commitments made at Monterrey in 2002 are to be met, ODA needs to reach 0.30% of GNI in 2006, equivalent to an increase of US\$ 16 billion in real terms over the two years, five times the US\$ 3 billion rise in 2004. Two exceptional items will indeed deliver a very large increase in headline ODA; first debt relief to Iraq and secondly the unprecedented

response to the Indian Ocean tsunami. Although most donors have indicated that much or all of their contributions to post-Tsunami aid at least will be additional to their regular programmes, neither of these major items was anticipated at Monterrey. The DAC will monitor the share of these two exceptional items when presenting ODA data in the coming years.

5. In the light of year to year fluctuations of the components of ODA, it is of interest to take a longer-term look at how key ODA aggregates have evolved over the past few years. The following table shows the annual increases in net disbursements of ODA, taking 2000 as the base year.

Changes in components of net ODA between 2000 and 2004					
(\$ billion at 2003 prices and exchange rates)					
	2001	2002	2003	2004	Net Increase 2000-04
Emergency Aid	-0.3	0.4	1.5	0.0	1.7
Debt Relief Grants	0.6	3.1	2.2	-2.1	3.7
Technical Co-operation	1.3	1.4	1.3	1.2	5.2
Other Bilateral	-0.8	-0.1	-1.1	0.4	-1.7
Multilateral	0.4	-0.7	-1.0	3.7	2.4
Total Net Rise	1.1	4.2	2.9	3.1	11.3

This demonstrates that a very large share of the total ODA increase in the past four years is accounted for by technical cooperation, debt relief and emergency aid. All of these have of course significant value, but emergency aid is not designed to assist long term development and debt relief does not generally provide fresh money to debtor countries. Technical co-operation, in turn, provides a variety of inputs towards development results but its impact in closing financial gaps is hard to gauge.

6. Looking forward, half of the DAC membership have either achieved the 0.7% target or have announced plans to do so at various dates up to 2014. We project that delivery of these stated commitments would produce an ODA total in 2010 of some US\$ 108 billion at 2003 prices and exchange rates. The proportion of DAC members with medium term ODA expansion plans for 2010 and beyond will rise further if discussions within the European Union reach a positive conclusion or if other donors announce new commitments. But the amounts so far under discussion are well short of the call in the Global Monitoring Report to ‘double development aid in the next five years’, which would equate to the order of US\$ 150 billion by 2010. (For example, the recent European Commission proposal for all EU DAC countries to attain a minimum of 0.51% of their GNI by 2010 represents increasing their ODA by half over five years, an extra US\$23 billion in 2003 dollars. This is proposed as an interim target towards a pledge of 0.7% by 2015, which would equate to doubling aid from EU DAC members over ten years.)

7. The following figure shows that aid remains the principal source of external finance for the poorest countries, well ahead of their net earnings from trade and receipts from other sources. The picture for middle income countries is different, with trade being the major source of external revenue, followed by FDI and private sector flows. Given the current focus on

remittances, the figure also shows that these too primarily benefit middle income country households. This serves to support the GMR's call that 'Official development assistance (ODA) must at least double in the next five years to support the MDGs, particularly in low income countries and Sub-Saharan Africa.

The poorest countries rely on aid.....middle income countries benefit more from trade



More Effective Aid

a) Paris Declaration on Aid Effectiveness

8. The second High Level Forum on Aid Effectiveness held last month in Paris marked a major step in our joint effort to improve the delivery and impact of aid and thus to help partner countries achieve their development objectives. It is remarkable that over one hundred donor and developing countries and multilateral agencies signed up to the Paris Declaration. In doing so, they subscribed to some fifty specific commitments to do aid better and, for the first time, they agreed to measure progress with a set of indicators and targets, as requested by the Development Committee at its last meeting. This moved the aid effectiveness agenda beyond the general consensus reached at Rome in 2003 to what is now a practical blueprint for donors and partners to implement in a spirit of mutual accountability.

9. The meeting agreed twelve indicators. It also agreed that targets for eleven of these (the exception being untying aid) would be set in time for the September 2005 UN General Assembly. Preliminary targets were agreed in Paris for five of the indicators, subject to review in the same timescale. Work is in hand to develop the necessary baselines.

b) Actions going forward

10. The report submitted to the Paris Forum¹ showed that despite progress there is not yet sufficient momentum in applying good practice deeply and systematically. Senior development officials in partner countries and in donor agencies are aware that this work is not easy. Achieving ownership, harmonisation, alignment and managing for results will continue to require intensive work that typically is costly and unfunded in the short run, yielding benefits

¹ See Harmonisation, Alignment, Results: Report on Progress, Challenges and Opportunities - February 2005, available at www.aidharmonisation.org.

only in the medium to long term. Let me highlight two areas where top-level attention and sustained efforts would make a difference:

- *In partner countries*, improved transparency and good governance remain essential. Systems for financial management, procurement, auditing and monitoring must be reformed and upgraded so that they will meet common acceptable standards. Only then, will donors – and more importantly the countries themselves – be able to rely on these systems to use development funds appropriately.
- *Among donor institutions*, few have put in place effective procedures, resources, training and incentives to encourage needed changes in staff behaviour. There is a need to provide more operational flexibility and delegated authority at the country level and to narrow the communication gap between the headquarters policy managers, agency operations, and field staff.

11. Making substantive progress after the Paris Forum will depend very much on whether efforts are appropriately funded and whether incentives work for the effectiveness agenda and not against it. A number of areas have also emerged that will deserve attention in the future: the special needs of fragile states where harmonisation and alignment are proving to be even more critical than in “normal” contexts; the integration of global initiatives in country programmes; the need to look more closely at aid allocations, and donor complementarity; and further practical guidance on managing for development results.

c) Promotion and dissemination

12. An immediate step is to ensure the broad dissemination of the Paris Declaration in donor agencies and partner countries, including through regional and sub-regional events. We also hope that the Declaration will be used by Consultative Groups. Substantial work on developing good practice, undertaken jointly under the DAC international partnership, has been completed in the areas of public financial management and procurement. Two volumes have been added this year to the landmark publication *Harmonising Donor Practices for Effective Aid Delivery (2003)*: Volume 2 on *Budget Support, Sector Wide Approaches and Capacity Development in Public Financial Management*; and Volume 3 on *Strengthening Procurement Capacities in Developing Countries*. Given the centrality of country-level implementation, this work should also be actively disseminated so that lessons learned are shared. The same applies to the *DAC Survey on Harmonisation and Alignment* undertaken in 14 partner countries which has served not only to test indicators for monitoring progress but also as a process for engaging local aid groups on ways to improve aid effectiveness on the ground.

d) Monitoring and the role of the international partnership hosted by the DAC

13. Monitoring the commitments made in the Paris Declaration will be central to encourage implementation as well as to assess progress. Paragraph 11 of the Declaration calls specifically on the partnership of donors and partner countries hosted by the DAC – in essence the Working Party on Aid Effectiveness – to propose arrangements for the medium term monitoring. This will be a priority task for this group which includes the traditional DAC Members, the Bretton Woods Institutions, the Regional Development Banks, UNDP and members of the UNDG,

regional mechanisms such as SPA and 14 partner countries². Discussions are on-going regarding the expansion of this international partnership to include more partner countries in line with their growing participation in the Paris Forum. This framework will need to be flexible to deal with a much larger and varied group of countries while being attentive to facilitate pro-active and sustained involvement of all partners. It will continue to co-ordinate and facilitate needed analysis, dissemination, and monitoring activities, not competing but drawing strength from those being undertaken elsewhere at the local, regional and global levels.

14. Concerning monitoring the tying status of aid, the latest annual progress report on implementing the 2001 DAC Recommendation on Untying confirms that compliance has been good, that the amount of untied aid both under the terms of the Recommendation and outside it is rising, and that the share of aid going to Least Developed Countries is also increasing. Following discussion at the DAC High Level Meeting on 3 March, I plan informal consultations to identify promising approaches to broaden the scope of untying and increase value for money in aid funded procurement.

Tackling Issues of Fragile States, Security and Development

a) Fragile states

15. The imperative to ensure the achievement of the Millennium Development Goals (MDGs), and the impact of weak and fragile states on global security, make it clear that development agencies must find effective ways to remain engaged, even in countries where institutions and policies are the weakest, and where poverty reduction partnerships are most difficult to establish. It is estimated that one third of people living in absolute poverty live in fragile states. When considering spillover effects of crisis or conflict, these numbers are even much higher.

16. The DAC is facilitating coordination among bilateral and multilateral donors in order to improve aid effectiveness in fragile states.

17. Aid needs to be allocated to achieve the best development results, reflecting both poverty and performance. But research conducted for the DAC suggests firstly that aggregate aid to this group is about 40% lower than would be consistent with a poverty and performance based allocation model. Secondly, findings indicate that aid has been twice as volatile in fragile states as in other low income countries, apparently due to abrupt changes in donor priorities. Finally, these findings suggest that aid is more valuable at some points of a crisis and recovery situation than others, and that the share of different types of aid (technical assistance and other forms) should vary over time.

18. The international community is now beginning to understand the problems that can arise if a country is left 'unaided' or marginalised from diplomatic and developmental ties. Yet one of the main constraints to improve the situation is that at the moment there is no international

² The 14 partner countries are: Bangladesh, Bolivia, Cambodia, Ethiopia, Fiji, Kyrgyz Republic, Morocco, Mozambique, Nicaragua, Niger, Senegal, Tanzania, Vietnam and Zambia

system of reporting which highlights when ODA to fragile states is declining, or is fluctuating, or when ODA has stopped altogether. To help fill this gap, the Senior Level Forum on Development Effectiveness in Fragile States, which met in January, invited the DAC Secretariat to put forward a proposal for the regular monitoring of aid flows to fragile states, with a view to facilitating a discussion at the next DAC Senior Level Meeting (SLM) in December 2005 on “aid orphans” and the volatility of flows of aid to fragile states.

b) Security and Development

19. Insecurity and conflict are a barrier to political, economic and social development. If states are to create the conditions in which they can escape from a downward spiral wherein insecurity, criminalisation and under-development are mutually reinforcing, socio-economic and security dimensions must be tackled simultaneously. The High-level Panel on Threats, Challenges and Change, for example, in its December 2004 report *A More secure world: Our Shared Responsibility* emphasises that long term security is not possible without progress on development issues.

20. The theoretical links between development and security must be translated into greater co-operation and coherence between security, political and development communities in the field. The draft *Principles of Good International Engagement in Fragile States* currently being worked on in the DAC reflects this need. At the same time, development agencies must be clear about their own objectives, disciplines and accountability, and focused on the overriding goal of poverty reduction. Respecting the competences and constraints of each party is essential to any co-operative arrangement across government. The best safeguard against possible abuse of the mandate of the agencies concerned is maximum transparency about objectives, allocations and operations.

21. The continued prevalence of violent conflict remains a significant obstacle to the realisation of the Millennium Development Goals. The international community must, therefore, work not only to react effectively to the outbreak of violence, but also to help prevent it. This will depend, in part, on more extensive analysis of conflict and its causes, as well as the factors that fuel it. The establishment of mechanisms for early warning and for responding quickly and flexibly in complex conflict situations is equally important.

22. The DAC has taken up the human security focus on building capable, open and responsive states that ensure the livelihoods and safety of their people and that can manage tensions in a non-violent manner. Recent guidelines on *Security System Reform and Governance: Policy and Good Practice* have underlined the need for more effective investment in well-functioning “security systems”, including the court system, the police and the military as well as institutions and mechanisms for oversight and accountability.