

OECD Journal on Development

**Development Co-operation - 2006 Report - Efforts and Policies of the
Members of the Development Assistance Committee – Vol. 8 No 1**

Summary in English

“One of the most important contributions of the DAC is to provide the interested and concerned public with clear and consistent information. Transparency is the mother of effectiveness. Aid is an investment in a better and safer world. Those who contribute and those who receive it can, and should, demand that it contributes to tangible results for poor people. I hope that the information and analysis in this Report will contribute to an improved debate about its effective use.”

- Richard Manning OECD DAC Chair

This year's Development Co-operation Report by the OECD DAC Chair, Richard Manning, looks at overall aid volume and examines whether donors are on track to reach their goal of increasing aid to USD 130 billion globally and doubling aid to Africa by 2010.

The report looks at major trends which reveal where aid is going – which regions are getting the most, which the least; which sectors (health, education etc) attract aid; and what impact are debt relief and emergency aid continuing to have on total aid flows.

The report also offers ideas on how donors can do more to encourage greater domestic accountability for public expenditure (which includes aid) in developing countries.

It also reports on some key measures of development co-operation, including the progress countries are making - or not - in implementing the Paris Declaration on Aid Effectiveness, and looks at how increased Aid for Trade can have the best impact.

Aid increasing, but debt relief dominates

Total official development assistance (ODA) from DAC member countries rose by 32% in 2005 to USD 106.8 billion - a record high.

This represents 0.33% of members' combined gross national income in 2005, up from 0.26% in 2004, and the highest ratio since 1992.

But the lion's share of the increase came from debt relief grants (particularly to Iraq and Nigeria), which more than tripled, and from humanitarian aid, which rose by 15.8%.

In 2005, the DAC published a widely-quoted 'simulation' showing that if all donors respected their commitments, aid would rise from just under USD 80 billion in 2004 to USD 130 billion in constant dollars by 2010.

To reach this goal, however, will require a very steep increase in the period 2008-10, argues DAC Chair Richard Manning. It'll mean increasing "Tax-payer funded aid programmes faster than almost all other forms of public expenditure."

Richard Manning predicts that in the meantime aid is likely to decline modestly in 2006 and 2007, as debt relief declines.

Aid to sub-Saharan Africa stalls, but most aid goes to poor countries

Aid to sub-Saharan Africa has risen sharply, but if Nigeria, which received mostly debt relief in 2005, is excluded, aid to this region was almost unchanged in 2005.

However, aid other than debt relief should increase in coming years as commitments to double aid to Africa take effect.

Looking ahead, Richard Manning predicts that we are likely to see the decline in aid to Europe and the Far East continue after 2005, as more countries in these regions progress with their development.

96% of all aid now goes to the poorer range of developing countries, revealing that aid is now being allocated more closely to where the poor live.

Non-DAC donors increase aid too

While aid from OECD DAC members will continue to account for close to 90% of total ODA, Richard Manning points out that aid from non-DAC donors is also increasing.

Warren Buffet doubled the resources of the Gates Foundation overnight.

Aid from non-DAC countries has traditionally been about 5% of worldwide ODA, but is set to rise as non-DAC OECD members like Korea and Turkey, and countries outside the OECD and the EU increase their aid.

New ways of giving aid

An interesting feature of the past year is that ideas for innovative forms of development assistance have moved on from the discussion phase to become reality.

The three main initiatives have all been in the area of health.

- The International Finance Facility for Immunisation.
- Pledges to introduce airline levies to fund aid for malaria, TB and HIV AIDS.
- An 'Advanced Market Commitment' to provide incentives to develop vaccines where market demand is low.

It is expected that the first two initiatives above will increase global aid receipts by up to USD 2 billion a year, or by some 2% of total aid.

Aid Dependency

Has aid dependency reached levels that threaten developing countries' macroeconomic stability and competitiveness ('Dutch Disease') leaving them unhealthily dependent on aid?

In fact DAC statistics show that overall levels of aid dependency are low and stable, after a significant decline in the 1990s. Most of the countries with high levels of dependency are small islands or states affected by conflict. But some larger countries could see their level of dependency rise somewhat if aid rises in accordance with pledges.

Monitoring the Paris Declaration on Aid Effectiveness

The OECD DAC has been monitoring the implementation of the Paris Declaration on Aid Effectiveness since it was agreed by over 100 donors, developing countries and multilateral organisations in 2005. This year's Development Co-operation Report releases some early findings from the first 2006 Baseline Survey on Monitoring the Paris Declaration.

It suggests that greater attention should be paid to managing the costs of delivering aid. But aid effectiveness goes beyond the reduction of transaction costs; it must also involve stronger and more accountable institutions at country level. The survey shows that more work needs to be done in this area.

31 countries took part in the survey.

Promoting Domestic Accountability

Richard Manning identifies areas where donors could and should be doing more to promote greater accountability by the governments of poor countries to their citizens. He suggests:

- continued action to improve consultation with non-government actors in the formulation of poverty reduction strategies, and using communications to improve accountability.
- paying more attention to improving tax collection systems.

He points out that accountability of governments to their citizens tends to be strongest not when aid levels are high but when tax revenue is high.

Donors have a long track record of trying to 'enable the state to work better' by helping to build capacity. It is much more delicate for outsiders to become involved in the underpinnings of the social contract that sets the terms of the local political debate, but donors should consider more support for:

- representative government
- an independent judiciary

- independent media.

Aid for Trade

Without support to strengthen trade capacity in developing countries, improved market access will have little impact on poverty reduction.

This report alerts readers to recent evaluations highlighting the poor value for money of ‘Aid for Trade’ programmes, and points out that the Paris Declaration on Aid Effectiveness is far from being systematically applied in these programmes. It offers suggestions for improvement including the importance of country ownership and results-based management.

In 2004, assistance to the Aid for Trade agenda included USD 2.5 billion for trade-related assistance, USD 12.9 billion to build infrastructure and USD 7.3 billion to promote productive capacities. In fact, since the conclusion of the Uruguay Round, the share of Aid for Trade has averaged around 24% of total ODA, excluding debt relief.

Country Notes – Policies and Efforts of Bilateral Donors

Each year the Development Co-operation Report gathers together notes of the individual policies and efforts of bilateral donors.

Key features in 2006 include the following:

- Poverty reduction continues to be a strong, if not central focus for most donors.
- Members remain committed to the Millennium Development Goals.
- Fighting corruption was a core objective of donors’ governance agendas.
- Several donors enhanced their programmes supporting security sector reform.
- Much is still to be achieved in the area of policy coherence.
- More attention is being given to monitoring and evaluation, with a focus on results.
- Fuller details are given for five countries which were peer reviewed: Greece, the Netherlands, Portugal, the United Kingdom and the United States.

Statistics

The statistical annex of the Development Co-operation report brings together the latest data on member’s aid budgets with detailed tables, graphs and charts. Highlights are included here.

The full statistical annex and analysis is available on-line at:

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