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Ladies and Gentlemen,

Let me start by saying how happy I am to be here. Because I am deeply convinced about the importance of Policy Coherence for Development – in fact, I believe a large part of the future of development co-operation hinges on greater policy coherence and whole-of-government approaches.

But there is also another deep conviction that I have: That development co-operation experts and agencies have not done enough in the past to work with parliamentarians. Changing this is a personal priority I have, and it is therefore a particular pleasure for me to address you here today.

The previous speakers have already offered a wealth of information on migration in the context of policy coherence for development, and I am sure we will learn much more on the topic from other speakers in the course of the conference.

Let me therefore use the next 10 minutes or so to provide you with an update of the ongoing economic and financial crisis, and what this means for developing countries. Because this is the reality they, and we, as donors, will have to deal with. And let me briefly explain why, in the light of the crisis, policy coherence for development is becoming more important than ever.

Impact of the Crisis on Developing Countries

Just a few months ago, there was a broad view that developing countries would be little affected by the financial crisis. Let me say that this has changed completely by now. There is a very concrete risk that developing countries will end up eventually as the worst-hit victims of the current crisis.

So what about the scale of the crisis? The World Bank estimates that every 1% drop in world growth adds 20 million people to the poverty count. The most recent IMF forecast sees world growth declining from 3.7 % in 2007 to just 0.5% in 2009, pushing an estimated further 70 million people back into extreme poverty. This is on top of an estimated 100 million that fell back into extreme poverty in 2008 due to the food and fuel crises.

The bad news is that the reading gets worse and growth forecasts by all the major organisations, including OECD, are being revised downwards at each revision. But growth is the major driver of poverty reduction, and these developments put at risk the development gains made over the last decade.

External financing for development will fall.

Let me now sketch out several channels, through which the effects of the economic downturn in OECD countries are transmitted to developing countries: Exports, private financial flows; remittances; and aid. All these sources of external financing are under threat. And let us be honest – this includes aid.

Turning to **exports** first, it is clear that we are seeing a sharp reversal from past years. World trade is expected to fall in 2009, the first time since the 1982 recession. But this is not all. Trade finance has dried up and is dragging down exports. This has reached a point where countries are obliged to revert increasingly to barter trade!

As for ***private financial flows***, including foreign direct investment: at the reading last autumn, they were expected to decline by almost half, from USD 1 trillion in 2007 to around USD 500 billion in 2008. But it does not stop there – in 2009, these flows are expected to total only USD 165 billion – a drop of more than 80% from peak to trough. This is not only stifling business investment in developing countries. It also has shut out well-performing low income countries, like Kenya or Ghana, from international capital markets, to which they had gained access. This means that, as the need for governments to step in and cushion the crisis is greatest, their scope to do so has effectively evaporated in many places.

Remittances*,* too, are expected to suffer as migrants' earnings fall and unemployment reduces their numbers. This is an issue that relates directly to the topic of this conference, and I am sure will be discussed in further detail. Remittances have been one of the most dependable sources of finance for developing, especially poor ones. In these countries, they are often bigger than the largest commodity earnings, and by far exceed capital inflows. Moreover, remittances have often gone to the poorest segments of recipient countries, with strong poverty reduction impact

This leaves us with ***Aid***. Clearly, there is a risk for aid to come under pressure as donor countries reassess fiscal priorities in the downturn. A look to the past is revealing: Following the 1991-92 recession, ODA fell by 22% and took until 2003 to regain the same level in real terms.

But the importance of official development assistance, ODA, has been increased by the crisis. As other sources of funding are showing sharp reversals or completely drying up, it is critical that aid will not follow this trend. Many have talked about the increasing relative insignificance of aid for development. But the truth is that aid is still the biggest source of external resources for low income countries: In 2005-2006, ODA to Low Income Countries averaged 48 billion USD – twice as much as trade receipts and remittances, respectively, and by far outstripping other flows such as FDI.

In light of past experience, the OECD Secretary General and I asked DAC countries to reaffirm with an **aid pledge** earlier commitments to increase the volume of aid and to maintain aid flows at levels consistent with those commitments. It is important that this pledge is honoured – which would be a departure from typical behaviour in past financial crises, when aid budgets have been cut in the fiscal tightening phase. Increasing aid spending would recognise that many low-income developing countries remain heavily dependent on aid for external support and this dependency will increase with the reductions in other sources of external funding. Any reduction would compound other shocks, further reduce fiscal space, result in sharp contractions in economic activity, and add to fragility in vulnerable states.

The changed landscape for development co-operation

If we look back, 2008 was a year of crises – we had the food crisis, the fuel crisis, and now the financial and economic crisis is in full swing. All were global crises. All need international solutions. And indeed, they showed more generally that isolated responses by individual policy areas are insufficient, and indeed that national responses are insufficient. We need coordinated international action for our globalised world. And we need global solutions that include developing countries: in the way they are discussed and designed, in their coverage and in their implementation.

For most parts, national politics are still running behind realities of globalisation. They are still dominated by national perspectives, and thus lose grip and scope to shape and respond to global problems. To make globalisation work, need to make multilateralism work.

The crises we are living through are a very real life and death issue for millions of people in developing countries. And it is of crucial importance for long term global economic prosperity and global stability and security. We need to keep this on our political radar screens.

Therefore, even, and in particular, in this financial market crisis, development co-operation must be a central feature of a strategic, international response to the challenges of globalisation. It is clear that ODA alone cannot bear the burden of development in partner countries. But development policy will have to play a key role, and for this it will have to be made much more open to the realities of global change.

The DAC's focus on PCD will increase in the future

This is where policy coherence and whole-of-government approaches come into play. For several years, the DAC has looked at this issue in its Peer Reviews of the development co-operation programmes of its members, with a focus on the institutional arrangements that promote and advance policy coherence for development. A few weeks ago, the DAC decided to also look at three concrete policy coherence issues: trade, environment and, indeed, migration.

But I see a general shift towards a much stronger focus on policy coherence for development. As I mentioned, with development co-operation pursued in isolation, we will not be able to achieve results. The DAC is currently undergoing a strategic reflection exercise on the future of development co-operation, and what this means for the DAC and its work over the next 10-15 years.

We will have to wait for another few months for the result of this exercise, but it is already clear that the issue of policy coherence will become much more important and prominent in DAC work. Already now, there is no shortage of knowledge on where problems or opportunities for coherence are. We have clear, evidence-based analysis on the interface of development policy and areas such diverse as security policy and fragile states, trade, agriculture, environment, anti-corruption, migration etc. We now need to act on this evidence. We need to become serious about policy coherence and whole of government approaches.

Development co-operation is no charity. Its purpose is not to make amends for incoherence in other policy areas at the expense of the development of poor countries. It is a strategic investment into a common future on the one planet we have. This needs to be clearly understood for framing the development co-operation policies and efforts in our national systems. And it needs to be understood not only by development policy-makers, but by those in other policy fields as well, and indeed by you, as parliamentarians, and the general public.

The importance of development financing

Development co-operation needs to leverage the impact of other policy fields for development, and address incoherent policies that block development in partner countries and waste our taxpayers' money.

For the future, it will be important to connect aid much more to the broader context of development: mobilising resources in developing countries will be just as important as promoting foreign direct investment and creating a fairer international trading system. We must guard against the risks of aid dependency as we plan for a move away from external support in the medium term. Developing countries must be given greater support to achieve pro-poor growth with their own means, thriving on effective cooperation and based on an enabling environment that facilitates healthy competition on a level playing field, without major distortions as a result of incoherent policies. For all of this, coherent policy approaches are essential.

But let us not be mistaken: this will require an increased and sustained aid investment by donors for many years to come. In recent years, DAC and other OECD donors have made enormous efforts to meet the Millennium Development Goals – these efforts, and the gains they have supported, will be lost if donors do not sustain and build on them by following through on their commitments.

At stake is also something else: Meeting existing aid commitments will be the first test for the credibility of our true commitment to international co-operation. And this credibility, this faith, is an essential condition for our ability to find the international solutions we need in response to the global challenges we face.

To conclude: Policy coherence makes sense for all of us. It is essential for achieving better development results. We need it to work together at the international level to address the challenges of globalisation – and there is great risk for immense economic, political and social stress if countries try to respond in isolation at the national level. We cannot afford to fail with globalisation. But we can only succeed if we work with developing countries in sharing the gains and addressing the downsides of globalisation; and if we do so with the resources that we committed to, and that will be fully and absolutely needed given the task at hand.