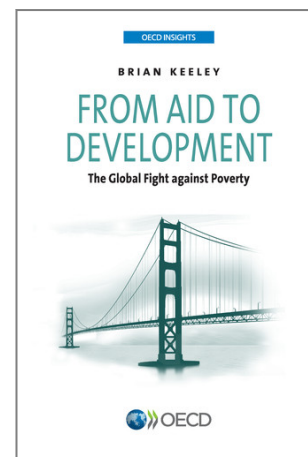


# OECD *Multilingual Summaries*

## From Aid to Development

*Summary in English*



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- The drive to reduce poverty, support development and create better policies for better lives has been a key concern of governments in the developed world for more than half a century. There have been some notable successes and millions of people have escaped from poverty. Nonetheless, poverty persists worldwide, depriving billions of people of basic necessities and the possibility of a better life.
- At the same time, the whole balance of global economic power is shifting, as countries that were once poor become major players in the economic landscape. A growing proportion of the world's poor live in middle-income countries and urban areas, while inequality is increasing in both advanced and developing countries, potentially undermining further growth, social cohesion and development. And issues such as climate change, natural resource scarcity and food and energy insecurity have implications for everyone, and thus call for collective and co-ordinated global action.
- Attitudes to development have changed too. The early concept of development aid passing from developed country donors to developing country recipients, often with many strings attached, has been replaced by an emphasis on co-operation and lasting results. Increasingly, countries that have emerged from poverty are sharing their experiences with those less far along this road. There is a growing diversity of growth and development models, and the nature of development finance is also changing, as many developing countries become important actors in international trade, investment and development co-operation.
- This book in the OECD Insights series explores the world of aid and development co-operation. It traces the history of aid, explains where it comes from, where it goes, and looks at whether it is achieving as much as it could. It examines some of the ways in which development efforts can be made more effective in achieving lasting benefits. And it looks at how the economic emergence of countries like China and India is bringing a new dynamic to development co-operation.

## The persistence of poverty

Why do some countries thrive while others languish in poverty? There is no simple answer, but identifying the factors that contribute to success or failure can provide useful clues to the challenges that development co-operation needs to address. Planning for the long term is one element. Investing in infrastructure such as roads and hospitals, or in education, for example can provide a framework for lasting development. But such projects may take years to deliver results, and in the meantime those suffering extreme poverty now need help to survive until new systems are in place.

The Millennium Development Goals, developed at the turn of the century, were designed to measure progress in poverty reduction from both a short and a longer-term perspective. They thus include a reduction in infant mortality rates and the number of people living in absolute poverty, as well as ensuring that all girls have access to education.

But it is also helpful to identify what hinders development, trapping countries in a vicious cycle of poverty and deprivation. Conflicts such as civil war clearly make development impossible, so the poverty and low growth that helped provoke them are perpetuated. Perhaps surprisingly, the discovery of natural resources such as oil or diamonds can be more of a curse than a blessing – the wealth can be used to fund conflicts, or the economy may become over-reliant on this resource.

## What is aid?

Much of the funding for development comes in the form of aid from governments in developed countries to developing countries, or Official Development Assistance (ODA). The developed countries that make up the OECD's Development Assistance Committee (DAC), provide the bulk of global ODA.

About 90% comes in the form of grants which countries will not have to repay, and the rest is loans at low interest rates. Most of this aid is planned in advance, and only a small proportion comes as emergency aid to victims of disasters such as earthquakes or tsunamis. Much of it is channelled through multilateral agencies such as the World Bank and the United Nations.

There are two other major forms of aid – private philanthropy including charities, non-governmental organisations such as the Gates Foundation or Oxfam, and aid from governments that are not part of the DAC, such as countries in the Arab world and emerging economies like China, India and Brazil.

## How development is changing

The idea that aid is good for all economies, not just the recipient, has been around for more than a century and is increasingly important in a globalised world. But the vision of aid has changed markedly over the years.

In the mid-20th century, attention was focussed on how much development aid would be needed, culminating in a theoretical target of 0.7% of a country's economy in the early 1970s, although few countries ever attained this.

Attention then shifted to whether aid was improving people's lives, and how to measure results – leading to the adoption of the Millennium Development Goals. More recently the emphasis has shifted again to creating a new dynamic based on a real partnership for development, enshrined in the declaration from the Busan High-Level Forum at the end of 2011 and the OECD's partnership-focussed Development Strategy.

## Judging by results

There is no doubt that development co-operation has improved millions of lives, witness global campaigns such as that against malaria. But it is also clear that it does not always work, and that it is important to share experiences about both success and failure.

It is also important to have realistic expectations. While aid totals over the years can appear huge, they generally account for a fairly small proportion of a developing country's economy. And it does depend what you measure – looking at overall economic growth may tell a different story than if you look at how many people now have enough to eat and a chance of an education.

Governments also need to convince public opinion that giving aid is worth it, particularly in hard economic times. One way of doing this is by measuring results – what was the aid designed to achieve, and did it do so, will it make a lasting difference? Ways of doing this are still evolving, but they do provide information that can be used to repeat success and avoid failure in future.

## New development vision

But how to make aid work better? For one thing, developing countries need to set their own development agendas, since they know their own needs better than anyone, and be accountable to their citizens for delivering them, not just to their donors. This can be harder than it sounds – many countries have spent years constrained to follow advice from major donor countries or organisations, and such habits can be hard to overturn.

And in order to plan, developing countries need to have a good idea of the likely amount of aid they can expect in the coming years – one-off funding to build a hospital is fine, but will there be enough money to run and maintain it, and to train staff for the future? If developing countries have a plan and donors help fund it, this can also help avoid duplication of donor effort. Both sides need to be clear on what the aid is supposed to achieve, and whether it has happened.

There is also the question of consistency (or coherence) in international policy. It is no good providing aid to improve a developing country's export capacity if the donor country's trade policy means it will not import the goods, for example.

## Governance matters

Corruption undermines development efforts by siphoning off money that should be used for development, and also by distorting decision making so that the most important or useful projects are not necessarily those chosen. But the results can be equally damaging if a government is simply incapable of running its affairs properly.

Good governance is about whether people have a say in decisions that will affect them, whether such decisions are taken behind closed doors, whether laws are administered fairly and whether funds are used efficiently.

These can be a challenge in fragile states, such as countries recently in conflict where systems may have broken down. To resolve this issue or to reach disadvantaged sections of the population, donors may work directly with civil society groups in the country to ensure aid is delivered where it is needed. But ultimately development efforts need to address the governance issue too – if a government does not have a functioning tax system, it will not be able to collect much-needed funds for sustainable public spending and services even when the economy starts to grow.

## New partners, new development perspectives

For more than half a century, the DAC donors essentially represented the community of donor governments, but with the shifting of the global economic balance in recent years, new major players are moving to centre stage.

Countries such as China, India and Brazil, until recently developing countries in need of help themselves, are now driving forces for the global economy and playing an increasingly important role as drivers of development.

China is now the leading trading partner of Brazil, South Africa and India, while Indian multinational Tata is the second most active investor in Sub-Saharan Africa. These emerging economies often engage with developing countries in a different way from traditional donors, emphasising mutual benefits, and often focussing on infrastructure and investment.

And at the end of 2011, in Busan, Korea, developed, emerging and developing countries met together at a High-Level Forum on Aid Effectiveness to consider the future of development co-operation. For the first time, civil society groups took part in developing the final declaration which will create a new Global Partnership for Effective Development Creation, replacing the existing OECD Working Party on Aid Effectiveness. But the key aim remains the same – to work together to improve the lives of the poorest people on the planet.

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