The attached draft Chapter 1 of the Development Co-operation Report 2008 is circulated for INFORMATION.

This chapter was originally circulated on 30 October. Members’ comments have been incorporated as appropriate. It is understood that in the final version of the Report, any figures will be updated to reflect the confirmed 2007 data, and the text will be fine-tuned as necessary in the light of this.

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Globalisation: A shifting context for development policy

Responding to the challenges—and the benefits—of globalisation will mean adjusting development policies to new realities and to an inevitable precondition: countries can only make a difference if they work together.

1. 2008 was a year of crises: the food crisis, the fuel crisis and the financial crisis. These were all crises of globalisation; all were played out at the global level. This sends us a clear message: an increasingly globalised and interconnected world calls for international solutions, which poses collective action problems.

2. This represents massive challenges for development. Spiking food prices in even the most remote markets have hit poor people the hardest. The overall impact of the fuel crisis has been even greater, eroding incomes and dampening production in developing countries in general. Now, the lingering financial crisis is also taking its toll on developing countries, with reduced investment, tight export markets, shrinking remittances—and with increasingly constrained fiscal environments in donor countries. This brings with it the risk that the financial crisis could turn into an aid crisis, with donors being tempted to opt for fiscal prudence at the expense of ODA budgets.

3. Donor countries must not allow this to happen. Yet this will only be possible if we centre our development commitments squarely in their global context. In a volatile world facing the threats of environmental disasters, increasing competition for scarce resources and increasing global interdependence of economies and markets, the challenge of development cannot be overcome with the tools of ODA alone. This is fundamental, because we tend to talk about aid and development as if they exist in a vacuum—two phenomena tied inextricably to each other, but removed from the forces and changes sweeping the world in this era of globalisation.

4. This vision is not only misleading but dangerous. It blinds us to a whole host of other factors that shape the impact of our efforts—the diverse, complex, and often conflicting and incoherent realities of a globalised world. Development co-operation cannot shield the development process from these realities.

5. But development co-operation must concern itself with changes in international structures, it must take action against new challenges, and it must improve co-operation aimed at finding international responses and solutions. Failure to deliver the benefits of globalisation, especially in developing countries, risks undermining global stability. And this threatens us all, whether we live in rich countries or poor. For this reason, development co-operation must not be regarded by donor countries as an “optional extra,” but rather as a central feature of their response to the challenges of globalisation.

Keeping control: A collective endeavour

6. Can individual countries offer solutions to these challenges? Not easily. A key consequence of globalisation is the evident weakening of the scope of national governments to shape and implement policies autonomously. Donors are finding that their options for making a difference—while always limited—are dwindling fast; and developing countries are finding that more and more of the factors that determine their development prospects are shifting beyond their control.

7. Despite this loss of control, there has been no corresponding change in political responsibility. World politics are still in pre-globalisation mode, with national politics and domestic issues determining the international response of countries much more than the global problems the world faces. In the eyes of many observers, current international development policy is still a product of the global political conditions
of the past. In effect, this leaves donor agencies and institutions trying to take on new challenges with the tools of yesterday.

8. It is for these reasons that development policy must be made much more open to the realities of global change and globalisation. This does not mean solely adjusting policy to cope with the “problems” of globalisation, but also looking at the opportunities it offers. The economic globalisation of the past few decades has helped fuel the rapid integration of large, fast-growing emerging economies into the world economy, enabling hundreds of millions of people to pull themselves out of extreme poverty. Never before have we seen development success happen so fast on such a scale. Never before have we seen such a shift in global wealth and influence.

9. To some extent, these global shifts are already being reflected in international development policy. South-South co-operation (Box 1) is gaining in importance and increasingly capturing the limelight of international debate. In addition to providing increased resources for development, it is prompting a rethink of development co-operation—consider, for example, the revival of interest in the importance of investing in infrastructure. What is essential now is that the emerging economies be given the appropriate scope, voice and responsibility to become a key part of the international effort.

10. But development policy also has to adjust to new global risks—some of which arise, at least in part, from globalisation. As we are seeing, global financial upheaval is not just a threat, but a reality. We know also that violence from stateless groups that respect no borders and from transnational terrorist movements poses dangers for developing and developed countries alike. And then there is the environment: the world faces shortages of water, land and food, and major climate change threatens to continue to increase global temperatures. Scientists warn of the collapse of complex biosystems and radical changes in weather patterns, with unforeseeable consequences for regional ecosystems, together with economic and social upheavals. The process would alter the worldwide terms of trade, re-directing trade and investment flows. Climate shifts are likely to lead to more fragile and “failed” states, making it essential to strengthen the linkages between development and security policy, with a clear focus on the development needs of developing countries.

11. In light of these future challenges, fear of globalisation is growing. It is seen as a process beyond control. But fear of globalisation is in itself a risk, fostering increasing national protectionism and a withdrawal from international co-operation. The only chance to regain control is to work together for international solutions.

**Working together**

12. What does all this mean? More and stronger collective action is necessary. Integrated approaches and whole-of-government responses are increasingly important. While this is not easy for DAC member countries to conceive, it poses an even bigger problem for domestic stakeholders in developing countries: they, too, need broad approaches and strong engagement in addressing future challenges, and it is critical to raise awareness within developing countries in this regard.

13. Unfortunately, as economic concerns mount, there is a clear risk that development co-operation could become increasingly marginalised in donors’ national policy systems—dismissed as a luxury that can no longer be afforded in tough times. This would represent a profound misunderstanding of the role of development co-operation in today’s world. It is not optional and it is not charity. Rather, it is a central part of a strategic, international response to ensure that the process of globalisation is inclusive, brings benefits for all sides—in particular the poor, most of whom are women and children—and leads to a more stable, prosperous and peaceful world.
Box 1. South-South co-operation

South-South co-operation offers new prospects for international co-operation, but also poses new challenges

Recent years have seen phenomenal growth in trade and investment among the countries of the South. Based on the principle of mutual benefit, in South-South co-operation there are no clear dividing lines among developmental, concessional and commercial interventions. It involves substantial amounts of concessional finance and grants, as well as training and capacity development support. It has not been possible so far to assess these flows with criteria that are comparable to those used for ODA, the agreed international standard for official development assistance.

Despite this, the rapidly increasing impact of South-South co-operation is evident. Co-operation partners and investors from the South often have valuable know-how and technologies that suit their partners. Maybe even more important, they have been welcomed for bringing a fresh, positive perspective by looking at their engagement as an opportunity for the future. By contrast, developing countries often feel that traditional donors see their engagements simply in terms of the need to “fix a problem”.

South-South co-operation is generally based on different principles than those underlying the assistance provided by DAC donors. As we go forward, the DAC needs to explore these different approaches with the countries of the South – not with the aim of determining any “superior” form of development co-operation through an academic exercise, but rather to look for ways to make our collective efforts more effective.

As with the aid effectiveness agenda, I believe that the framework for this dialogue should be derived from what partner countries define as priorities and needs in the context of their own development processes. Over the past few years, and not least at the Third High Level Forum on Aid Effectiveness in Accra, an increasingly clear picture has emerged along the following lines:

- Partner countries stress that all types of assistance should be aligned to their priorities, and should use local co-ordinating mechanisms under their leadership.
- Partner countries often see South-South co-operation as complementary to assistance from DAC donors, especially in areas such as infrastructure and the productive sectors, which traditional donors have left underfunded.
- Recipients are looking for a range of characteristics for assistance: responsiveness and speed — which is often seen as a strength of South-South co-operation — untying and transparency, predictability and, more broadly, respect for the principles of the Paris Declaration, adapted where necessary to the local context.

Overall, it is clear that the voice and experience of providers of South-South co-operation are too important to be left out of aid effectiveness work and of the international debate on development co-operation. In particular, dialogue with emerging economies that are major providers of South-South co-operation is urgently needed, not least to promote joint efforts to reach the Millennium Development Goals. DAC donors and countries engaged in South-South co-operation need to share lessons and learn from each other’s experience. This is contingent on one basic prerequisite: transparent information on all flows of assistance. The benefits of this dialogue will depend on the degree to which all sides enter into this with an open mind and show that they are serious about the need to take a deep and self-critical look at how we all can improve our efforts, collectively and individually.

1 Throughout this publication, the term “partner country” will be used to refer to the countries that are using development assistance provided by other countries to support their own development.
Policy coherence for development: Putting development on the same page

Policies that are not coherent can hurt developing countries and undermine development policy aimed at improving the lives of some of the world’s poorest people.

15. Even if we agree that a joint international effort is needed to achieve our development goals, this alone will not be enough. Such an effort will fail if it is not built on well-designed, mutually supportive and coherent policies that go beyond aid, in other words, policies that promote progress in various sectors without contradicting or undercutting our common objective to achieve sustainable and broad-based development in partner countries.

16. This is why the concept of “policy coherence” has become a key component for promoting development. It has been endorsed at several international meetings and made its way into leading statements and commitments, such as the MDGs, the Monterrey Consensus and the EU Treaty of Nice. It is also an integral part of the European Consensus on Development. In June 2008, the OECD Council at Ministerial Level adopted a declaration reaffirming the OECD’s strong commitment to policy coherence for development.

17. As we have seen above, the advance of globalisation is adding a new impetus to the need for policy coherence. The policies of OECD countries and, more and more, those of emerging powers like Brazil, China, India, Indonesia, Russia and South Africa, have a global impact. Developed country policies in areas seemingly not related to development, such as food safety and banking regulation, can actually have a profound impact on the production and finance systems of developing countries.

18. It is essential that decision makers are well informed so as to assess relevant policy options before taking decisions that may, directly or indirectly, affect developing countries. This makes policy coherence an essential part of effective governance—in all administrations. This is not to say that making policy coherent is easy. A major part of the problem is that political processes can be incoherent by default; as policy makers struggle to take into account the needs and concerns of various interest groups and stakeholders, they often do so at the expense of overall coherence. And logically, government departments are often preoccupied with concerns and responsibilities other than combating world poverty—although it is becoming increasingly evident that neglecting the development dimension will, in time, undermine the pursuit of other objectives.

19. It is far from clear that fully coherent policies in all circumstances are actually feasible. What is clear, however, is that incoherent policies are inefficient and ineffective, no matter which policy objective takes priority.

Time for action

20. Our understanding of policy coherence for development has increased substantially over the past few years. Considerable evidence-based analysis now exists in areas such as the interfaces of development and security policy, fragile states, trade, agriculture, cotton, environment, fisheries, anti-corruption and migration. The priority is now to go beyond analysis towards action.

21. This action should not confine itself simply to areas where incoherence has been clearly identified. Development policy also needs to take a more pro-active approach, tackling issues before incoherence becomes entrenched. We are starting to see this in some areas, such as fragile states or fiscal regimes and taxation. But there is a need and scope for a much more purposeful effort.
22. Governments will need to look beyond narrowly defined national interests to creating rules of the game that will enable us to share the benefits—and burdens—of an increasingly globalised world. Will this happen? It is by no means clear that it will. Indeed, there is a risk that countries will increasingly seek to meet the challenges of globalisation at the national, rather than the international, level—an approach that has the potential to cause enormous economic, political and social stress in all countries. If we want globalisation to work, we will have to make multilateralism work.

23. National policies and positions, of course, are the building blocks of the broad international response that is necessary to achieve our common development goals. But an international system built on incoherent policies of its constituting parts is bound to be inherently flawed, and paralysed by contradictions and inefficiencies. We need to take concrete and urgent steps to harmonise our actions, letting partner countries call the shots on what they need and want, and how they plan to achieve it. This must be communicated, again and again, through clear messages to decision makers and to the public. A better general understanding of development co-operation in our domestic political systems—and in the public—is fundamental. Policy coherence makes sense for all of us. There are still far too many wasted resources, and far too many impediments to development, resulting from incoherent policies—all of them financed by taxpayers’ money.

**Accra: A milestone, or where the hard work begins?**

*Was Accra just another talking shop? No, the Accra Forum produced an agenda that holds huge promise for developing countries. But translating that agenda into action will require real political will.*

24. The Third High Level Forum on Aid Effectiveness (Accra, 2-4 September 2008) was a milestone for international development co-operation. More than 130 countries attended, as well as three presidents and the heads of most international development agencies. In the words of the *Financial Times*, the gathering was “…probably more important than all the G8 summits of the past decade put together.” Why? Because of its focus on effectiveness and results: it showed the world that donors and partner countries are serious about development. Accra did this not by promising fresh resources or new initiatives, but simply by sticking with what we know needs to be done.

25. The Accra Agenda for Action (AAA) reaffirms the commitments donors and partner countries took on when they endorsed the Paris Declaration in 2005 and takes them one step further. It signals in no unclear terms where efforts seriously need to be stepped up (Box 2). Some of the best explanations of what this all means came from partner countries—the ones which will actually benefit from the process. One statement by a developing country minister in Accra sums things up well: “Even if we manage to implement a small part only of what is in the Paris Declaration and the AAA, it will be a huge success for developing countries.”

26. We must go further than that, though. We must have the ambition to implement the aid effectiveness agenda in full.

**A new relationship between donors and recipients**

27. The Accra Agenda for Action commits donors and developing countries to act on failings in aid effectiveness—and to act quickly. Based on evidence documented by the DAC of what is working and what is not, and on what is being done well and what is being done badly, the AAA sets a template not just for donors, but for all development stakeholders to step up implementation of the Paris Declaration commitments.
Box 2. The Accra Agenda for Action

The Accra Agenda for Action gives us key breakthroughs on a number of fronts where we need to make faster progress and get better results:

- Agreement to use country systems as the first option when delivering aid.
- Agreement to make aid more predictable and transparent, and thus to allow partners to better budget, plan and implement their development strategies.
- A fundamental change whereby donors will determine the conditions placed on aid jointly with partner countries and on the basis of their own development plans.
- Clear and substantial progress on untying aid.
- Agreement to reduce aid fragmentation by working more towards in-country and cross-country division of labour.

All of these points would not have seemed possible even a few years ago.

28. This agreement implies nothing less than a fundamental rebalancing of the relationship between partner countries and donors. It includes major commitments to ensure partner countries’ leadership of their own development programmes, to strengthen and use their national financial, budgetary and other systems, and to be transparent about aid plans and aid use.

29. Accra also saw the involvement of many non-DAC stakeholders. A significant feature of the preparations for Accra was the engagement of more than 3,000 civil society organisations worldwide in the preparatory events. Their involvement in the debate about aid effectiveness extends democratic participation in development, and thereby strengthens the integrity of the checks and balances on public expenditure. This is a key pillar of good governance, and an essential part of the development process.

30. The AAA also highlights the importance of bringing non-DAC providers of development assistance into the partnership for better aid. DAC donors certainly do not have all the answers, so it is important to extend the debate on development policy to include South-South, triangular and other forms of co-operation. What we agreed in Accra is important not just for DAC members, but also for the effective use of aid from new and growing sources such as global funds and rapidly growing economies. It provides, as well, an essential template for tackling new development challenges such as climate change.

31. Perhaps the most significant agreements reached at Accra were those relating to predictability and transparency. Donors and developing countries have agreed to deliver what they promise and publish what they spend. Medium-term aid and development plans allow countries to plan for long-term development. And they allow citizens and their parliaments to discuss and debate how these resources are allocated and spent. This transparency will help to rebuild the trust between countries and their citizens, as well as between donors and partner countries. In doing so, it will build support for development among taxpayers in donor countries, as they will know how their money is being spent.

32. There is no question that partner countries will need to work hard to improve their national systems. In the past, however, donors often stood in the way of accountable governance of aid in recipient countries by demanding that recipients follow donor’s own procedures, standards and processes rather than using their home-grown mechanisms to account for aid resources. In effect, partner governments were
expected to be primarily accountable to donors for their public expenditure rather than to their parliaments and citizens.

33. The message from Accra is clear: it is time to change—to be predictable and fully transparent. Chapter 3 of this Report looks at the critical issue of aid predictability and how this affects results. It is time to embed effective aid in countries’ own public management and accountability systems—bringing in parliaments as well as civil society. This is a qualitative leap forward, as democratic participation in making, implementing and monitoring policy decisions is an essential condition for combating poverty.

**Putting Accra into action**

34. What really matters now is how the Paris Declaration and the “triple A” are implemented. That means action, not words—pushing out the frontiers of best practice, bringing new partners into the consensus, learning from others and changing our behaviour. Making change happen is a political process—and delivering the Paris Declaration and the AAA will require strong and high-level political will.

35. Political engagement by partner countries is key to ensure leadership in aid alignment, co-ordination and harmonisation. And donors need strong political will to push forward the agenda on key issues such as using recipients’ country systems and improving the predictability of aid flows. Both parties need trust—that promises will be kept, that this is really about development, not self-interest—to underpin their electorates’ support for the far-reaching reforms in the way aid is delivered by donors and put to use by partner countries.

36. Only time will tell whether in Accra we achieved more than just agreement on a text, in other words, whether we also managed to leverage the momentum needed for its implementation. I believe we did. At the end of the day, Accra is about political credibility. Now we need to show that development co-operation can be effective, and that we are capable of delivering international solutions based on shared objectives—with everybody working first and foremost on themselves. Why am I confident that we will deliver on Accra? There are three reasons:

- We did our homework. The AAA really is an historic agreement—based on an unprecedented level of consultation and communication—and on real evidence of what is happening, and what works. In Chapter 4, we take a close look at a series of critical studies that were prepared in the lead-up to Accra to help development partners and practitioners focus squarely on where action is most needed – and can produce the quickest, and best, results.

- Accra represents the “low-hanging fruit” of the development agenda: with political will, and action, all of the commitments in the Paris Declaration and AAA can be met.

- We have been at this task for too long. The public wants to see results for its aid money. It is time to change the way we do business in aid and move to a system based on international collective action to deliver global public goods such as peace, security, international co-operation and freedom from poverty – including freedom from aid dependence.

37. While I believe we are right to be positive about Accra and the commitments in the AAA, we must not underestimate the scale of the challenge. The agenda is ambitious. Yet it is realistic, as long as countries are prepared to move up a gear. DAC donors need to practice what the Paris Declaration and the AAA preach; if they do not, their efforts risk becoming irrelevant in an increasingly complex and rapidly changing system of development finance.
Fragmentation: Why we need solid foundations for the aid architecture

The number of donors and aid agencies has grown rapidly, making aid increasingly “fragmented” and reducing its effectiveness. As a result, the international development effort now adds up to less than the sum of its parts.

38. Coherence is not only a policy issue, but also a practical one, as recent DAC studies of fragmentation have clearly demonstrated. Over the 50-year history of official development co-operation, the number of donors, agencies and private institutions providing assistance has grown enormously. The result today is that the global aid architecture is highly fragmented. A few figures make the point. In the 1940s there were just four bilateral donors. In 2006, we estimated there were about 225 bilateral donor agencies and 242 multilateral agencies, of which 24 were development banks and about 40 UN agencies, working in development co-operation. A new report by the DAC, *Multilateral Aid in 2008*, describes the multilateral aid system in detail, including DAC members’ strategies and policies for working with, and through, multilateral programmes in a way that is coherent and maximises impact.

39. Then there are the major foundations, and new ways in which the commercial private sector is playing a role, such as Project Red. Emerging economies are also providing significant assistance through South-South co-operation. It is true that some of these “new” donors are not actually new and, in many cases, have been active for a long time. What is new, however, is the steep increase in the scale of engagement of many players over the last decade. Regardless of whether they are long-established or “new”, however, all these organisations, agencies and initiatives have valid reasons to be involved in the vast, multi-dimensional challenge of development co-operation. Many of them undeniably perform well, with contributions that are well managed, focused and relevant.

40. Nonetheless, when added together, this proliferation has led to a system—or non-system—that lacks focus and coherence. Taken together, the combined effort adds up to less than the sum of its parts. Why? To a large extent it is because, in its complexity, the system—or rather, its component parts—spend too much time focused on themselves, and their own particular implementation programmes and practices, and not enough on their core clientele: the partner countries.

41. At a practical level, this results in aid fragmentation, with the average recipient country managing a large number of donors—an average of 30 in 2006. In 1999-2001, the average number of transactions reported to the DAC’s Creditor Reporting System (CRS) was around 35 000 per year with an average transaction value of USD 1.5 million. Although it is difficult to compare these data to the current number of transactions due to the increased disaggregation of some members’ reporting to the CRS, recent data suggest that the number of transactions has continued to grow, representing additional transaction costs.

42. In a situation like this, overlap is inevitable—and so, indeed, are efforts that are contradictory, or even cancel each other out. Crucial resources are thus distributed inefficiently, and the results they produce are less than could be expected. Equally, fragmentation impedes the development of effective approaches to complex world problems, such as the need to stabilise the world’s 20 to 30 fragile states. State failure comes not only at a high cost in terms of human development but, as we have seen, can pose substantial risks for international security and development processes. And as we have explored above, the response to these challenges—and to globalisation and climate change—must be explored coherently.

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Search for solutions

43. Nobody seriously questions the fact that fragmentation is causing massive inefficiencies; there is, however, far less agreement on what needs to be done. It is tempting to deal with it by adding yet another special fund or facility, on the basis that the existing system is too complex and inflexible to respond. But if we add another bit of complexity to the system without additional resources to support it, we will invariably add to the fragmentation, overlap and waste of resources, further reducing the effectiveness of the system as a whole. As a result, we will invariably see dwindling public support for development co-operation, in spite of substantial financial commitments by DAC member countries.

44. This does not mean that the only way to make progress is a grand new design or reform of the international “aid architecture”. Aid architecture should not start at the international level, but at the level of partner countries; for aid to be effective, it must suit the needs and realities on the ground. Likewise, division of labour among donors, both in-country and cross-country, can go a long way in addressing the complexity and fragmentation of the aid architecture. Chapter 2 of this report looks at these issues in more detail, providing a clear picture of what is happening—based on new data—as well as a view of what needs to be done.

Development starts at home: Can partner countries grow out of aid?

Shortfalls in funding and uneven economic growth are undermining progress towards the MDGs. The lesson? Ultimately, developing countries will need to do better at mobilising domestic resources through local financial intermediation and a growing tax effort.

45. The achievement of the MDGs is in jeopardy, especially in Africa. The reasons are numerous, but they include the uneven economic growth seen in developing countries as well as the shortfalls of developed countries in standing by aid commitments made at, and since, the 2002 Monterrey Consensus.

Failed commitments

46. The Monterrey Consensus clearly recognised the need for donors to step up commitments in order to achieve key development goals. It urged them to make “…concrete efforts towards” the ODA target of 0.7% of GNI set by the UN in 1970. It called on donors to “…examine the means and time frames for achieving the targets”, although it did not itself contain a plan. In 2005, the EU agreed on a staged plan for reaching the 0.7% target by 2015, and the G-8 countries, along with other donors, made commitments that would “…lead to an increase in ODA to Africa of $25 billion a year by 2010.” Yet in 2007 only five of the 22 DAC member countries reached the 0.7% target. The average effort by DAC member countries was just 0.45% of GNI, but when weighted by the size of their economies, total net ODA represented only 0.28% of their combined national income.

47. On a positive note, the years since Monterrey have seen a clear increase in ODA, with aid levels in real terms in 2007 25.6% higher than in 2002. In fact ODA reached its highest level ever in 2005 (USD 107.1 billion) and was still high in 2006 (USD 104.4 billion) although these peaks were mostly due to exceptional Paris Club debt relief operations for Iraq and Nigeria. In 2007, as these exceptional debt relief grants diminished, ODA fell 8.8% in real terms compared to 2006. Excluding debt relief grants, ODA rose slightly, by 1.9%. The debt relief measures for highly indebted developing countries have been significant, and indeed essential, to clearing the way forward for these economies. But increasing and reliable streams of “fresh money” that can be used to reduce poverty and finance further development are key to helping achieve the MDGs. Core spending on development co-operation—country programmable aid, or CPA (discussed in Chapter 2)—has risen only by some 3% per year since 2002. A significant number of donors are working to scale up their aid and the OECD 2008 Survey of Aid Allocation Policies...
and Indicative Forward Spending Plans suggests an overall increase of some USD 21 billion in CPA between 2004 and 2010. But this remains far short of the aggregate aid commitments as estimated by the OECD Secretariat, which amounted to a projected increase of USD 50 billion: donors need to boost their forward spending plans by a total of USD 30 billion (or 34 billion in 2007 dollars) in order to meet these targets.

48. Yet as we saw in Accra, partner countries and donors alike are in agreement on one fundamental point—aid alone will not do it. Growth—and growth that favours the poor over the privileged few—is fundamental if countries are to work their way out of aid and develop, fully, sustainably and equitably.

Uneven growth

49. In many developing countries, good economic growth in the six years since Monterrey has sharply raised national incomes. These benefits, however, have not been uniform. Within the majority of countries, a growing economy has also brought growing income inequality, meaning growth’s potential for reducing poverty has not yet been fully realised. Meanwhile, certain groups of countries have done better than others. The current boom in resource and agricultural exports has boosted growth in some countries, but left others—that are poor in resources and dependent on food imports—worse off. We need to ask, also, whether this boom can last. There are, in fact, reasons to doubt the sustainability of the South’s economic upswing, with the possibility {to be updated prior to going to press} that it will be put further in jeopardy by the financial crisis in the developed world.

50. If sustainable growth is to be achieved, it is crucial that developing countries use their new economic power to make productive and environmentally sound investments, in order to lay a broader basis for growth and to create decent employment and living conditions for more of their people. Effective poverty reduction demands that governments provide sufficient resources in their budgets to finance outlays for education and health programmes, social security, physical infrastructure and other public goods. Chapter 5 reminds us how crucial it is not to forget issues such as gender equality, human rights and environmental stability as we forge our development plans.

A taxing question

51. Broad-based taxation, in the long term, is one ingredient toward building relations between states and societies and the overarching objective of state building. Developing countries have increased their tax revenues sharply in recent years. In Africa, those revenues have almost doubled in absolute terms, in six years. The “state share”, i.e. the ratio of government revenue to GDP in Africa, has grown from 24% in 2003 to 28% in 2007, although it has not yet reached the level of OECD countries.

52. On the whole, the taxation system in developing countries needs to be strengthened, and taxes need to be based on the ability-to-pay principle. At the same time, developing countries still suffer the loss of enormous revenues through tax evasion and avoidance. We must give more intensive support to tax policy and administration. Currently, only a minute fraction of ODA is directed to these issues. The establishment of an African Tax Administration Forum to take this forward is a welcome development.

53. Finally, the battle against corruption must be pursued at all levels. It is therefore essential that all countries ratify and implement the UN Convention against Corruption.

Making it happen: How to improve our aim—and reach our development goals

54. The achievements of Accra, embodied in the AAA, call for clear improvements to co-operation instruments. And while these are just a step toward widespread and lasting development, they are
fundamental if we are to effectively deal with the challenges ahead. To combat poverty and realise the MDGs, there are still a number of urgent steps to be taken. We must ensure the strategic relevance of development policy and its contribution to addressing the great challenges of the 21st century.

55. The aid effectiveness agenda can, and already is, addressing many of the problems arising from the rapid changes in the development landscape by, for example, recalibrating the development co-operation system to a clear client perspective. To a certain extent, however, this means treating the symptoms rather than the cause of the problem. We need also to start looking at the roots of this problem, learning lessons—and acting on them—to gain essential impetus and momentum from the aid effectiveness agenda and its key principles.

56. With regard to future financing for development, we need to look at aid in 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 co-operation and based on an enabling environment that facilitates healthy competition on a level playing field.

57. In the short term, however, it is clear that our immediate priority must be to safeguard developing countries from becoming the hardest hit victims of the financial crisis. Donors must honour their aid commitments: they are an investment in the future with a high return for us all. These investments are, in short, a basic condition to guarantee international trust in our ability to find common solutions to the challenges that we all share.