



DEVELOPMENT CO-OPERATION REPORT 2009

SUMMARY - JANUARY 2009

"The development landscape has changed radically since the DAC was created: new players and new challenges continue to emerge, and the rules of the game are—by necessity—shifting. In 2008, we saw how in a matter of weeks, established international governance structures—both formal and informal—were shaken profoundly, provoking deep-rooted and lasting change."

– Eckhard Deutscher, OECD DAC Chair

In his debut *Development Co-operation Report*, Eckhard Deutscher takes a look at the new environment for development assistance and what this means for the OECD's Development Assistance Committee (DAC). He calls for heightened collective action "built on well designed, mutually supportive and coherent policies that promote progress in various sectors without contradicting or undercutting our common objective of sustainable and broad-based development in partner countries."

Deutscher also reports on the Third High Level Forum on Aid Effectiveness, held in Accra in September 2008: "Our view of what is needed to reach the Paris Declaration targets – and the Millennium Development Goals – is clearer than ever", he writes. "At the same time, it is strikingly evident that more of the same will not get us there."

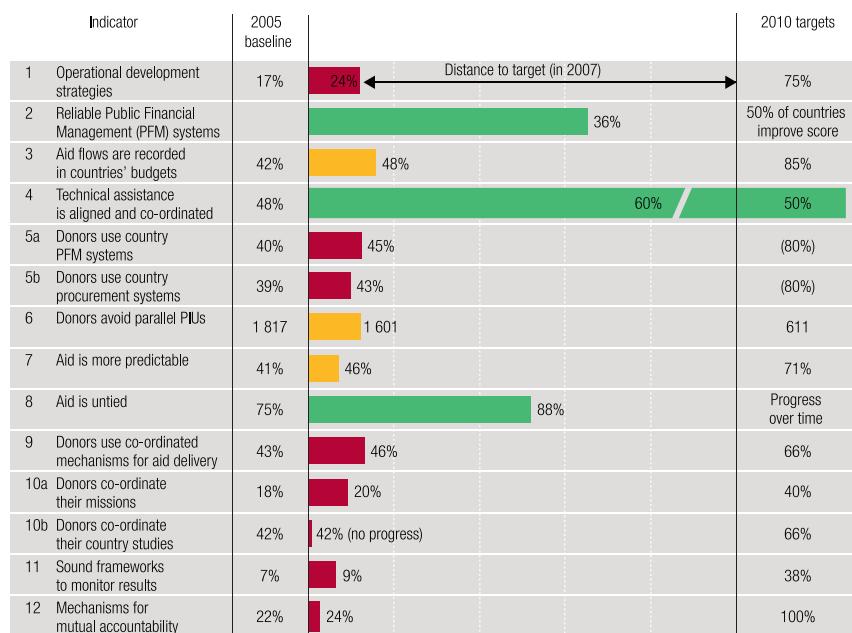
WHAT THE REPORTS ARE SAYING

The Accra High Level Forum set out to measure progress on five principles for more effective development established in the Paris Declaration on Aid Effectiveness, which was adopted by over 100 countries and aid agencies in 2005:

- OWNERSHIP:** Developing countries set their own development strategies, improve their institutions and tackle corruption.
- ALIGNMENT:** Donor countries bring their support in line with these objectives and use local systems.
- HARMONISATION:** Donor countries co-ordinate their action, simplify procedures and share information to avoid duplication.
- MANAGING FOR RESULTS:** Developing countries and donors focus on producing—and measuring—results.
- MUTUAL ACCOUNTABILITY:** Donors and developing country partners are accountable for development results.

Under these overarching principles, the Paris Declaration specifies 12 performance targets to be reached by 2010. To help the participants in the Accra Forum agree on the most urgent areas for stepped up action, three major studies were prepared in the lead-up to the Forum. At mid-point to the 2010 due date, these studies report on progress—or lack of it—in reaching the Paris Declaration targets.

HOW FAR ARE WE FROM MEETING OUR TARGETS?



Although the studies vary in terms of their scope and approach, several common themes emerge in their findings:

- Progress in attaining the 2010 targets is uneven, both across the targets and among countries.
- To meet the goals of the Paris Declaration, heightened commitment and implementation are essential.
- Progress depends not only on the wide involvement of donors and developing country governments at all levels; civil society, the private sector and other groups must also participate fully in the process.
- Based on experience so far, the Paris Declaration's core principles stand up well, but there are also new challenges, including the need to refine monitoring and evaluation.

THE ACCRA AGENDA FOR ACTION

The Accra Forum produced the Accra Agenda for Action, which signals the key areas where progress must be stepped up. It calls for a fundamental rebalancing of the relationship between partner countries and donors, focusing on:

- Using partner country systems as the first option when delivering aid.
- Making aid more predictable and transparent, to allow partners to better budget, plan and implement their development strategies.
- Determining the conditions donors place on aid jointly with partner countries – a fundamental change – based on their own development plans.
- Making clear and substantial progress on untying aid.
- Reducing aid fragmentation by improving in-country and cross-country division of labour.

HOW FRAGMENTED IS AID?

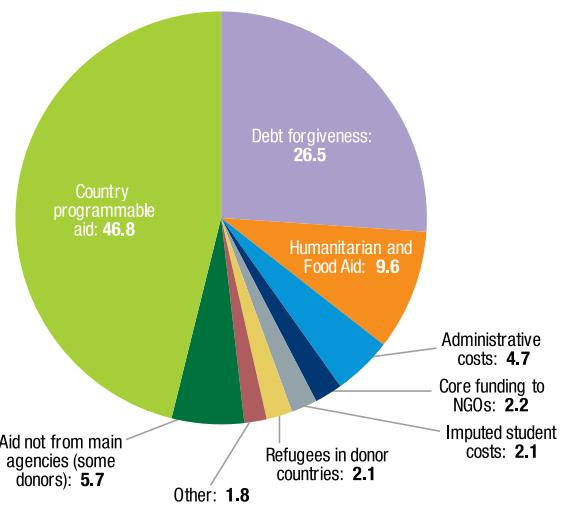
One of the major obstacles preventing aid from producing the development impact it could have is fragmentation: aid that comes in too many small slices from too many donors, creating unnecessary and wasteful administrative costs and making it difficult to target funds where they are needed most.

The DAC has recently completed the first full Survey on Aid Allocation Policies and Indicative Forward Spending Plans, which uses a newly devised measure of assistance called country programmable aid (CPA) to pinpoint just how fragmented aid is. CPA refers to the amount of aid that can be programmed by developing countries in their budgets; in other words, total assistance minus forms of aid such as emergency relief, debt relief and other aid that is not programmable by recipients.

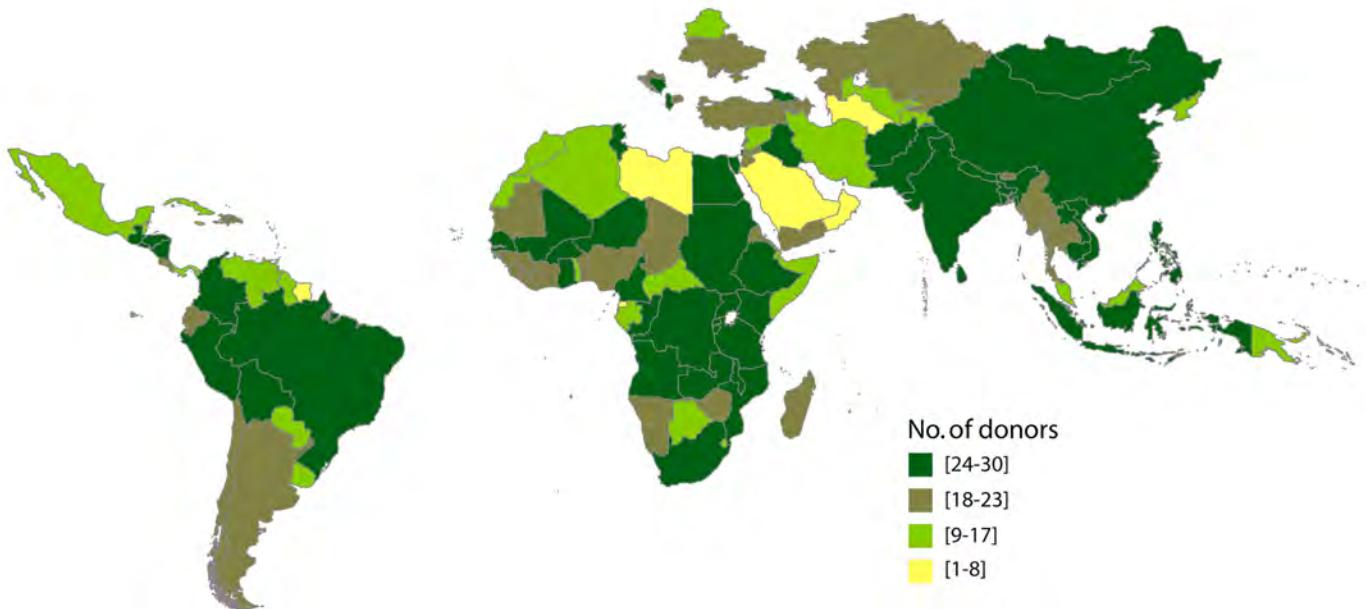
In 2005 - the baseline year for the survey - DAC members provided USD 47 billion of bilateral CPA, equivalent to some 46% of their total bilateral gross ODA in that year; the figure rose to a more typical 59% in 2007.

The survey report shows that donors often spread their aid too thinly, dividing it among too many countries. In 2005-06, 38 countries received aid from 25 or more DAC and multilateral donors. The report also compares the share of total aid a donor provides in each of its partner countries to that donor's share of global aid so as to establish each donor's "aid concentration" level; of the 23 DAC members, only 8 have an aid concentration level of over 50%.

COMPOSITION OF GROSS BILATERAL ODA IN 2005 (total USD 102 billion)



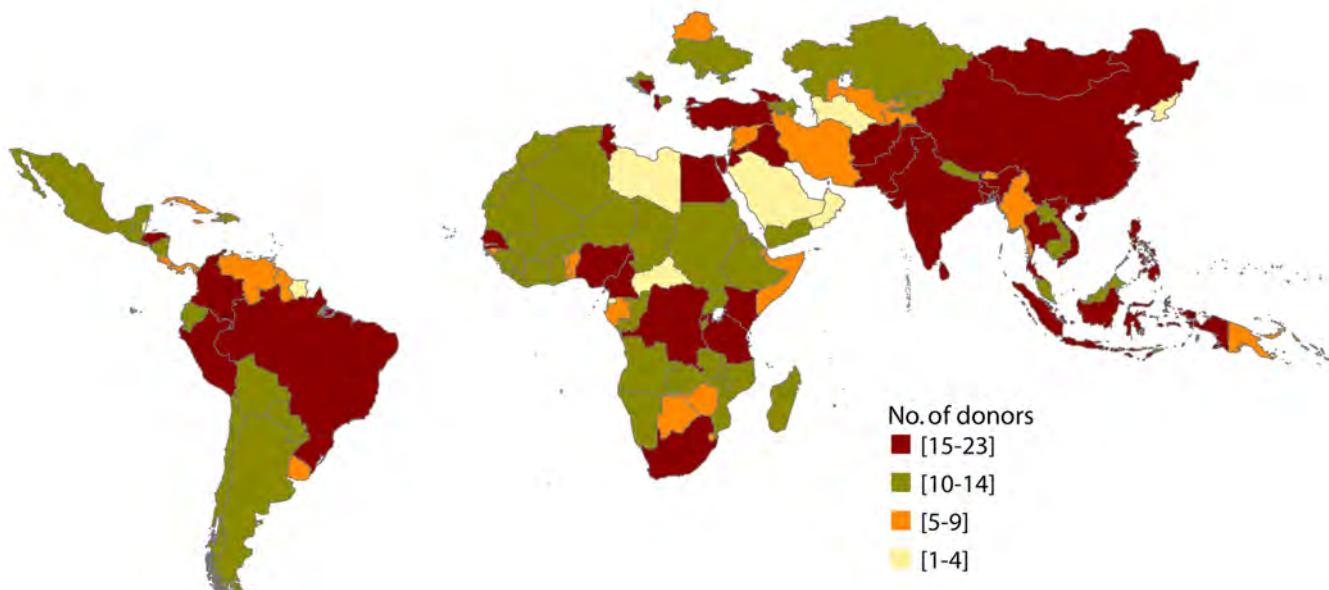
NUMBER OF DAC DONORS AND MAJOR MULTILATERAL AGENCIES PER COUNTRY



Based on: gross disbursements of CPA, 2005-06

The picture is even clearer when seen from the perspective of developing countries, where numerous donors give relatively small amounts of money; Vietnam, for instance, has 29 major donors, 17 of which account for just 10% of the aid it receives. Yet 38 countries – most of them small island states – each had fewer than 10 donors in 2005-06.

OPPORTUNITIES TO CONCENTRATE: NUMBER OF DONORS THAT TOGETHER ACCOUNT FOR LESS THAN 10% OF A COUNTRY'S AID



Based on: gross disbursements of CPA, 2005-06

To make aid more efficient, donors need to rationalise their efforts. Better division of labour can help to concentrate the number of donors working in a specific developing country or sector, such as health or education, lowering transaction costs and facilitating co-ordinated efforts. It can also help to ensure adequate coverage of all developing countries, not just donor "favourites".

HOW PREDICTABLE IS AID?

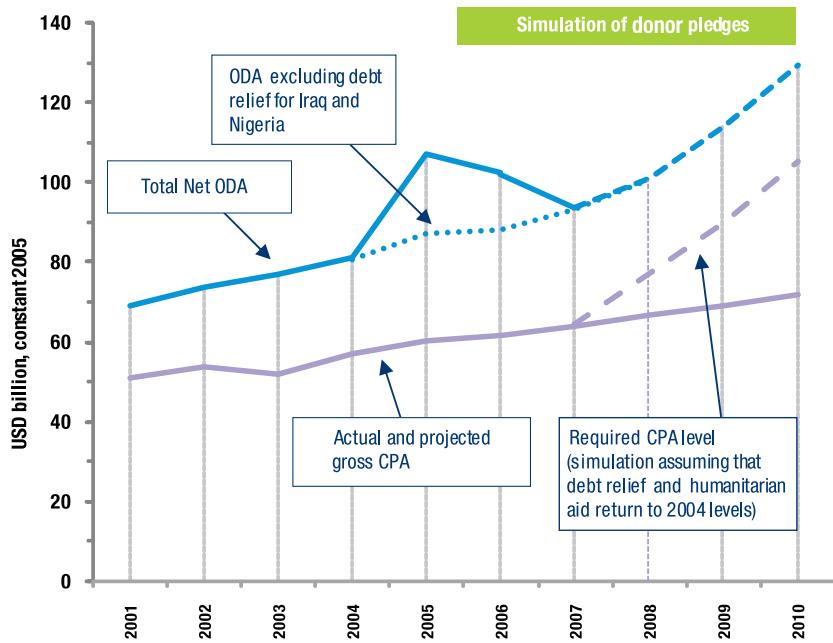
Developing countries' efforts to manage and allocate aid are often frustrated by unpredictability: donors do not always reveal their spending plans early enough for recipient governments to plan ahead, or they fail to stick to their commitments.

The DAC 2008 Survey of Aid Allocation Policies and Indicative Forward Spending Plans reduces some of this uncertainty by offering a perspective on future aid flows that helps to identify gaps – existing or projected – in individual developing countries.

Highlights from the survey include:

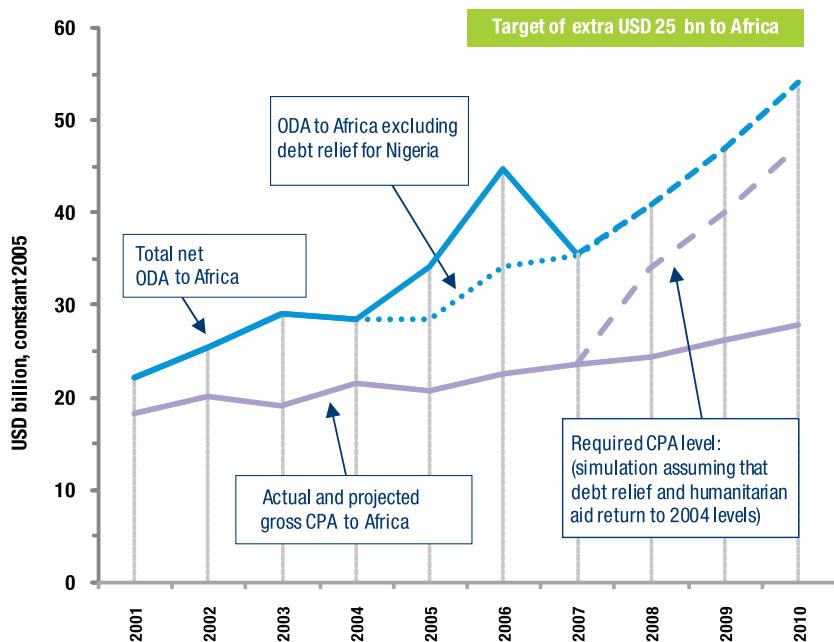
- Recent declines in net official development assistance signal that aid targets for 2010 are slipping further out of sight.
- With debt relief set to decline, other forms of aid will need to rise substantially if current targets are to be met.
- A number of states in situations of conflict or fragility face decreases in CPA of more than USD 20 million by 2010, threatening their recovery.

GLOBAL: DAC MEMBERS NET ODA AND CPA FOR 2001-2010



The funding gap is especially serious in Africa. In 2005, Africa was promised an extra USD 25 billion in aid by 2010; if this target is to be met, total ODA to the continent needs to rise by over 17% yearly.

AFRICA: DAC MEMBERS' NET ODA AND CPA FOR 2001-2010



While the DAC survey indicates plans to scale up total aid by USD 10 billion in 102 developing countries, it suggests a programmed decrease in CPA to 51 countries between 2005 and 2010, mainly in Africa and Asia. Some 21 countries are set to see a decrease, in absolute terms, of more than USD 20 million each.

SCALING UP ALREADY PROGRAMMED – INCREASE ABOVE USD 100 MILLION

Ranking by absolute increase (countries with increasing aid dependency are highlighted) - Gross disbursements

Partner	CPA Baseline 2005	CPA Planned 2010	Increase		CPA/GNI		CPA per capita 2010 ⁽ⁱⁱ⁾
	2005 to 2010	2005 ⁽ⁱ⁾	2010 ⁽ⁱ⁾	%	Constant 2005 USD		
	Constant 2005 USD million		Index: 2005=100				
Viet Nam [^]	1,952	2,703	138	3.8	3.6		30
Kenya [^]	630	1,373	218	3.3	5.7		36
Tanzania [^]	1,423	2,085	147	11.5	11.7		49
Ethiopia [^]	1,094	1,617	148	9.6	9.2		21
Indonesia	1,625	2,146	132	0.6	0.6		9
Sudan ^{*^}	469	970	207	1.8	2.2		24
Nigeria [^]	760	1,137	150	0.9	0.9		7
Turkey	615	948	154	0.2	0.2		12
Pakistan [^]	1,520	1,834	121	1.4	1.2		11
Cameroon	258	547	212	1.6	2.7		30
Colombia	594	878	148	0.5	0.6		18
Ghana [^]	967	1,244	129	9.2	8.5		51
Nepal [^]	372	649	174	4.9	7.2		22
Serbia	450	692	154	1.9	2.2		86
Congo, Dem. Rep. ^{*^}	890	1,123	126	13.2	10.9		17
Uganda [^]	980	1,208	123	11.4	10.3		37
Cote d'Ivoire ^{*^}	86	312	364	0.6	1.8		16
Armenia	97	265	274	2.0	3.3		81
Philippines	1,004	1,172	117	0.9	0.8		13
Mozambique [^]	1,212	1,373	113	18.9	15.1		63
Malawi [^]	501	661	132	24.7	23.0		46
Malaysia	205	361	176	0.2	0.2		13
Mali [^]	631	781	124	12.4	12.3		52
Somalia*	59	209	351		23
Namibia	110	256	232	1.8	3.3		115
Liberia ^{*^}	95	238	251	22.8	35.7		65
Rwanda [^]	500	643	129	23.6	23.0		64
Burundi ^{*^}	193	317	164	24.9	31.6		37
Lebanon	110	231	211	0.5	1.0		53
Afghanistan*	2,405	2,525	105	32.8	22.9		..
Palestinian Adm. Areas	619	738	119	14.0	..		182
Croatia	104	215	207	0.3	0.5		45
Zambia [^]	768	875	114	11.3	9.6		68

* State in situation of conflict or fragility (i.e. Low-income countries scoring 3.2 and below on the World Bank's Country Policy and Institutional Assessment - CPIA).

[^] GNI/capita in 2005 below USD 1,000.

(i) GNI source: DCR 2006. GNI forecast based on IMF projected growth rates (World Economic Outlook database).

(ii) Population source: DCR 2006. Population is assumed to grow at 2% per annum.

THE BIGGER PICTURE: USING THE PARIS DECLARATION TO ACHIEVE BROADER DEVELOPMENT GOALS

To be long lasting and equitable, development must address questions of gender equality, environmental sustainability and human rights – which are, in turn, drivers of development. For example, it has been clearly shown that raising women's education levels can cut child mortality.

While the importance of these linkages is widely accepted, the adoption of the Paris Declaration in 2005 provided new momentum for converting commitments into action. Five lessons from case studies illustrate how the Paris Declaration can be used to advance broader development goals.

LESSON 1:

Actively involving poor women and men strengthens ownership and accountability for development results.

A “bottom-up” approach means involving as wide a community as possible in political and policy discussions. Case studies from Zimbabwe and Peru show how significant and sustainable improvements in health can be achieved by involving the poor in shaping health policies, practices and programmes.

LESSON 2:

A results-based approach to human rights can improve services for all citizens.

Marginalised groups can only benefit fully from development if their situation and needs are properly understood; this can be facilitated through the application of “disaggregated monitoring” – use of data that is broken down to reflect sex, ethnicity, social status, and so on.

LESSON 3:

More effective use can be made of joint assistance strategies to advance development priorities.

Donors can help to advance human rights, environmental sustainability and gender equality by developing and applying joint aid strategies. For example, the donor(s) with the greatest comparative advantage and capacity in areas such as gender equality can take the lead in promoting these goals, providing expertise and technical support.

LESSON 4:

Words must lead to action.

Although many good policy statements have been written on rights, environmental sustainability, exclusion and gender equality, these are not enough. Examples from Uganda and Sierra Leone highlight the importance of well designed budget and monitoring frameworks, community-level partnerships, civil society advocacy and capacity building in helping to turn good intentions into action – and impact.

LESSON 5:

Donors' harmonised support can help rebuild capacity in fragile situations.

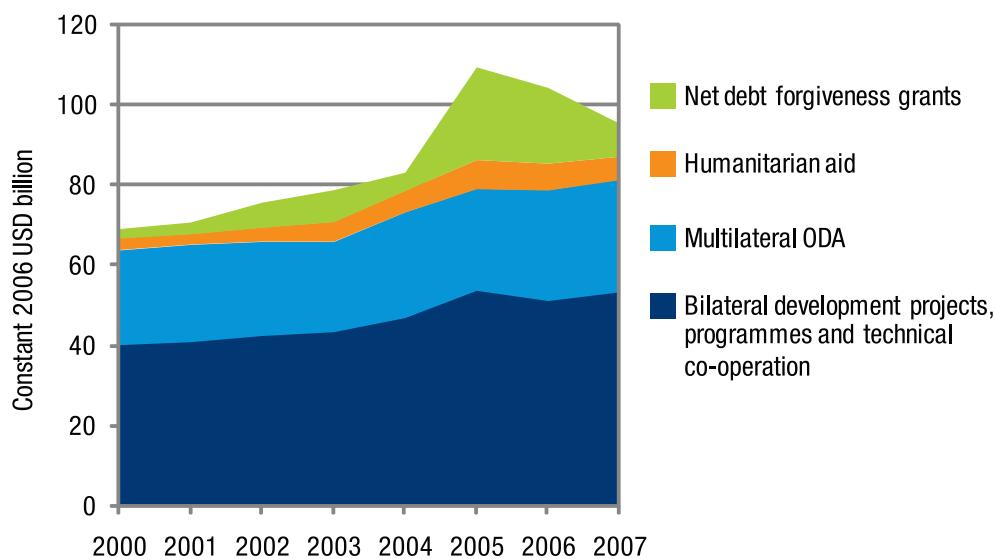
While fragile states often lack the capacity to directly implement the principles of the Paris Declaration, these principles may still work in their favour. Sierra Leone offers a good example: the success of the elections held in 2007 was, in part, thanks to the harmonisation of support among the country's development partners.

POLICIES AND EFFORTS OF BILATERAL DONORS

In 2007, total net official development assistance from member countries of the Development Assistance Committee (DAC) fell by 8.5% in real terms, to USD 103.5 billion. If one excludes debt relief, however, ODA increased by 2% in real terms, offering a truer reflection of the overall trend.

The figure below shows the impact of debt relief on net ODA in 2005 and 2006. It also shows a small increase in humanitarian aid in 2005 - mainly special assistance in the wake of the Indian Ocean tsunami and the earthquake in Pakistan. Bilateral development projects and programmes dipped slightly in 2006 but were on the rise again in 2007, indicating that donors are gradually scaling up their core aid programmes.

COMPONENTS OF DAC DONORS' NET ODA



This progress is, however, much too slow if donors are to meet their commitments for 2010. At the Gleneagles G8 and UN Millennium +5 summits in 2005, donors committed to increase ODA by USD 50 billion in 2010 (compared with 2004, at 2004 prices and exchange rates). So far, about USD 21 billion of this amount has been delivered or planned. This means that donors still have to include an additional USD 30 billion in 2004 dollars in their aid budgets — about USD 34 billion in 2007 dollars — to meet their commitments.

With the current financial crisis and economic slowdown, it is crucial to ensure that an aid crisis does not result from cuts in aid budgets. In response to a joint appeal from Angel Gurría, the OECD's Secretary-General, and DAC Chair Eckhard Deutscher the world's major donors made an aid pledge on 24 November 2008, "reaffirming earlier commitments to increase the volume of aid and to maintain aid flows at levels consistent with those commitments".

The *Development Co-operation Report* is issued annually by the Chair of the OECD's Development Assistance Committee, a forum where major bilateral donors work together to support sustainable development. The report provides data and analysis of the latest trends in international aid.