III Perspectives on Financing the Millennium Development Goals

The need to marshal our intellectual and financial resources to attack global poverty is one of the most urgent problems facing the global economy. The International Conference on Financing for Development in Monterrey in March 2002 presents both a major challenge and a major opportunity for all stakeholders to put in place the means and structures needed to mobilise and to use effectively the financing required to support the achievement of the Millennium Development Goals.

1. The focus of increasing international attention

The need to marshal our intellectual and financial resources to attack global poverty is one of the most urgent problems facing the global community.

The Millennium Development Goals (MDGs)[1] set a number of ambitious goals and with a rapidly approaching deadline – 2015. For the developing countries as a whole, the extent to which progress is still "on track" will obviously be influenced by different developments such as the global economic slowdown beginning in early 2001, the events of 11 September and the outcomes of the Doha Trade Ministerial and the forthcoming International Conference on Financing for Development. But at a more disaggregated level – and particularly for the poorer countries and for sub-Saharan Africa – it is likely that by 2015, and unless major new and significant inroads are made, far too many of the world's poorest countries and citizens will fall well short of the MDGs.

The objective of identifying and implementing strategies for sustainable development finance structures to underpin the MDGs (in terms both of increased financial flows and their developmental effectiveness) is now at the forefront of the international debate. A number of recent and forthcoming major international conferences are now focused on this issue:

- *The Third United Nations Conference on the Least Developed Countries* felt that present and envisaged financing levels would not be sufficient to achieve the MDGs, despite a number of very positive developments (see Box III-1).

- *The Genoa G8 Summit* stressed the importance of an effective strategy by the international community to stimulate faster growth and poverty eradication in the poorest developing countries. They outlined trade, foreign direct investment and spending on social sectors as the key, mutually reinforcing components of such a strategy.

- *The Doha Trade Ministerial* launched a new round of trade negotiations with the needs of developing countries at the very heart of its programme of work (see Chapter II). This is a major achievement in light of the key contribution that trade can make to growth and poverty reduction.

1. See the special module at the end of Part II of this report for details.

Box III-1.

The Third United Nations Conference on the Least Developed Countries (LDC III)

LDC III (Brussels, May 2001) addressed the broad range of issues and challenges facing the Least Developed Countries, but with growth and financing as major themes. Despite a number of very positive developments, the Conference felt that present and envisaged financing levels would not be sufficient to achieve the MDGs.

Results of the Conference

The Conference gave several reasons for optimism about for reversing past trends and spurring growth in the least developed countries:

- There is now broad international agreement on the prerequisites for development – good governance and sound policies, open trade and investment regimes, and adequate infrastructure and financing.
- The Heavily Indebted Poor Countries (HIPC) initiative offers a fresh start to countries whose prospects had been blighted by excessive debt obligations.
- The PRSP process now provides a framework to integrate aid and other resources into medium-term expenditure frameworks aimed at sustained growth and social progress.
- The emergence of mutually accountable compacts between donors and recipients may ensure greater predictability of aid flows, and improved response to external shocks.

The Conference provided a valuable opportunity for the poorest countries to express their needs and views, and assess donor responses. Among the themes that emerged were:

- Frustration at the complexity of donor procedures. It will be important to seize the opportunity provided by PRSPs to harmonise and simplify donor procedures.
- A renewed focus on agriculture. Aid to agriculture has declined markedly. Yet agriculture is the basis of many poor countries' economies. Within the donor community, Japan and the United States signalled their intention to reinforce their aid to this sector. Sensible use of biotechnology may help.

• The joint *World Bank/IMF Development Committee* (meeting in Ottawa in November 2001) regarded the forthcoming International Conference on Financing for Development as a milestone in efforts to halve the incidence of poverty by 2015 and reach the other MDGs. It urged all governments to enhance the coherence of policies that impact on development.

• *The International Conference on Financing for Development* (FfD), to be held in Monterrey, Mexico on 18-22 March 2002, will be the first ever UN Conference exclusively devoted to this theme and forms a critical part of the process of implementing the outcome of the Millennium Summit. The Conference is seen as a key event in agreeing on, and implementing, a strategy for better resource mobilisation.

This chapter focuses on the volumes and structures of financing for development required to support the MDGs and their policy implications for all stakeholders, particularly for governments in developed and developing countries. After a review of recent trends in finance for development (Section 2), it looks at the opportunities and challenges provided by the upcoming International Conference on Financing for Development (Section 3) and provides perspectives on the demand and supply of ODA (Section 4).

2. Highlights of recent trends in external flows and domestic resource mobilisation

a) External flows

Total net resource flows to developing countries fell to USD 190 billion in 2000, a reduction of 24% (USD 61 billion) compared to 1999 (see Table III-1). This resulted from a sharp turnaround in private flows (in particular, equity and direct investment) and a sizeable reduction in official development finance (in particular, non-concessional financing). The initial signs of recovery in external flows since the East Asian crisis have not therefore been sustained in 2000, in part due to the deteriorating global economic outlook as well as the re-emergence of financial difficulties in a number of the major recipients of private external flows.

Private flows

Private flows have accounted for the largest and growing share of total external flows to developing countries in the 1990s, but they have been highly concentrated in a relatively small number of countries, with only a small share going to the low-income countries (other than China and India). Private flows slowed down considerably following the 1997/98 crises in emerging markets, dropping further to USD 117 billion in 2000. Indications suggest that private flows will fall further in 2001.

The recent decline in private flows to developing countries reflects:

- Heightened risk aversion towards investment in developing countries and a shift to quality (as indicated for example by the widening spreads on emerging market bonds).

- Reduced demand for external private capital in crisis countries (due to lower investment and excess capacity).

- The beginning of the global economic slowdown, confirmed in 2001.

- The impact of crises in Argentina and Turkey and deterioration in the economic and political situations in other emerging markets such as Ecuador, Russia and Venezuela.

Foreign Direct Investment (FDI) flows to developing countries fell by USD 26 billion in 2000 to USD 120 billion, despite holding up well during the Asian financial crisis. This represents the first fall in FDI flows in over a decade. The beginning of the global economic slowdown and reduction in large-scale privatisation projects in developing countries have contributed to this situation.

In fact, *global* FDI, as estimated before 11 September 2001, is expected to fall from around USD 1 trillion in 2000 to about USD 510 billion in 2001. This unprecedented decrease will particularly affect FDI in developed countries. The global economic slowdown and an associated

Table III-1.

Total net resource flows from DAC Member countries and multilateral agencies to aid recipients

	Current USD billion								Per cent of total		
	1993	1994	1995	1996	1997	1998	1999	2000 (p)	1993	1996	2000 (p)
I. OFFICIAL DEVELOPMENT FINANCE (ODF)	**82.4**	**84.5**	**87.6**	**73.5**	**75.4**	**88.8**	**85.9**	**65.5**	**49.7**	**21.0**	**34.4**
1. Official development assistance (ODA)	55.5	59.6	59.1	55.8	47.9	50.1	52.1	49.5	33.5	15.9	26.0
of which: Bilateral	39.4	41.3	40.6	39.1	32.4	35.2	37.9	36.0	23.8	11.2	18.9
Multilateral	16.1	18.3	18.4	16.7	15.4	14.9	14.2	13.5	9.7	4.8	7.1
2. Official Aid (OA)	6.0	6.9	8.4	5.6	5.6	7.0	7.8	7.8	3.6	1.6	4.1
of which: Bilateral	5.2	5.5	7.1	4.0	4.0	4.5	4.9	4.9	3.1	1.2	2.6
Multilateral	0.7	1.3	1.3	1.5	1.6	2.5	2.9	2.9	0.4	0.4	1.5
3. Other ODF	21.0	18.1	20.1	12.2	22.0	31.7	26.1	8.2	12.7	3.5	4.3
of which: Bilateral	11.4	12.2	14.0	5.7	5.9	12.8	10.4	–1.4	6.9	1.6	–0.7
Multilateral	9.6	5.8	6.1	6.5	16.0	18.9	15.6	9.7	5.8	1.8	5.1
II. TOTAL EXPORT CREDITS	**–3.0**	**6.3**	**5.6**	**4.0**	**4.8**	**8.3**	**4.0**	**7.7**	**–1.8**	**1.1**	**4.0**
III. PRIVATE FLOWS	**86.3**	**134.7**	**170.7**	**272.8**	**240.2**	**131.8**	**161.1**	**117.0**	**52.1**	**77.9**	**61.5**
1. Direct investment (DAC)	41.6	52.1	59.6	68.9	102.3	119.8	145.6	119.5	25.1	19.7	62.8
of which: to offshore centres	9.4	10.8	6.3	16.7	19.1	20.3	37.9	29.8	5.7	4.8	15.7
2. International bank lending[1]	4.8	32.1	76.9	86.0	12.0	–76.3	–79.6	–36.0	2.9	24.6	–18.9
3. Total bond lending	28.7	32.0	24.7	78.5	83.7	34.2	28.8	18.9	17.3	22.4	9.9
4. Other (including equities)[2]	5.5	12.5	3.5	33.8	37.0	48.4	59.5	7.8	3.3	9.7	4.1
5. Grants by non-governmental organisations	5.7	6.0	6.0	5.6	5.2	5.6	6.7	6.9	3.4	1.6	3.6
TOTAL NET RESOURCE FLOWS (I + II + III)	**165.7**	**225.5**	**263.8**	**350.3**	**320.4**	**229.0**	**251.0**	**190.3**	**100.0**	**100.0**	**100.0**
***Memorandum items* (not included):**											
Net Use of IMF Credit[3]	3.3	0.6	15.6	0.3	14.4	18.8	–12.8	–10.6			
Non-DAC donors (ODA/OA)	1.3	1.0	0.8	0.9	1.0	0.9	0.8	1.0			
For cross reference											
Total DAC net ODA[4]	56.5	59.2	58.9	55.6	48.5	52.1	56.4	53.7			
of which: Bilateral grants	33.4	35.2	36.2	36.5	31.3	32.5	33.9	33.0			

p: Provisional.
1. Excluding bond lending by banks (item III.3.), and guaranteed financial credits (included in II).
2. Incomplete reporting from several DAC countries (including France, the United Kingdom and the United States). Includes Japan from 1996.
3. Non-concessional flows from the IMF General Resources Account.
4. Comprises bilateral ODA as above plus **contributions to** multilateral organisations in place of ODA **disbursements from** multilateral organisations shown above.

sharp reduction in merger and acquisition activity (both numbers of transactions and share values) are the main factors. In developing countries, decreases are expected in both Latin America and Asia, while FDI levels in Africa are likely to be less impacted.

International bank lending to developing countries continued at negative levels in 2000. But at minus USD 36 billion, the situation is less severe than during the Asian financial crisis when it tumbled to minus USD 76-79 billion as loan repayments exceeded new credit by a very wide margin. Bank lending resumed to some extent in 2000, with modest credit amounts extended to a few countries (including Argentina, Brazil, and Turkey). However, net bank lending flows remained at negative levels as further repayments by Asia continue to offset new credits and following a surge of deposits by developing countries into international banks.

Net *bond lending* fell to USD 19 million in 2000, a level only a quarter of that in the immediate pre-Asian crisis period. Growing uncertainty about the global economic outlook and widening spreads led to declining net issuance. Spreads on countries with particular challenges widened more sharply than for those with satisfactory performance, underlining investors' continued aversion to risk. Bond issuance was also reduced as several countries in Asia continued to run current account surpluses, reducing the demand for international financing, and companies in some East Asian countries are still struggling with debt overhang, limiting their access to capital markets. Bond issuance in 2001 is estimated to rebound as interest rates cuts in several OECD countries facilitate access by developing countries to the global bond market.

For *other financial flows including equity*, only USD 8 billion has so far been reported by DAC countries due to very incomplete reporting.[2] More complete data from other sources suggest that equity flows rebounded after the East Asian crisis due to technological innovation in the information and communication industries, motivating investors to purchase technology stocks in developing as well as industrial economies. Furthermore, investors exploited lower transaction costs and easier access to equity placements in developing countries. More emerging market companies have been able to issue American Depository Receipts (ADRs) and to list shares in stock exchanges in major industrial economies. The reduction in equity placement at end 2000 and continuing into 2001 reflects the weakening of industrial equity markets, reduced investor confidence, a flight from technology stocks, and in some cases concern about the slow progress in financial and corporate reforms.

Official Development Finance

Net *Official Development Finance* (ODF), *i.e.* concessional and non-concessional financing from official sources, fell by USD 20 billion in 2000 to USD 66 billion, its lowest level in a decade. The decline in 2000 is mainly explained by a reduction in both bilateral and multilateral non-concessional lending (*i.e.* other ODF), which fell to USD 8 billion, a reduction of 68% compared to 1999. This reflected both

2. DAC statistics on "other private flows including equity" tend to be generally underestimated due to incomplete reporting by major source countries, including France, the United Kingdom and the United States.

reduced new official lending at market rates, and increased repayments as Asian borrowers recovered somewhat from the financial crisis. However, non-concessional lending is expected to recover in 2001 as a consequence of the official support packages for Argentina, Turkey and Brazil.

Net *Official Development Assistance* (ODA) received by developing countries in 2000 was USD 50 billion,[3] down USD 2.5 billion on 1999. The share of ODA going to the least developed countries (LLDCs) rose slightly, from 19% of the DAC total in 1999 to 22% in 2000, but it remains well below the 1989-90 level of 27%.

These changes in ODA volume and robust economic growth averaging 3.7% in DAC Members during 2000 boosted GNI and thus pushed the ODA/GNI ratio down from 0.24% to 0.22%.

Among other notable features of the 2000 data are:

- Japan's aid fell by USD 1.8 billion (15% in real terms), but adjusting for an exceptional USD 3 billion bond put at the disposal of the Asian Development Bank in 1999, there was an underlying rise in Japan's ODA of approximately 8% between 1998 and 2000.
- France's aid fell by USD 1.5 billion (16%), but about USD 1.2 billion of this is due to the removal of French Polynesia and New Caledonia from the list of ODA-eligible countries and territories. For many years, France – the third largest donor behind Japan and the United States – now ranks fifth after both Germany and the United Kingdom.
- Aid from the United Kingdom rose by 38%, partly as a result of the timing of contributions to multilateral agencies, but also reflecting the UK Government's commitment to substantially increase aid. The real increase over the last two years totalled 22%.
- Fourteen of the 22 Member countries of the DAC reported a rise in ODA in real terms in 2000.

Debt

Debt stocks

The total amount of external debt of developing and transition countries outstanding at end 2000 amounted to USD 2.3 trillion, down 9% on 1999, after allowing for the impact of exchange rate movements (see Table III-2). The nine major borrowing countries[4] collectively accounted for almost half the total. Most of the 2000 decline was due to the strengthening of the US dollar, which reduced the dollar value of the debt denominated in other currencies. But there was a small actual contraction in the debt stock (minus 0.4%), despite the rebound in growth rates and buoyant exports in many countries.

In terms of income groups, half the debt was owed by middle-income countries, 26% by low-income countries, and 23% by high-income and transition countries. Heavily

3. This data covers ODA from *both* DAC *and multilateral sources to* developing countries. It differs from other presentations which cover ODA from DAC countries *to developing countries and to multilateral agencies*. On the latter basis, ODA in 2000 was USD 54 billion (see, for example, Table 4 in the Statistical Annex).
4. Brazil, Argentina, Mexico, China, Korea, Indonesia, Russia, Turkey and India (by descending order of debt).

Table III-2.

Debt outstanding at end-2000 by groups of countries

USD billion

	Official and officially guaranteed credits	Market financing		Other	Total	Changes[1]	
		Bank loans[2]	Debt securities			1999	2000
Least Developed Countries	97.4	24.2	0.2	16.9	138.6	*2.3*	*2.2*
Other Low-Income Countries	314.3	85.8	27.0	32.4	459.4	*–24.6*	*–6.2*
China	75.5	34.3	13.8	0.2	123.7	*–18.9*	*–7.0*
India	55.9	11.1	4.5	19.6	91.1	*–4.6*	*–0.1*
Indonesia	80.4	26.5	2.7	0.2	109.7	*–4.8*	*–0.3*
Lower Middle-Income Countries	234.4	77.9	58.7	45.1	416.1	*–12.3*	*–5.6*
Philippines	28.9	7.5	15.4	2.0	53.8	*4.3*	*1.3*
Thailand	29.2	20.5	12.2	2.4	64.3	*–13.7*	*–8.6*
Upper Middle-Income Countries	177.4	230.1	310.5	29.0	747.1	*20.5*	*17.8*
Argentina	32.4	30.3	82.5	8.9	154.1	*11.2*	*6.9*
Brazil	40.2	52.4	79.3	0.0	172.0	*–0.5*	*0.3*
Mexico	31.2	34.1	74.4	0.3	139.9	*–2.8*	*–10.1*
Turkey	31.8	31.2	20.8	12.9	96.5	*9.5*	*19.0*
High Income and Transition Countries	167.6	182.4	138.2	44.1	532.3	*–14.6*	*–17.1*
Russia	62.0	22.6	16.7	0.2	101.5	*–3.5*	*–9.7*
Korea	28.4	46.9	46.8	0.0	122.1	*–15.2*	*–4.9*
Total	**991.0**	**600.5**	**534.6**	**167.4**	**2 293.5**	***–28.7***	***–8.9***
Sub-Saharan Africa	128.6	42.0	11.2	11.2	193.1	*–0.5*	*0.7*
North Africa and Middle East	128.2	82.2	19.9	44.8	275.2	*9.1*	*–0.4*
Latin America and Caribbean	188.6	170.4	286.2	36.6	681.8	*7.8*	*1.5*
Asia and Oceania	397.3	207.5	143.7	44.0	792.4	*–55.7*	*–20.7*
Europe	148.4	98.3	73.6	30.8	351.1	*10.7*	*10.2*
Heavily Indebted Poor Countries	121.4	30.6	3.8	14.7	170.5	*1.9*	*3.0*
Changes							
1999	*22.0*	*–79.5*	*28.8*	. .	*–28.7*		
2000	*8.4*	*–35.9*	*18.7*	. .	*–8.9*		

Indebted Poor Countries (HIPCs) were responsible for 7% of total debt.

Official financing accounts for 71% of the debt due by HIPCs and for only 24% of that of upper middle-income countries.

Private financing has thus become critical for countries retaining or gaining market access whereas the poorest ones remain heavily dependent upon official funding. Within the category of market financing, there was a further shift away from bank credits to debt securities in 2000, with windows of opportunities being used by borrowing countries to actively manage their external debt. However, market conditions were very volatile throughout the year, with a tendency for borrowing conditions to tighten and for investors to better differentiate among debtor countries.

Debt relief

A major effort is underway to reduce the repayment burden of HIPCs. Most of these are least developed countries in sub-Saharan Africa. Their debts are largely owed to international financial institutions, but ODA loans, bank loans and export credits from DAC countries are also involved. (See Chapter IV for comment on ODA and debt relief.)

b) Domestic resources

The bulk of finance for development must come from domestic resources, regardless of the size of a country and its level of development. Not only that, but without improvements in the structures, institutions and governance systems required for domestic resource mobilisation, it will always be an uphill struggle to attract higher levels of external finance.

Two interlinked problems characterise the situation in many developing countries. The level of domestic resource mobilisation and allocation is weak, resulting in sizeable shortfalls in the contribution of this sector to financing for development. There are basic structural problems to be addressed, *e.g.* low savings rates, large government sectors, inadequate attention to the gender dimension of savings and investment and inappropriate tax regimes.

Major efforts are therefore required to strengthen the critical contribution of domestic resource mobilisation to meeting the MDGs. Effective efforts to mobilise domestic resources will also have a positive impact on the ability of developing countries to attract and benefit from external resources. Much of what is required to attract foreign investors is equally necessary for promoting domestic investment (*e.g.* a sound macroeconomic framework, a business-friendly enabling environment, etc.). When these are lacking for domestic investors, it is unlikely that developing countries will be able to attract higher levels of foreign investment. And the contribution to the economy from what foreign investment there is will be limited or eroded due to the lack of an adequate policy framework and weak linkages with an underdeveloped local private sector.[5]

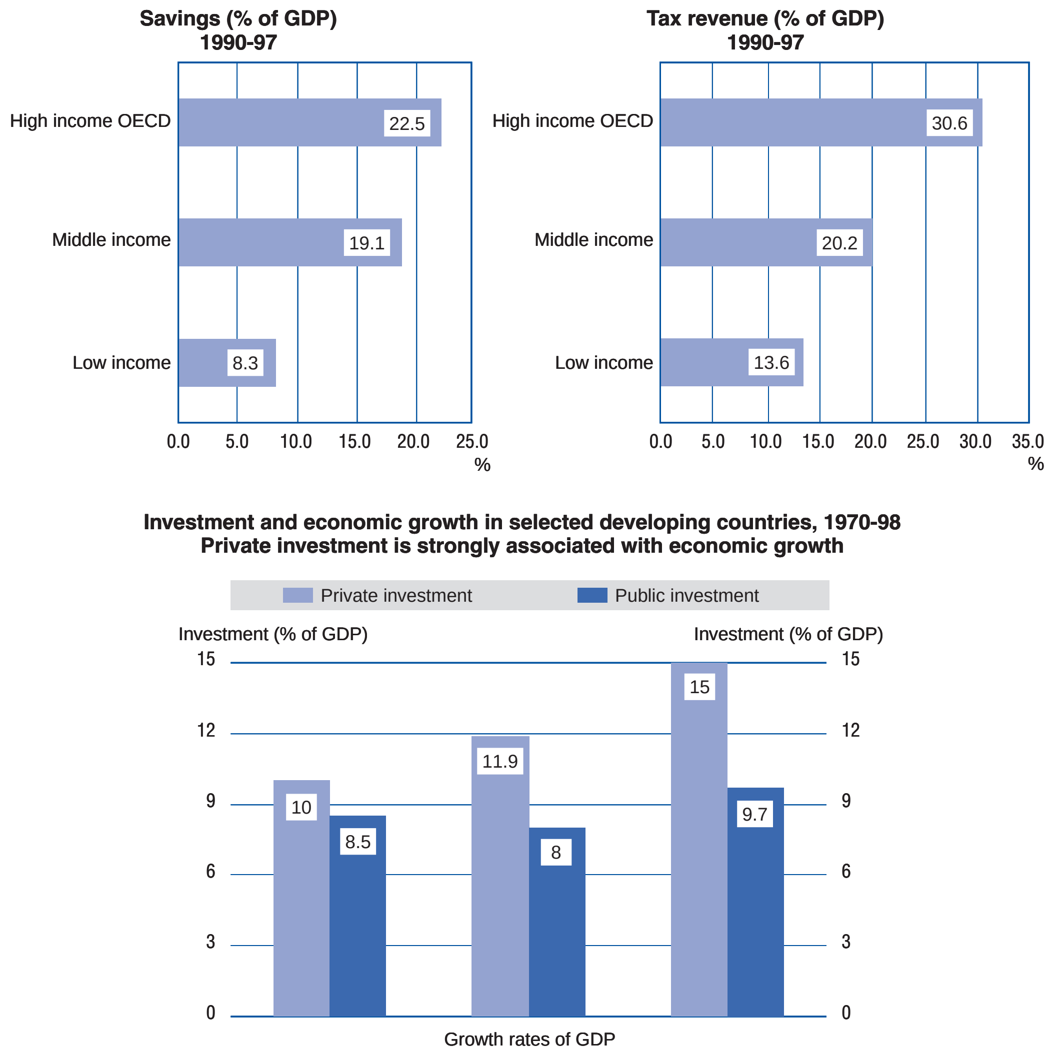
This section focuses on four key areas of domestic resource mobilisation – domestic savings, taxation, public/private sector investment levels, and trade – where major efforts are needed to better mobilise domestic resources for development (see Chart III-1).

Domestic savings

Low-income countries generally have low savings rates – on average 8% as share of GDP compared to 18% in middle-income and 22% in high-income countries in the 1990s. While saving rates vary considerably among countries, the gap between advanced and developing countries in savings mobilisation is sizeable.

5. The World Bank's Report *Global Development Finance* 2002 shows that large gaps in technology and skills between foreign and domestic firms reduces the impact of spillovers.

Chart III-1. **Perspectives on domestic resource mobilisation**



Source: World Bank.

Efforts are thus needed to encourage higher savings levels, including:

- Macroeconomic and monetary policies that reduce or maintain low inflation.

- Exchange rate regimes that avoid unsustainable large current account deficits.

- Funded pension systems compared to pay-as-you-go systems to provide long-term resources for investment.

To mobilise savings, efforts are required to strengthen the enabling environment, the institutions and the policies that promote savings, including savings by women. Women have a strong interest and capacity to mobilise savings as a means of improving family welfare – as women tend to allocate a greater share of household income to health, education, and nutrition-related expenditures. Presently, many women rely on informal savings clubs and networks, but formal programmes are also needed to promote and mobilise women's savings effectively.

Taxation

Tax revenues account for about 14% of GDP in low-income countries, compared to 20% in middle-income countries and over 30% in high-income countries. The potential of the tax base to mobilise finance for development is therefore seriously under-utilised in developing countries. Efforts are needed in several areas to reform the tax system to mobilise higher tax revenues to finance the infrastructure and social services required to support development. These need to address:

- The structure of taxation, *i.e.* taxing personal income more effectively, taxing the economy more broadly, and acting on foreign trade and foreign investment taxes that create distortions. For example, low-income countries raise a much larger share of their tax revenue from trade taxes – an average of 24% compared to only 1% in high-income countries. This can represent a major disincentive to other efforts to improve supply-side capacities to exploit expanding trade opportunities.

- The quality of tax administration to increase the capacity to collect taxes as well as the application of and compliance with tax laws. In addition to bringing more revenue, a well-designed, enforced and administered tax system can promote investment by creating a more transparent and predictable environment.

Public/private sector investment levels

A strong and vibrant private sector is crucial to producing the economic growth necessary for sustainable development. It is the best source of long-term and sustainable job creation and hence plays an important role in poverty reduction. It is also essential if developing countries are to exploit more fully the benefits of open trade and provide supply and other linkage networks with foreign investors. Economies with a high ratio of private to public investment generally benefit from higher growth rates.

However, the public sector generally accounts for a larger share of the economy in many developing countries than in industrial countries. A heavy public sector can sometimes hamper development, diverting or crowding out resources from the private sector, for example by absorbing credit from the financial sector. Credit to the private sector averages about 20% of total credit in developing countries, compared to 80% in high-income countries. Countries therefore need to design and implement policies and build the institutions that promote private sector development in general, including small and medium-sized enterprises run by women.

Trade revenues

Trade revenues are often omitted from discussions of development finance. Yet they already represent a sizeable component of finance in a broader view of finance for development. In addition, there is major but as yet unexploited potential to further increase the contribution they can make to development finance. Estimates of the gains for developing countries from full merchandise trade liberalisation world-wide are in the order of USD 200 billion. Estimates that take into account full services liberalisation and dynamic effects (*e.g.* through higher productivity) are much higher – over USD 500 billion. Together with the income and employment generation effects of enterprises involved in expanding trade, this demonstrates the important contribution that expanding trade can make to meeting the financing required to reduce poverty and underpin other MDGs.

The above picture of recent trends in external flows and the present weakness in mobilising domestic resources shows that actions are needed on all fronts (domestic and external resources, concessional and private) and by all stakeholders (governments in developed and developing countries, the private sector and civil society) if there is to be significant improvement in mobilising the financing needed in support of the MDGs. The International Conference on Financing for Development, to which we now turn, offers major opportunities but also major challenges to the international community to address the key issues and find solutions to mobilise the finance needed for the MDGs.

3. Financing for Development – opportunities and challenges

The International Conference on Financing for Development (FfD), to be held in Monterrey, Mexico on 18-22 March 2002, presents both a major opportunity and a major challenge for all stakeholders to put in place the means and structures required to mobilise the financing for development needed to support the MDGs.

a) Opportunities

The Monterrey Conference offers a strategic opportunity for the international community to identify the scope and dimensions of the financing agenda and the ways and means to organise their efforts to carry it forward. The MDGs (and the indicators associated with them) provide an agreed and sharp focus for the debate – the volume and composition of resources, and associated policies and structures needed to meet the MDGs.

Preparations for the Conference take an holistic approach, looking at national, international and systemic issues in the context of globalisation and interdependence. It brings in all shareholders – governments of developed and developing countries (including finance as well as development ministries/agencies), international organisations beyond United Nations bodies (including the World Bank, IMF, WTO and OECD), the private sector and civil society. Emphasising the critical importance of policy coherence and good governance, the Conference seeks to prepare a platform to mobilise resources for development based on the principles of ownership, partnership and shared accountability.

b) Challenges

On substantive issues, challenges arise from the presently serious mismatch between goals and means (the resources from all sources – domestic and external, private and concessional). This concerns not only the volume of additional funding needed to support the MDGs but also the policy and institutional structures required for its effective use. Like Doha, the FfD process also entails a major capacity building agenda (institutional, individual, supply side) and, equally, there is concern about mobilising the means and building or strengthening the structures for meeting that agenda.

There are also important challenges concerning the processes needed to better bring together the different stakeholder groups in ways that result in constructive proposals to define and carry out the "Monterrey agenda". It will be important to address not only what developed countries need to do in respect of their own policies, but equally what developing countries themselves need to do (beyond the requirements for domestic resource mobilisation) and how developed countries can help them. There is also a need to: strengthen the development dimension in discussions on systemic issues; to give developing countries more voice; and to pay more attention to implementation modalities, capacities and support, particularly in less advanced developing countries. Not to mention the need to better recognise, use and co-ordinate the different contributions and products of the broad family of international institutions addressing global governance issues, rather than creating new international structures to address them.

c) Resource and policy needs

There have been numerous attempts at identifying the volume of resources required to meet the MDGs.[6] Leaving aside methodological issues associated with such calculations, it is nevertheless clear that there is a major mismatch between present and required resource levels and structures, particularly for the poorer developing countries. For example, to halve poverty, Africa will have to strengthen the policies and resources needed to increase its economic growth rate from its present level of around 2% per annum to 6-8%, sustained over a 12-15 year period.

Meeting these financing needs and avoiding substantial shortfalls poses major policy challenges to developing and OECD countries alike. Doing so will not be easy, but there is growing convergence on what needs to be done:

- Support the macroeconomic, structural and governance requirements for higher and sustainable growth rates as a precondition for poverty reduction.
- Implement a more holistic approach to mobilising finance for development, with more attention to the synergies and complementarities between domestic resources, external resources (including ODA), trade and systemic or global governance issues.
- Increase the volume, stability and long-term predictability of financial flows.

d) The contribution of stronger policy coherence

Strengthening policy coherence for development (the theme of Chapter II) has an important role to play in moving towards the volumes and structures of financing for development needed to support the MDGs. The 1990s witnessed a major increase in the flows of international capital to developing countries, in which private capital became much more significant in total than ODA. Factors accounting for this phenomenon, beyond globalisation in general, include deregulation,

6. See, for example, the "Zedillo Report" (Recommendations of the High Level Panel on Financing for Development, mandated by the United Nations Secretary-General) for a synthesis of such estimates.

regional integration, and advanced information technology. Although this has provided much needed capital, mostly for the larger and more advanced developing countries, it has also led to an increased volatility of flows, to debt crises and to wider financial crises. Coherence issues occur in various areas.

Financial sector reform is important, both nationally and internationally, to enhance incentives for efficient investment and economic growth and minimise the risk of financial crises. Orderly sequencing of reforms is crucial and should include prudential regulation of the banking sector, institutional capacity building and better co-ordination between exchange rate policy, monetary policy, and controls or taxes on capital flows. Beyond banking regulation, stronger capacities are also needed in areas such as accounting, auditing and corporate governance. A related issue of concern is that developing countries should be adequately represented in international forums discussing reforms in financial architecture in order to strengthen their ownership of resulting codes and standards and to strengthen their commitment and ability to implement them. The latter issue will be the focus of the DAC Development Partnership Forum, to be held on 27-28 February 2002, which will also therefore address the need for significant and co-ordinated support by donors for capacity building and institutional strengthening to help countries apply these codes and standards.

Portfolio investment provides valuable financial capital, mainly to middle-income developing countries with fair to good credit ratings. But short-term capital movements are a major cause of volatility which, in recent financial crises around the world, has increased poverty. Capital flight, bank secrecy and tax havens are other issues that need to be addressed, buiding on recent progress in the financial community in these areas. Policy coherence means recognising these risks and installing adequate regulatory measures integrated into the international financial architecture and into the monetary policies of countries that either import or export capital.

Debt relief for HIPCs is internationally recognised as necessary if poverty is to be reduced. To be effective, it has to be additional, considering both the extent to which the debt could have been serviced without relief and the risk of reducing other forms of ODA and other financial transfers. The amounts of debt relief must be sufficient for debt sustainability, for investment in economic growth and for adequate social and other expenditures of importance for reducing poverty. Creditors must consider the risks and responsibilities involved in making loans to poor countries, and must share the consequent costs of failed credits.

Foreign direct investment (FDI) in developing countries has grown extremely rapidly until recently. It has mainly benefited a few emerging market economies in East Asia and Latin America.[7] Low-income countries lack the policy and institutional environments, vibrant enterprise sector, infrastructure, economic dynamism and market size of better-off nations, which are needed to attract FDI. Much of what they do receive is channelled into extractive industries with limited or even negative impacts on political and social stability, and on poverty. Any negotiating

7. Twenty-three such countries account for 90% of FDI. Of these, China and Brazil alone account for about half of FDI flows to developing countries, and ten middle-income countries for 70%.

process towards an international agreement on investment rules, which could secure enhanced access to development finance, needs to include developing countries as fully-fledged partners. In addition, it is also necessary to look at how aid and other policies in developed countries could be better linked to contribute to developing country-owned initiatives to strengthen enabling environments, remove impediments, and provide market-based incentives to promote FDI in developing countries.

International trade is a powerful tool for reducing poverty. The potential impact on the national incomes and welfare of developing countries, produced by eliminating or reducing remaining restrictions on imports, would dwarf recent ODA flows. While some trade liberalisation reforms have been undertaken, further reforms are possible and necessary, although they become progressively more politically difficult when key domestic policy objectives like employment and regional development are affected. The major areas of importance for enhanced policy coherence concern the overall international trade regime, preferential trading arrangements, trade in services, export finance, technology transfer, agricultural subsidies and food trade. One of the most long-standing policy coherence issues is that developed countries take various measures to enhance trade opportunities and capacities for developing countries while maintaining other measures (*e.g.* tariff and other barriers, subsidies to domestic production) which restrict their opportunities to more fully exploit their comparative advantage. The Doha Ministerial Declaration has a strong development agenda, with the needs of developing countries at the very heart of its programme of work, which will need to address many such issues.

4. Current perspectives on the demand and supply of ODA

DAC Members are facing a potentially powerful new set of pressures to significantly increase the supply of aid over the next decade.

- If the Policy Reduction Strategy Papers (PRSPs) and the Poverty Reduction Growth Facility (PRGF) are successful, there is the expectation that higher levels of aid will be forthcoming to finance increased social and other public investment. The IMF has indicated its readiness to factor such higher aid flows into its assessment of fiscal sustainability if they are provided on a medium-term basis.
- Preparations for the Financing for Development Conference underline the need for increased social investment and call for at least a doubling of ODA together with a public campaign in developed countries for a large increase in aid levels to meet the MDGs.
- Fighting poverty is increasingly seen as an integral part of a proactive global security policy and as essential for a sustainable globalisation process.

While the methodologies underlying the estimation of additional aid requirements are far from straightforward (see the annex to this chapter), specific numbers for *additional* ODA have been introduced into the debate:

- The World Bank estimates that USD 54 billion in additional aid is needed to enable low-income countries that have good policies, or might sufficiently improve their policies, to reach the goal of halving the proportion of people living in poverty by 2015.
- The WHO Commission on Macroeconomics and Health (CMH), in its

report published on 20 December 2001, estimates that up to USD 31 billion in additional aid could be needed and justified for the health sector alone by 2015 at the country level, with a further USD 7 billion required for the supply of global public goods.

- UNESCO estimates that some USD 14 billion is required for the Education for All (EFA) Initiative. The World Bank will be making a new estimate of the EFA financing gap, based on a country-by-country analysis, prior to the Spring 2002 meeting of the Development Committee.

All of these numbers are conditional on effective overall governance and economic management in developing countries and the emergence of effective national sector strategies for health and education. The very stringent requirements spelt out in the CMH report make it clear that there is nothing easy or automatic in the realisation of the preconditions for such increases in aid.

Thus *effective demand* for significant aid increases depends on major policy and institutional improvements in developing countries. But such improvements also depend on donor-side action, including the real prospect of medium-term aid commitments on which to base effective sector strategies and macroeconomic management.

Hence effective demand for and effective supply of significant increases in aid are fundamentally interdependent. Without a very much higher level of mutual accountability in donor-recipient relations than ever achieved in the past, aid increases will be neither justified nor realised.

On the *supply side*, in judging the practicability of a "significant" increase in the supply of aid, it is useful to have a clear view of the basic arithmetic. The "ready-reckoner" Tables III.3 and 4 below are helpful in this respect. They show that:

- A gradual rise in the ODA/GNI ratio from the present level of 0.22% to 0.32% by 2010 would, assuming real annual GNI growth of 2.5% in DAC Member countries, raise real ODA levels by some USD 46 billion annually to USD 100 billion compared with USD 54 billion in 2000. ODA would double by 2012, at an ODA/GNI ratio of 0.34%.

- The potential budgetary effort of the G7 – and especially of the USA and Japan – would be decisive. The second reckoner shows that if all the ODA/GNI ratios of DAC Members increased by 0.1% between 2000 and 2010, USD 38 billion of the extra USD 46 billion would come from the G7.

While many donors are now committing to medium-term aid increases, the short-term outlook for overall DAC aid performance is subject both to budgetary constraints due to lower world-wide growth and to special factors in major countries. And some of the DAC's high aid performers have indicated that public support for maintaining their current ODA/GNI level may be affected by the declining overall DAC aid performance.

As noted above, ensuring a high level of aid effectiveness would be essential to justify aid increases. Fundamental issues would need to be confronted if the aid effort on both the donor and recipient sides were to be scaled up significantly. Without better effectiveness, a large increase in flows may only lead to even longer project pipelines, corruption and relaxation of policies. Even in well-performing developing countries, there would be important macroeconomic impacts to be managed (*e.g.* the exchange rate and inflation).

Better effectiveness would imply building the capacity on both the donor and recipient sides to handle a doubling of aid. Institutional development, human capacity building and arrangements for the governance of aid, both nationally and globally, would need to be strengthened. The PRSP process, embodying the principles of the Comprehensive Development Framework (CDF) regarding local ownership etc. would have to reach a high level of functionality. Effective performance monitoring based on quality data would be essential. The international community is working on this agenda. Building up the aid system to effectively manage a doubling of ODA volume could take as much as ten years.

Institutional capacities and constraints on both the partner and the donor community sides that may prevent the delivery of sharply higher aid flows require urgent attention. These include:

- The issues being addressed by the DAC Task Force on Donor Practices,[8] whose work to streamline the functioning of a multi-donor aid system is even more crucial in the context of any planned build-up of aid volumes.
- The governance and capacity issues being discussed in the DAC Network on Good Governance and Capacity Development (GOVNET).
- Efforts being undertaken in the DAC Working Party on Financial Aspects of Development Assistance, pursuant to the Recommendation on Untying ODA in the Least Developed Countries, to strengthen procurement systems and capacities in partner countries.

Table III-3.

Ready Reckoner 1: ODA growth scenario

	ODA/GNI ratio (%)	Real ODA growth scenario – USD billion[1]	Resulting increase in ODA – USD billion	*Memo item:* Rate of growth of real ODA (%)
2000	**0.22**	**54**	**0**	
2001	0.23	58	4	*7.1*
2002	0.24	62	8	*6.9*
2003	0.25	66	12	*6.7*
2004	0.26	70	16	*6.5*
2005	**0.27**	**74**	**21**	*6.4*
2006	0.28	79	25	*6.2*
2007	0.29	84	30	*6.1*
2008	0.30	89	35	*6.0*
2009	0.31	94	40	*5.9*
2010	**0.32**	**100**	**46**	*5.8*
2011	*0.33*	*105*	*51*	*5.7*
2012	*0.34*	*111*	*57*	*5.6*

1. At 2000 prices, assuming 2.5% annual GNI growth.

8. For information on the work of this Task Force, see *www.oecd.org/dac/donorpractices* and Section 4 of this report, "The DAC at Work".

Table III-4.

Ready Reckoner 2: DAC countries' ODA levels in 2010 and 2012 under real ODA growth scenario

USD million

	ODA/GNI in 2000 (%)	ODA in 2000	Real ODA in 2010 under growth scenario[1]	Real increase	ODA/GNI in 2010 (%)	*Real ODA in 2012 under continuation of growth scenario[1]*	*Real increase*	*ODA/GNI in 2012 (%)*
Australia	0.27	987	1 738	750	0.37	*1 925*	*938*	*0.39*
Austria	0.23	423	780	357	0.33	*870*	*446*	*0.35*
Belgium	0.36	820	1 343	523	0.46	*1 472*	*652*	*0.48*
Canada	0.25	1 744	3 108	1 365	0.35	*3 450*	*1 706*	*0.37*
Denmark	1.06	1 664	2 331	667	1.16	*2 491*	*827*	*1.18*
Finland	0.31	371	628	257	0.41	*692*	*321*	*0.43*
France	0.32	4 105	6 899	2 794	0.42	*7 594*	*3 489*	*0.44*
Germany	0.27	5 030	8 819	3 789	0.37	*9 766*	*4 736*	*0.39*
Greece	0.20	226	433	207	0.30	*485*	*259*	*0.32*
Ireland	0.30	235	402	167	0.40	*444*	*209*	*0.42*
Italy	0.13	1 376	3 137	1 761	0.23	*3 585*	*2 208*	*0.25*
Japan	0.28	13 508	23 445	9 937	0.38	25 925	*12 418*	*0.40*
Luxembourg	0.71	127	185	58	0.81	*199*	*73*	*0.83*
Netherlands	0.84	3 135	4 492	1 358	0.94	*4 821*	*1 686*	*0.96*
New Zealand	0.25	113	203	89	0.35	*225*	*112*	*0.37*
Norway	0.80	1 264	1 820	556	0.90	*1 954*	*691*	*0.92*
Portugal	0.26	271	479	209	0.36	*531*	*261*	*0.38*
Spain	0.22	1 195	2 236	1 041	0.32	*2 498*	*1 303*	*0.34*
Sweden	0.80	1 799	2 590	791	0.90	*2 782*	*983*	*0.92*
Switzerland	0.34	890	1 470	580	0.44	*1 614*	*724*	*0.46*
United Kingdom	0.32	4 501	7 577	3 076	0.42	*8 342*	*3 841*	*0.44*
United States	0.10	9 955	25 452	15 498	0.20	*29 411*	*19 457*	*0.22*
Total DAC	**0.22**	**53 737**	**99 567**	**45 830**	**0.32**	***111 075***	***57 338***	***0.34***
Of which:								
G7	***0.19***	***40 219***	***78 438***	***38 219***	***0.29***	***88 073***	***47 854***	***0.31***
Other	***0.45***	***13 519***	***21 129***	***7 611***	***0.55***	***23 003***	***9 484***	***0.57***

1. At 2000 prices, assuming 2.5% annual GNI growth, and annual increases of 0.01% in ODA/GNI ratios, starting in 2001.

• The efforts under the New Partnership for African Development (NEPAD) to promote peer reviews of political and economic governance aimed at fostering the emergence of "capable states" and to radically improve the "reputation" of Africa *vis-à-vis* investors, both domestic and foreign.

Budget aid and public expenditure management and capacity building are also central to managing higher aid flows. The IMF envisages putting into place a medium-term approach to PRSP financing, based on normative scenarios for concessional finance and higher prior commitments by donors.[9] More can be done to address these issues in the context of work on PRSPs and the associated PRGF-supported program:

• First, programs could be presented in ways that give clearer signals to the donor community in the PRSP process.

9. See *www.imf.org/external/np/prgf/2000/eng/key.htm*

Medium-term projections could be based on a more normative scenario for grants and concessional loans driven by the poverty and growth goals, rather than a continuation of declining trends with unfilled financing gaps.

- Second, it may be possible, especially for strong performers, to obtain prior commitments of higher donor assistance, as programs are being formulated, and accordingly to program larger deficits and spending at the outset. In addition, programs could define contingent expenditures (drawing on priorities set in the PRSP) that would be executed if additional fungible external assistance on concessional terms were forthcoming. Indeed, it is desirable that all PRGF-supported programs have this feature, in place of the standard but much misunderstood adjuster for deviations in program financing. Again, these elements of the new approach call for improved measurement and tracking of government expenditures.

- Attention is required to the interface between finance in support of country-led PRSPs and sectoral finance available as a result of special global initiatives. The latter includes, for example, the HIV/AIDS fund set up in Summer 2001, and more generally, global sectoral initiatives (*e.g.* health, education, trade capacity). Various structures connecting inter-agency working groups and steering groups and global Trust Funds to country-level strategies and operations are beginning to emerge in this context.

5. Concluding remarks

The various available estimates concerning additional ODA requirements converge at, or are consistent with, the view that the doubling of aid, with the increase directed at countries with good governance and policy environments, would provide a basis for meeting the Millennium Development Goals. This holds true regardless of the methodological approach taken.

The timeframe to achieve this rough doubling of aid is not made clear in the various estimates (except for the WHO Commission). The ready reckoners (Tables III.3 and III.4) show a time profile in which aid doubles over 12 years, by 2012, and the ODA/GNI ratio rises to 0.32 % in 2010 (equivalent to the average for 1992-93) and to 0.34% by 2012. It would not seem unfeasible to handle such an increased ODA volume with improved effectiveness, considering the learning process OECD and partner countries have gone through. That process has resulted in the current focus on country-led poverty strategies, on the importance of policies and of participation by civil society, and the efforts to reduce "transaction costs" of development co-operation.

The international community is already embarking on an agenda that could match the ambitions of the Millennium Development Goals. The elements of such an agenda are:

- The "Doha Development Agenda", which places development objectives at the heart of the broad work programme agreed for the WTO at Doha in November 2001.

- The recognition by the Development Committee at its meeting in Ottawa in November 2001 that "a substantial increase in current ODA levels would be required if the opportunities emerging from policy improvements in low-income countries are to be realised and the MDGs to be met".

- The collaborative work programmes on harmonisation of donor practices agreed by the Development Committee and the DAC in 2001.

- The comprehensive approach to development financing, founded on strong domestic governance and policies in developing countries and coherent governance at the global level, which is emerging in the preparations for the International Conference on Financing for Development in Mexico in 2002.

The final conclusion from this analysis is that the MDGs can be reached, if serious efforts are made both by developing country governments and OECD Members. Developing countries must proceed with policy reforms in several areas for pro-poor growth and social development, including income and asset redistribution. OECD Members need to contribute to reducing global poverty and increasing political stability by enhancing both ODA and policy coherence for poverty reduction. The more coherent policies become in terms of their impact on poverty in developing countries, the less increases in aid budgets will be required.

Annex III-1

Recent Assessments of Aid Requirements: Some Observations

Various methods have been used to estimate the additional aid that is required to meet the Millennium Development Goals (MDGs). This annex briefly assesses the projections and calculations of several international development organisations, in particular the World Bank, WHO, UNESCO, UNICEF and the High-Level Panel on Financing for Development.

Estimating the amount of aid required to meet the MDGs involves evidence-based calculations of financing gaps to meet both:

- The income poverty MDG of halving the proportion of people living in extreme poverty by 2015, through pro-poor economic growth.
- And the other MDGs reflecting social and environmental poverty dimensions, through direct interventions.

This annex assesses both kinds of calculations, as well as the projections of the World Bank on the impact of trade liberalisation on poverty outcomes and discusses the links between these various approaches.

Income poverty reduction through aid for pro-poor growth

Cost estimates

An IMF/World Bank staff paper for the Development Committee[10] identifies 65 low-income countries that face an "uphill" struggle to reach the income poverty goal and where aid would make a difference – provided there is a "sound policy foundation". These countries are divided into two groups according to their policy performance: 43 countries with "reasonably good policies and governance" and 22 countries lacking this prerequisite. A simple model of the Harrod-Domar type combined with country-specific poverty data is then used to calculate the additional resources needed to reach the overall income poverty goal through the aid-growth-poverty reduction link. It assumes that aid will make a sustainable difference for poverty reduction *only* in the 43 good performers and they are estimated to need an additional USD 39 billion per year (a doubling of present levels).

Meanwhile, the paper calls for every effort to be made to support policy reforms in the remaining 22 "uphill" countries and, then, to provide them too with adequate ODA flows. If the policy performance of these countries improves quickly, additional ODA of about USD 15 billion per year – three times the present level – would be called for in the medium term to help them reach the target.

Thus, the IMF/World Bank illustrative estimates of the total requirements of increased aid to reach the poverty reduction goal in "uphill" countries amounts to USD 54 billion per year, if the majority of these low-income countries maintain their current "reasonably good policies and governance", and the poor performers improve theirs. This would roughly double current ODA as an indication of the magnitude of aid required to halve income poverty in each country.

The remaining 86 developing countries are assumed not to require increased ODA for two reasons. First, they are mostly "on track" to halve their income poverty incidence through pro-poor growth. Second, many middle-income countries have the economic ability to reduce poverty through policy reforms for improved income distribution and general or targeted social development programmes. The paper also suggests that aid reallocation within this group could improve aid effectiveness and increase the number of people lifted out of poverty.

Coverage of countries and types of aid – some issues

The exclusion of the "on track" countries is questionable, since they contribute to global and regional poverty reduction goals and will have huge numbers remaining below the minimum poverty line and falling short of other MDGs as well. These countries could

10. *Financing for Development* (September 18, 2001), prepared by the staffs of the World Bank and the IMF for the Development Committee.

use additional assistance, effectively, to reduce poverty faster than called for by the MDG targets, and would still account for a large share of the world's poor in 2015. There are also incremental needs the paper leaves out: for reconstruction and prevention programmes related to conflict and terrorism (*e.g.* the need for current Afghanistan-related aid to be additional); also there are rising needs for disaster relief, which may continue to grow with increased frequency of natural disasters and growing population density. And humanitarian aid programmes rarely get sufficient funding to deal with all of the extreme privation that they seek to address, and which are closely related to MDGs.

Another issue is the paper's assumption that all 22 "uphill poor performers" would become good performers, which is clearly unrealistic. They account for USD 15 billion of the USD 54 billion. However, it is plausible that there would be some improvements in performance within this group. In addition, some consideration should be given to selective increases even among "poor performers", if additional funding were available, for programmes related to achieving the MDGs that can meet effectiveness criteria (*e.g.* programmes for health or education going through proven NGOs). Thus, the net decrease in ODA needs would likely be only a share of the USD 15 billion.

Other recent reports include the Report of the High-Level Panel on Financing for Development (the "Zedillo Report"). Based on an UNCTAD study, which suggests that halving poverty in Africa would require additional aid of about USD 10 billion per year, assuming general adoption of good policies, the report considers the aid requirements of other low-income countries and suggests a need of at least USD 20 billion over and above current spending in order to cut income poverty by half. It then estimates the total cost of achieving the other MDGs at an additional USD 30 billion, for a total of USD 50 billion.[11]

Methodological issues

Several methodological issues arise. These kinds of estimates derive from a very simple model, where growth depends on investment in the physical capital stock and where the difference between projected savings and the investment needed to reach a target rate of growth is seen as a "financial gap", to be filled by external flows, both aid and non-aid. The relationship between investment and growth depends on a fixed co-efficient, the Incremental Capital-Output Ratio (ICOR). The assumption is that aid and non-aid flows will have a systematic impact on raising investment and that rising investment will have a systematic effect in increasing the rate of growth. Historically, the evidence does not show such systematic relationships.[12] However, the testing of the model has looked at a wide range of countries over a period of time when policies and governance in many of them were well below the "reasonable standards" attained in the group of countries where the World Bank/IMF paper believes that increased aid will have an impact. In those countries which do not reach such standards, it is implicitly assumed that the aid-investment-growth-poverty reduction relationship does not work.

Another methodological issue is that fixed coefficients for the impact of aid on economic growth, and of economic growth on poverty reduction, may not fully allow for the possibility that rapidly increased aid may be less effective, and that unit costs of meeting MDGs would rise on the margin, due for example to:

- Absorptive capacity constraints (including governance and capacity).
- Macroeconomic distortion effects such as "Dutch disease" and negative savings incentives.
- Reduced/distorted incentives for effective use of ODA resources.

On the other hand, there may be increasing returns to the scale of aid if it lowers transaction costs and improves the institutional environment, for example through infrastructure

11. *Report of the High-Level Panel on Financing for Development*, United Nations, New York, 2001, including *Technical Report of the High-Level Panel on Financing for Development*, with Appendix entitled "Costing Global Policy Objectives" (*www.un.org/reports/financing/report*); *Capital Flows and Growth in Africa*, UNCTAD, United Nations, Geneva and New York, 2000.
12. See "The Ghost of Financing Gap – How the Harrod-Domar Growth Model Still Haunts Development Economics", William Easterly, World Bank, July 1997. Manuscript, available at *www.worldbank.org*.

and social sector development, enhancing human capital or boosting institutional capacity for law and contract enforcement. Hence an overall assumption of constant returns to scale may be reasonable on balance, especially when combined with the stated prerequisite of generally improved policy stances, and a reallocation of aid to good performers.

The elasticity of poverty reduction with respect to economic growth is a function of not only the pace of growth, but also of its quality in terms of composition, distribution and sustainability. The conversion rate of growth into poverty reduction varies considerably across countries and regions because of different degrees of inequality in literacy, land holdings and other assets. World Bank studies find that while growth in mean income is the most important factor for poverty reduction, it explains slightly less than half of the growth of incomes of the poor, but there are wide divergences from this average.[13]

These caveats underline the importance of improved policy and institutional frameworks for enhanced aid effectiveness. An enabling environment for pro-poor growth can increase the impact of aid on growth and the impact of growth on poverty reduction. It follows that changing the pattern of aid allocations could enhance its effectiveness for poverty reduction. World Bank research indicates that a "poverty-efficient" allocation of ODA (using 1998 data) would be 68% for countries with high poverty incidence and good policies, and 28% for countries with high poverty and poor policies.[14] This would imply increasing aid to the first group by 150%, assuming no increase in the overall ODA volume. Comparing this with the estimated doubling of aid to good performers in the Development Committee paper in a context of overall doubling of ODA, the latter seems too low.

An important contribution to improving the environment for effective aid and pro-poor growth would be to rationalise aid delivery mechanisms and harmonise procedures, which is the mandate of the DAC Task Force on Donor Practices. More integrated and co-ordinated aid forms, such as programme and sector assistance and medium-term aid commitments in support of country-led strategies and programmes for reducing poverty, in combination with support for capacity building, could significantly increase the absorptive capacity of low-income countries. Increased financing of global public goods may also enhance the poverty reduction impact of aid and growth by reducing the transaction costs of aid.

The implication of focusing on meeting the MDGs is that much more aid should be allocated to Least Developed Countries (LLDCs) and Low-Income Countries (LICs), especially to those with good policies, governance and institutions. If the primary allocation criteria were the number of people below the poverty line, the largest developing countries – Bangladesh, India, Indonesia and Pakistan – would get a much larger share of the increasing ODA volume than African countries, where the depth of poverty and the need for institutional capacity development support are much greater. (China is excluded from this list on the assumption that its access to capital markets means that increased aid is not a major constraint to poverty reduction.) In the event that African countries would not yet have reached absorptive capacity constraints for effective use of aid, this would raise the issue of whether a small-country bias is acceptable, even if it means fewer people in the world will be moving out of poverty. A related issue is the relative importance of meeting the MDGs at the global, regional and country level. This makes a big difference to the prospects for reaching them and for the implied aid requirements. Furthermore, the current recognition of the need to go beyond effectiveness criteria alone in order to deal with terrorism and conflict issues may reduce the overall impact of aid on poverty although it should be designed to pave the way towards

13. For instance, between 1960 and 1994 the poverty reduction impact varied by a factor of four to five times per percentage point of economic growth *per capita* between different states in India, and similar differences can be found comparing East Asia and Latin America. (See *The Quality of Growth*, World Bank 2000; David Dollar and Aart Kraay: *Growth IS Good for the Poor*, World Bank, 2000; Martin Ravallion: *Growth, Inequality and Poverty: Looking Beyond Averages*, World Bank, 2000.)
14. Paul Collier, David Dollar (2001): *Aid Allocation and Poverty Reduction*, forthcoming in the European Economic Review.

"reasonable standards of governance and policies" that ultimately will reduce conflict and poverty. Hence, it is vital that the aid increases justified in the short to medium term to deal with terrorism and conflict be additional.

Reducing poverty through trade liberalisation and private investment

Putting the importance of ODA for poverty reduction in perspective, it must be recognised that policy coherence for poverty reduction is also very important for the prospects of achieving the MDGs. This is true for both the policies of developing countries and those of OECD Member countries in other areas than development co-operation. It includes the important area of other resource flows to developing countries than ODA, *e.g.* trade, FDI, portfolio investments and other private capital flows; the private financing of global public goods; and NGO projects financed with private funds and contributions.[15]

Of special interest in the post-Doha context are the long-term projections of growth and poverty reduction in the new World Bank Report *Global Economic Prospects and the Developing Countries* 2002 (GEP). Its baseline scenario implies that the incidence of extreme income poverty (under USD 1 per day) will be reduced by more than half from 1990 to 2015 at the global level, and very nearly halved excluding China. However, the GEP makes clear that not all regions will meet the income poverty MDGs. It shows that Africa in particular will fail to meet the goal by a wide margin. In the GEP "Successful WTO Development Round Scenario", poverty is reduced by a further 15% globally, of which over half in Africa. The GEP assessment of the infant mortality goal finds that it will only be reached in South Asia.

The GEP projections make no mention of increased aid requirements. They assume explicitly that trade liberalisation will generate large income gains for developing countries that, implicitly, will be associated with rising investment and employment and that public revenues will then be available for social investment. This is the underlying long-run scenario for successful development used as a reference point by all major international organisations and embodied for example in the current Facilitators Paper for the International Conference on Financing for Development. However, such a scenario has large implicit public and social investment requirements. The emphasis on trade capacity development at Doha, embracing both the often costly requirements for participating in the WTO system and the public investments needed to underpin a supply response to trade opportunities bears witness to this. In particular, low-income countries suffer a major deficit in human capital, notably in areas related to health and education, and they have limited resources to meet the challenges of sustainable development. There can be no dynamic flow of foreign investment to countries with these human capital and public investment deficits. An UNCTAD study postulates that one of the reasons for the lack of a supply response in least developed countries and the weakness of the investment-growth link is the extremely low levels of per capita spending on health and education and other social investments.[16] Hence the aid requirements for underpinning a trade and investment-led strategy for poverty reduction are critical. This leads to the third approach to estimating aid requirements.

Estimating the costs of meeting social development goals

Along with the income poverty reduction goal, the MDGs include goals for overcoming deficiencies in education, health and the environment. The interactions between the goals are complex. Reducing income poverty will affect these goals by increasing the demand of the poor for health and education services, but also by increasing the public revenues available to provide such services.

On the other side, social development boosts economic growth by enhancing the productivity and incomes of the poor. There is wide agreement that human capital is the most important production factor of all, but economists remain divided over how best to evaluate the various aspects of human capital formation.

15. The Development Committee paper states that tariff and non-tariff barriers imposed by rich countries, together with their agricultural subsidies, cost developing countries much more than the USD 57 billion that they receive in foreign aid.
16. See UNCTAD Report, *The Least Developed Countries* 2000, p.45.

Education and training are key aspects, and so are health, access to basic services and social stability. The report of the WHO Commission on Macroeconomics and Health estimates that economic growth would be around 0.5% higher if health interventions were scaled up massively so that the disease burden in low-income countries was significantly reduced.[17] This causal link from social development to pro-poor growth can enhance the effectiveness of social sector expenditures, whether from domestic resources or ODA.

Evidence shows that both primary and secondary schooling have important effects on overall growth. According to the World Bank, primary education continues to be the most effective investment for pro-poor growth in developing countries; investment in girls' and women's education generally yields the highest returns. While returns decline at higher levels of schooling and incomes, investment in tertiary education is a critical area in terms of building trade and investment capacity.

The fact that social development is both a cause and an effect of economic growth complicates the task of estimating the total financing requirements of reaching the MDGs. It means that to some extent, aid required and used for achieving improved social indicators will at the same time help to generate economic growth and reduce income poverty and vice versa. And such aid may well take the form of social sector and environmental protection support. These interactions need to be recognised and orchestrated to best effect.

A way to consider the double impact of aid on social and economic development would be to calculate the costs of achieving the social goals by themselves, while trying to avoid the double counting implied by the interdependence between the different social goals. Using such an approach based on some country-level data, World Bank staff have made a rough estimate of the total aid requirements for reaching the social and environmental MDGs and found them to be broadly in the range of those calculated for reaching the income poverty reduction goal, indicating convergence in the two approaches to calculating the level required for achieving the MDGs at around a doubling of aid from present levels. Specific estimates made by other organisations for health and education also tend to line up with this order of magnitude.

For education, a recent UNESCO document refers to ongoing efforts by the World Bank, UNESCO and other organisations to estimate the financial resources needed to achieve Education for All.[18] These include attempts both at establishing a global financing goal and at identifying specific resources at the country level. The annual additional resources needed to achieve universal primary education have been variously estimated to be:

- USD 8 billion/year: OXFAM.
- USD 9 billion/year: UNICEF.
- USD 10 billion/year:World Bank.
- USD 15 billion/year:UNESCO.

The World Bank is undertaking country-by-country estimates of the costs of financing education sector strategies under the Education for All initiative. These estimates are scheduled to be ready by Spring 2002.

For health, the report of the WHO Commission on Macroeconomics and Health has preliminary estimates of the potential aid requirements for implementing country-level programmes of "essential interventions" for improving the health of poor people in low-income countries at around USD 30 billion in 2015, compared to the current level of USD 6 billion.

Both the EFA programmes and the proposed approach of the WHO Commission are firmly conditioned on the formulation of high-quality sector programmes and good PRSPs.

17. *Macroeconomics and Health: Investing in Health for Economic Development*. WHO, Geneva, December 2001.
18. *Monitoring Report on Education for All*, UNESCO, Paris, October 2001.

Glossary of Key Terms and Concepts

(Cross-references are given in CAPITALS)

AID: The words "aid" and "assistance" in this publication refer only to flows which qualify as OFFICIAL DEVELOPMENT ASSISTANCE (ODA) or OFFICIAL AID (OA).

AMORTIZATION: Repayments of principal on a loan. Does not include interest payments.

ASSOCIATED FINANCING: The combination of Official Development Assistance, whether grants or loans, with any other funding to form finance packages. Associated Financing packages are subject to the same criteria of concessionality, developmental relevance and recipient country eligibility as TIED AID CREDITS.

BILATERAL: See TOTAL RECEIPTS.

CLAIM: The entitlement of a creditor to repayment of a LOAN; by extension, the loan itself or the outstanding amount thereof.

COMMITMENT: A firm obligation, expressed in writing and backed by the necessary funds, undertaken by an official donor to provide specified assistance to a recipient country or a multilateral organisation. Bilateral commitments are recorded in the full amount of expected transfer, irrespective of the time required for the completion of disbursements. Commitments to multilateral organisations are reported as the sum of *i*) any disbursements in the year in question which have not previously been notified as commitments and *ii*) expected disbursements in the following year.

CONCESSIONALITY LEVEL: A measure of the "softness" of a credit reflecting the benefit to the borrower compared to a loan at market rate (*cf.* GRANT ELEMENT). Technically, it is calculated as the difference between the nominal value of a TIED AID CREDIT and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the currency of the transaction and expressed as a percentage of the nominal value.

DAC (DEVELOPMENT ASSISTANCE COMMITTEE): The Committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its Members are given at the front of this volume.

DAC LIST: See RECIPIENT COUNTRIES AND TERRITORIES.

DEBT REORGANISATION (also: **RESTRUCTURING**)**:** Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include **forgiveness** (extinction of the loan), or **rescheduling** which can be implemented either by revising the repayment schedule or extending a new **refinancing** loan. See also "Notes on Definitions and Measurement" below.

DISBURSEMENT: The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. Disbursements record the actual international transfer of financial resources, or of goods or services valued at the cost to the donor. In the case of activities carried out in donor countries, such as training, administration or public awareness programmes, disbursement is taken to have occurred when the funds have been transferred to the service provider or the recipient. They may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (the gross amount less any repayments of loan principal or recoveries on grants received during the same period).

EXPORT CREDITS: Loans for the purpose of trade and which are not represented by a negotiable instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

GRACE PERIOD: See GRANT ELEMENT.

GRANTS: Transfers made in cash, goods or services for which no repayment is required.

GRANT ELEMENT: Reflects the **financial terms** of a commitment: interest rate, MATURITY and grace period (interval to first repayment of capital). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of domestic investment, *i.e.* an indication of the opportunity cost to the donor of making the the funds available. Thus, the grant element is nil for a loan carrying an interest rate of 10%; it is 100% for a grant; and it lies between these two limits for a loan at less than 10% interest. If the face value of a loan is multiplied by its grant element, the result is referred to as the **grant equivalent** of that loan (*cf.* CONCESSIONALITY LEVEL). (Note: the grant element concept is not applied to the non-concessional ("hard window") operations of the multilateral development banks.)

GRANT-LIKE FLOW: A transaction in which the donor country retains formal title to repayment but has expressed its intention in the commitment to hold the proceeds of repayment in the borrowing country for the benefit of that country.

LOANS: Transfers for which repayment is required. Only loans with maturities of over one year are included in DAC statistics. Data on net loans include deductions for repayments of principal (but not payment of interest) on earlier loans. This means that when a loan has been fully repaid, its effect on total net flows over the life of the loan is zero.

LONG-TERM: Used of loans with an original or extended maturity of more than one year.

MATURITY: The date at which the final repayment of a loan is due; by extension, the duration of the loan.

MULTILATERAL AGENCIES: In DAC statistics, those international institutions with governmental membership which conduct all or a significant part of their activities in favour of development and aid recipient countries. They include multilateral development banks (*e.g.* World Bank, regional development banks), United Nations agencies, and regional groupings (*e.g.* certain European Community and Arab agencies). A contribution by a DAC Member to such an agency is deemed to be multilateral if it is pooled with other contributions and disbursed at the discretion of the agency. Unless otherwise indicated, capital subscriptions to multilateral development banks are presented on a **deposit** basis, *i.e.* in the amount and as at the date of lodgement of the relevant letter of credit or other negotiable instrument. Limited data are available on an encashment basis, *i.e.* at the date and in the amount of each drawing made by the agency on letters or other instruments.

NET FLOW: The total amount disbursed over a given accounting period, less repayments of loan principal during the same period, no account being taken of interest.

NET TRANSFER: In DAC statistics, net flow minus payments of interest.

OFFICIAL AID: Flows which meet the conditions of eligibility for inclusion in OFFICIAL DEVELOPMENT ASSISTANCE, except that the recipients are on Part II of the DAC List of Aid Recipients (see RECIPIENT COUNTRIES AND TERRITORIES).

OFFICIAL DEVELOPMENT ASSISTANCE: Grants or loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) which are:

- Undertaken by the official sector.
- With promotion of economic development and welfare as the main objective.
- At concessional financial terms (if a loan, having a GRANT ELEMENT of at least 25%).

In addition to financial flows, TECHNICAL CO-OPERATION is included in aid. Grants, loans and credits for military purposes are excluded. For the treatment of the forgiveness of loans originally extended for military purposes, see "Notes on Definitions and Measurement" below.

OFFICIAL DEVELOPMENT FINANCE (ODF): Used in measuring the inflow of resources to recipient countries: includes *a*) bilateral ODA, *b*) grants and concessional and non-concessional development lending by multilateral financial institutions, and *c*) those Other Official Flows which are considered developmental (including refinancing loans) but which have too low a GRANT ELEMENT to qualify as ODA.

OFFSHORE BANKING CENTRES: Countries or territories whose financial institutions deal primarily with non-residents.

OTHER OFFICIAL FLOWS (OOF): Transactions by the official sector with countries on the List of Aid Recipients which do not meet the conditions for eligibility as Official Development Assistance or Official Aid, either because they are not primarily aimed at development, or because they have a grant element of less than 25%.

PARTIALLY UNTIED AID: Official Development Assistance (or Official Aid) for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all recipient countries. Partially untied aid is subject to the same disciplines as TIED AID CREDITS and ASSOCIATED FINANCING.

PRIVATE FLOWS: Consist of flows at market terms financed out of private sector resources (*i.e.* changes in holdings of private long-term assets held by residents of the reporting country) and private grants (*i.e.* grants by **non-governmental organisations**, net of subsidies received from the official sector). In presentations focusing on the receipts of recipient countries, flows at market terms are shown as follows:

• **Direct investment:** Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC List of Aid Recipients (see RECIPIENT COUNTRIES AND TERRITORIES). "Lasting interest" implies a long-term relationship where the direct investor has a significant influence on the management of the enterprise, reflected by ownership of at least 10% of the shares, or equivalent voting power or other means of control. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

• **International bank lending:** Net lending to countries on the List of Aid Recipients by commercial banks in the Bank of International Settlements reporting area, *i.e.* most OECD countries and most offshore financial centres (Bahamas, Bahrain, Cayman Islands, Hong Kong, Netherlands Antilles and Singapore), net of lending to banks in the same offshore financial centres. Loans from central monetary authorities are excluded. Guaranteed bank loans and bonds are included under OTHER PRIVATE or BOND LENDING (see below) in these presentations.

• **Bond lending:** Net completed international bonds issued by countries on the DAC List of Aid Recipients.

• **Other private:** Mainly reported holdings of equities issued by firms in aid recipient countries.

In data presentations which focus on the outflow of funds from donors, private flows other than direct investment are restricted to credits with a maturity of greater than one year and are usually divided into:

• **Private export credits:** See EXPORT CREDITS.

• **Securities of multilateral agencies:** This covers the transactions of the private non-bank and bank sector in bonds, debentures, etc., issued by multilateral institutions.

• **Bilateral portfolio investment and other:** Includes bank lending and the purchase of shares, bonds and real estate.

RECIPIENT COUNTRIES AND TERRITORIES: The DAC List of Aid Recipients used to compile the statistics in this volume is shown separately at the end of this publication. Some details about recent changes in the List are given in the "Notes on Definitions and Measurement" below. From 1 January 2000, Part I of the List is presented in the following categories (the word "countries" includes territories):

• **LLDCs:** Least Developed Countries. Group established by the United Nations. To be classified as an LLDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC List is updated immediately to reflect any change in the LLDC group.

• ***Other* LICs:** Other Low-Income Countries. Includes all non-LLDC countries with per capita GNP $760 or less in 1998 (World Bank Atlas basis).

• **LMICs:** Lower Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between $761 and $3 030 in 1998. LLDCs which are also LMICs are only shown as LLDCs – not as LMICs.

• **UMICs:** Upper Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between $3 031 and $9 360 in 1998.

• **HICs:** High-Income Countries, *i.e.* with GNP per capita (Atlas basis) more than $9 360 in 1998.

Part II of the List comprises "Countries in Transition". These comprise *i*) more advanced Central and Eastern European Countries and New Independent States of the former Soviet Union; and *ii*) more advanced developing countries. See also OFFICIAL AID.

SHORT-TERM: Used of loans with a maturity of one year or less.

TECHNICAL CO-OPERATION: Includes both *a*) grants to nationals of aid recipient countries receiving education or training at home or abroad, and *b*) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries (including the cost of associated equipment). Assistance of this kind provided specifically to facilitate the implementation of a capital project is included indistinguishably among bilateral project and programme expenditures, and is omitted from technical co-operation in statistics of aggregate flows.

TIED AID CREDITS: Official or officially supported LOANS, credits or ASSOCIATED FINANCING packages where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all aid recipient countries. Tied aid credits are subject to certain disciplines concerning their concessionality levels, the countries to which they may be directed, and their developmental relevance so as to avoid using aid funds on projects that would be commercially viable with market finance, and to ensure that recipient countries receive good value. Details are given in the Development Co-operation Reports for 1987 (pp. 177-181) and 1992 (pp. 10-11).

TOTAL RECEIPTS: The inflow of resources to aid recipient countries (see Table 1 of the Statistical Annex) includes, in addition to ODF, official and private EXPORT CREDITS, and long and short-term private transactions (see PRIVATE FLOWS). Total receipts are measured net of amortization payments and repatriation of capital by private investors. **Bilateral** flows are provided directly by a donor country to an aid recipient country. **Multilateral** flows are channelled *via* an international organisation active in development (*e.g.* World Bank, UNDP). In tables showing total receipts of recipient countries, the outflows of multilateral agencies to those countries is shown, not the contributions which the agencies received from donors.

UNDISBURSED: Describes amounts committed but not yet spent. See also COMMITMENT, DISBURSEMENT.

UNTIED AID: Official Development Assistance for which the associated goods and services may be fully and freely procured in substantially all countries.

VOLUME (real terms): The flow data in this publication are expressed in US dollars. To give a truer idea of the volume of flows over time, some data are presented in constant prices and exchange rates, with a reference year specified. This means that adjustment has been made to cover both inflation in the donors' currency between the year in question and the reference year, and changes in the exchange rate between that currency and the United States dollar over the same period. A table of combined conversion factors (deflators) is provided in the Statistical Annex (Table 36) which allows any figure in the Report in current United States dollars to be converted to dollars of the reference year ("constant prices").

Notes on Definitions and Measurement

The coverage of the data presented in this Report has changed in recent years. The main points are:

Changes in the ODA concept and the coverage of GNP/GNI

While the definition of Official Development Assistance has not changed for over 25 years, some changes in interpretation have tended to broaden the scope of the concept. The main ones are the recording of administrative costs as ODA (from 1979), the imputation as ODA of the share of subsidies to educational systems representing the cost of educating students from aid recipient countries (first specifically identified in 1984), and the inclusion of assistance provided by donor countries in the first year after the arrival of a refugee from an aid recipient country (eligible to be reported from the early 1980s but widely used only since 1991).

Precise quantification of the effects of these changes is difficult because changes in data collection methodology and coverage are often not directly apparent from Members' statistical returns. The amounts involved can, however, be substantial. For example, reporting by Canada in 1993 included for the first time a figure for in-Canada refugee support. The amount involved ($184m.) represented almost 8% of total Canadian ODA. Aid flows reported by Australia in the late 1980s, it has been estimated, were some 12% higher than had they been calculated according to the rules and procedures applying fifteen years earlier.*

The coverage of the national income has also been expanding through the inclusion of new areas of economic activity and the improvement of collection methods. In particular, the new System of National Accounts (SNA) co-sponsored by the OECD and other major international organisations broadens the coverage of GNP, now renamed GNI – Gross National Income. This tends to depress donors' ODA/GNI ratios. Norway's and Denmark's ODA/GNI ratios declined by 6 to 8% as a result of moving to the new SNA in the mid-1990s. Finland and Australia later showed smaller falls of 2 to 4%. All DAC Members are now using the new SNA.

Recipient country coverage

Since 1990, the following entities have been added to the list of ODA recipients at the dates shown: the Black Communities of South Africa (1991 – now simply South Africa); Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan (1992); Armenia, Georgia and Azerbaijan (1993); Palestinian Administered Areas (1994); Moldova (1997). Eritrea, formerly part of Ethiopia, has been treated as a separate country from 1993. The former United States Trust Territory of the Pacific Islands has been progressively replaced by its independent successor States, *viz*. Federated States of Micronesia and Marshall Islands (1992);

* S. Scott, "Some Aspects of the 1988/89 Aid Budget", in *Quarterly Aid Round-up*, No. 6, AIDAB, Canberra, 1989, pp. 11-18.

Northern Marianas and Palau Islands (1994).

Over the same period, the following countries and territories have been removed from the ODA recipient list: Portugal (1991); French Guyana, Guadeloupe, Martinique, Réunion and St Pierre and Miquelon (1992), Greece (1994).

From 1993, several CEEC/NIS countries in transition have been included on Part II of a new List of Aid Recipients (the List is given at the end of this volume). Aid to countries on Part II of the List is recorded as "Official Aid", not as ODA. To avoid overlap, Part II of the new List does not include those CEEC/NIS countries which have been classified as ODA recipients.

From 1996, the following High-Income Countries were transferred from Part I to Part II of the List: Bahamas, Brunei, Kuwait, Qatar, Singapore and United Arab Emirates. From 1997, seven further High-Income Countries were transferred to Part II: Bermuda, Cayman Islands, Chinese Taipei, Cyprus, Falkland Islands, Hong Kong (China), and Israel. From 1 January 2000, Aruba, the British Virgin Islands, French Polynesia, Gibraltar, Korea, Libya, Macao, Netherlands Antilles, New Caledonia and the Northern Marianas progressed to Part II. The List will be modified in 2001 to reflect the fact that Senegal transferred to the group of LLDCs, and will be reviewed again in 2002.

Data on total aid to Part I countries (ODA) and total aid to Part II countries (OA) follow the recipient list for the year in question. However, when a country is added to or removed from an income group in Part I, totals for the groups affected are adjusted retroactively to maximise comparability over time with reference to the current list.

Donor country coverage

Spain and Portugal joined the DAC in 1991, Luxembourg joined in 1992 and Greece joined in 1999. Their assistance is now counted within the DAC total. ODA flows from these countries before they joined the DAC have been added to earlier years' data where available. The accession of new Members has added to total DAC ODA, but has usually reduced the overall ODA/GNP ratio, since their programmes are often smaller in relation to GNP than those of the longer-established donors.

Treatment of debt forgiveness

The treatment of the **forgiveness of loans not originally reported as ODA** varied in earlier years. Up to and including 1992, where forgiveness of non-ODA debt met the tests of ODA, it was reportable as ODA. From 1990 to 1992 inclusive it remained reportable as part of a country's ODA, but was excluded from the DAC total. From 1993, forgiveness of debt originally intended for **military** purposes has been reportable as "Other Official Flows", whereas forgiveness of other non-ODA loans (mainly **export credits**) recorded as ODA is included both in country data and in total DAC ODA in the same way as it was until 1989.

The effect of these decisions on ODA figures can be summarised as follows:

a) **Countries' ODA:** Forgiveness of all non-ODA debt reportable as ODA through 1992. From 1993, forgiveness of military debt may only be reported as OOF.

b) **DAC total ODA:** Equals the total of countries' reported ODA, except for the exclusion of the following:

- 1990: $1.2 billion of forgiven United States military debt and $334 million of various countries' forgiven claims in respect of export credit and structural adjustment lending.

- 1991: $1.9 billion of forgiven United States military debt and $28 million of various countries' forgiven export credit debt.

- 1992: $894 million of forgiven United States military debt and $975 million of various countries' forgiven export credit debt.

The **forgiveness of outstanding loan principal originally reported as ODA** does not give rise to a new net disbursement of ODA. Statistically, the benefit is reflected in the fact that because the cancelled repayments will not take place, net ODA disbursements will not be reduced.

Reporting year

All data in this publication refer to calendar years, unless otherwise stated.

DAC List of Aid Recipients – As at 1 January 2000

Part I: Developing Countries and Territories (Official Development Assistance)					Part II: Countries and Territories in Transition (Official Aid)	
LLDCs	Other LICs (*per capita* GNP < $760 in 1998)	LMICs (*per capita* GNP $761-$3 030 in 1998)	UMICs (*per capita* GNP $3031-$9 360 in 1998)	HICs (*per capita* GNP > $9 360 in 1998)[1]	CEECs/NIS	More Advanced Developing Countries and Territories
Afghanistan Angola Bangladesh Benin Bhutan Burkina Faso Burundi Cambodia Cape Verde Central African Republic Chad Comoros Congo, Dem. Rep. Djibouti Equatorial Guinea Eritrea Ethiopia Gambia Guinea Guinea-Bissau Haiti Kiribati Laos Lesotho Liberia Madagascar Malawi Maldives Mali Mauritania Mozambique Myanmar Nepal Niger Rwanda Samoa Sao Tome and Principe Sierra Leone Solomon Islands Somalia Sudan Tanzania Togo Tuvalu Uganda Vanuatu Yemen Zambia	✻ Armenia ✻ Azerbaijan Cameroon China Congo, Rep. Côte d'Ivoire ● East Timor Ghana Honduras India Indonesia Kenya Korea, Democratic Republic ✻ Kyrgyz Rep. ✻ Moldova Mongolia Nicaragua Nigeria Pakistan Senegal[2] ✻ Tajikistan ✻ Turkmenistan Viet Nam Zimbabwe	✻ Albania Algeria Belize Bolivia Bosnia and Herzegovina Colombia Costa Rica Cuba Dominica Dominican Republic Ecuador Egypt El Salvador Fiji ✻ Georgia Guatemala Guyana Iran Iraq Jamaica Jordan ✻ Kazakhstan Macedonia (former Yugoslav Republic) Marshall Islands Micronesia, Federated States Morocco Namibia Niue Palestinian Administered Areas Papua New Guinea Paraguay Peru Philippines South Africa Sri Lanka St Vincent and Grenadines Suriname Swaziland Syria Thailand ● Tokelau Tonga Tunisia ✻ Uzbekistan ● Wallis and Futuna Yugoslavia, Federal Republic	Botswana Brazil Chile Cook Islands Croatia Gabon Grenada Lebanon Malaysia Mauritius ● Mayotte Mexico Nauru Palau Islands Panama ● St Helena St Lucia Trinidad and Tobago Turkey Uruguay Venezuela **Threshold for World Bank Loan Eligibility ($5 280 in 1998)** ● Anguilla Antigua and Barbuda Argentina Bahrain Barbados ● Montserrat Oman Saudi Arabia Seychelles St Kitts and Nevis ● Turks and Caicos Islands	Malta[1] Slovenia[1]	✻ Belarus ✻ Bulgaria ✻ Czech Republic ✻ Estonia ✻ Hungary ✻ Latvia ✻ Lithuania ✻ Poland ✻ Romania ✻ Russia ✻ Slovak Republic ✻ Ukraine	● Aruba Bahamas ● Bermuda Brunei ● Cayman Islands Chinese Taipei Cyprus ● Falkland Islands ● French Polynesia ● Gibraltar ● Hong Kong, China Israel Korea Kuwait Libya ● Macao ● Netherlands Antilles ● New Caledonia Northern Marianas Qatar Singapore United Arab Emirates ● Virgin Islands (UK)

✻ Central and Eastern European Countries and New Independent States of the former Soviet Union (CEECs/NIS).
● Territory.
1. These countries and territories will transfer to Part II on 1 January 2003 unless an exception is agreed.
2. Senegal became an LLDC in 2001.

The Heavily Indebted Poor Countries (HIPCs) are: Angola, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo (Rep.), Congo (Dem. Rep.), Côte d'Ivoire, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Kenya, Laos, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Viet Nam and Zambia.

List of acronyms[1]

ACP	AFRICAN, CARIBBEAN AND PACIFIC COUNTRIES
ADR	AMERICAN DEPOSITORY RECEIPT
AERA	ACCELERATED ECONOMIC RECOVERY IN ASIA
AfDB	AFRICAN DEVELOPMENT BANK
AfDF	AFRICAN DEVELOPMENT FUND
AsDB	ASIAN DEVELOPMENT BANK
AsDF	ASIAN DEVELOPMENT FUND
ASEAN	ASSOCIATION OF SOUTH-EAST ASIAN NATIONS
BIS	BANK FOR INTERNATIONAL SETTLEMENTS
BHN	BASIC HUMAN NEEDS
BSS	BASIC SOCIAL SERVICES
CCA	COMMON COUNTRY ASSESSMENT
CDE	CAPACITY DEVELOPMENT IN ENVIRONMENT
CDF	COMPREHENSIVE DEVELOPMENT FRAMEWORK
CEC	COMMISSION OF THE EUROPEAN COMMUNITIES
CEDAW	CONVENTION ON THE ELIMINATION OF DISCRIMINATION AGAINST WOMEN
CEECs	CENTRAL AND EASTERN EUROPEAN COUNTRIES
CFA[2]	AFRICAN FINANCIAL COMMUNITY
CIS	COMMONWEALTH OF INDEPENDENT STATES
CMH	COMMISSION ON MACROECONOMICS AND HEALTH (WHO)
CPE	COUNTRY PROGRAMME EVALUATION
CPIA	COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT
CRS	CREDITOR REPORTING SYSTEM (of the DAC)
CSO	CIVIL SOCIETY ORGANISATION
DAC	DEVELOPMENT ASSISTANCE COMMITTEE
DOI	DIGITAL OPPORTUNITY INTIATIVE (REPORT)
DOT Force	DIGITAL OPPORTUNITIES TASK FORCE
EBRD	EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT
EC	EUROPEAN COMMUNITY
ECHO	EUROPEAN COMMUNITY HUMANITARIAN OFFICE
ECOSOC	THE UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL
EDCPM	EUROPEAN CENTRE FOR DEVELOPMENT POLICY MANAGEMENT
EDF	EUROPEAN DEVELOPMENT FUND
EFA	EDUCATION FOR ALL
EU	EUROPEAN UNION
FDI	FOREIGN DIRECT INVESTMENT
FfD	FINANCING FOR DEVELOPMENT
FSAP	FINANCIAL SECTOR ASSESSMENT PROGRAMME (of the IMF/World Bank)
GSP	GENERALISED SYSTEM OF PREFERENCES
GNI	GROSS NATIONAL INCOME
HICs	HIGH-INCOME COUNTRIES
HIPCs	HEAVILY-INDEBTED POOR COUNTRIES (see DAC List of Aid Recipients in this annex)
HPI	HUMAN POVERTY INDEX

IBRD	INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
ICB	INTERNATIONAL COMPETITIVE BIDDING
ICT	INFORMATION AND COMMUNICATION TECHNOLOGY
IDA	INTERNATIONAL DEVELOPMENT ASSOCIATION
IDAI	INTEGRATED DEVELOPMENT ACTIVITY INFORMATION
IDB	INTER-AMERICAN DEVELOPMENT BANK
IDGs	INTERNATIONAL DEVELOPMENT GOALS
IECDF	INTERNATIONAL ECONOMIC CO-OPERATION DEVELOPMENT FUND
IF	INTEGRATED FRAMEWORK FOR TRADE-RELATED TECHNICAL ASSISTANCE FOR LEAST DEVELOPED COUNTRIES
IFAD	INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
IFC	INTERNATIONAL FINANCE CORPORATION
ILO	INTERNATIONAL LABOUR ORGANISATION
IMF	INTERNATIONAL MONETARY FUND
IMSG	INFORMAL MULTILATERAL SECRETARIATS GROUP
ITC	INTERNATIONAL TRADE CENTRE
JBIC	JAPAN BANK FOR INTERNATIONAL CO-OPERATION
JITAP	JOINT INTEGRATED TECHNICAL ASSISTANCE PROGRAMME
KfW[2]	BANK FOR RECONSTRUCTION AND DEVELOPMENT (Germany)
LDCs	DEVELOPING COUNTRIES
LICs	LOW-INCOME COUNTRIES
LLDCs	LEAST DEVELOPED COUNTRIES
LMICs	LOWER MIDDLE-INCOME COUNTRIES
MDBs	MULTILATERAL DEVELOPMENT BANKS
MDGs	MILLENNIUM DEVELOPMENT GOALS
NEPAD	NEW PARTNERSHIP FOR AFRICA'S DEVELOPMENT
NGO	NON-GOVERNMENTAL ORGANISATION
NIS	NEW INDEPENDENT STATES (of the former Soviet Union)
NSSDs	NATIONAL STRATEGIES FOR SUSTAINABLE DEVELOPMENT
NTBs	NON-TARIFF BARRIERS
ODA	OFFICIAL DEVELOPMENT ASSISTANCE
ODF	OFFICIAL DEVELOPMENT FINANCE
OECD	ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
OLICs	OTHER LOW-INCOME COUNTRIES
OOF	OTHER OFFICIAL FLOWS
PDGG	PARTICIPATORY DEVELOPMENT AND GOOD GOVERNANCE
PRGF	POVERTY REDUCTION AND GROWTH FACILITY
PRSPs	POVERTY REDUCTION STRATEGY PAPERS
RBM	RESULTS-BASED MANAGEMENT
S-21	21st CENTURY STRATEGY
SAF	STRUCTURAL ADJUSTMENT FACILITY
SDR	SPECIAL DRAWING RIGHT

SNA	SYSTEM OF NATIONAL ACCOUNTS
SPA	STRATEGIC PARTNERSHIP WITH AFRICA (formerly Special Programme of Assistance for Africa)
SPS	SECTOR PROGRAMME SUPPORT
SSA	SUB-SAHARAN AFRICA
SWAps	SECTOR-WIDE APPROACHES
TC	TECHNICAL CO-OPERATION
TRIMs	TRADE-RELATED INVESTMENT MEASURES
TRIPs	TRADE-RELATED INTELLECTUAL PROPERTY RIGHTS
UMICs	UPPER MIDDLE-INCOME COUNTRIES
UN	UNITED NATIONS
UNCED	UNITED NATIONS CONFERENCE ON ENVIRONMENT AND DEVELOPMENT (Rio de Janeiro, 1992)
UNCTAD	UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
UNDAF	UNITED NATIONS DEVELOPMENT ASSISTANCE FRAMEWORK
UNDP	UNITED NATIONS DEVELOPMENT PROGRAMME
UNEP	UNITED NATIONS ENVIRONMENT PROGRAMME
UNESCO	UNITED NATIONS EDUCATIONAL, SCIENTIFIC AND CULTURAL ORGANISATION
UNFCCC	UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE
UNFPA	UNITED NATIONS FUND FOR POPULATION ACTIVITIES
UNHCR	UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES
UNICEF	UNITED NATIONS CHILDREN'S FUND
WFP	WORLD FOOD PROGRAMME
WHO	WORLD HEALTH ORGANISATION
WID	WOMEN IN DEVELOPMENT
WSSD	WORLD SUMMIT FOR SOCIAL DEVELOPMENT (Copenhagen, 1995)
WTO	WORLD TRADE ORGANISATION

1. This list is not exhaustive. It provides the most common development co-operation related acronyms, including those referred to in this report. Acronyms for country Ministries and Aid Agencies are provided in Chapter IV.
2. Denotes acronym in the original language.

DAC GUIDELINES

The OECD Development Assistance Committee (DAC) adopts policy guidance for Members in the conduct of their development co-operation programmes. These guidelines reflect the views and experience of the Members and benefit from input by multilateral institutions and individual experts, including experts from developing countries.

Shaping the 21st Century: The Contribution of Development Co-operation

Approved by the DAC High Level Meeting of 1996, *Shaping the 21st Century* sets forth strategic orientations for development co-operation into the 21st century. The report recalls the importance of development for people everywhere and the impressive record of human progress during the past 50 years. It suggests a set of basic goals based on UN Conference outcomes – for economic well-being, social development and environmental sustainability – as a vision for the future, and proposes strategies for attaining that vision through partnership in support of self-help efforts, improved co-ordination and consistent policies. These goals, and the partnership approach, have since been widely adopted in the international development system.

In this context, DAC Members have developed a series of guidelines for attaining the ambitious goals set out in *Shaping the 21st Century*.

The DAC Guidelines (2001):

- Poverty Reduction.
- Strategies for Sustainable Development.
- Strengthening Trade Capacity for Development.
- Helping Prevent Violent Conflict.

Previously Published DAC Guidelines

- DAC Guidelines for Gender Equality and Women's Empowerment in Development Co-operation.
- Support of Private Sector Development.
- Participatory Development and Good Governance.
- Donor Assistance to Capacity Development in Environment.
- Guidelines on Aid and Environment:

  No. 1: Good Practices for Environmental Impact Assessment of Development Projects.

  No. 2: Good Practices for Country Environmental Surveys and Strategies.

  No. 3: Guidelines for Aid Agencies on Involuntary Displacement and Resettlement in Developing Countries.

  No. 4: Guidelines for Aid Agencies on Global Environmental Problems.

  No. 5: Guidelines for Aid Agencies on Chemicals Management.

  No. 6: Guidelines for Aid Agencies on Pest and Pesticide Management.

  No. 7: Guidelines for Aid Agencies on Disaster Mitigation.

  No. 8: Guidelines for Aid Agencies on Global and Regional Aspects of the Development and Protection of the Marine and Coastal Environment.

  No. 9: Guidelines for Aid Agencies for Improved Conservation and Sustainable Use of Tropical and Sub-Tropical Wetlands.

Visit the OECD/DAC web site at

www.oecd.org/dac

Part I
Looking Ahead

Part II
Reviewing Donor Efforts

Tables

Charts

Boxes

From:

Development Co-operation Report 2001

Efforts and Policies of the Members of the Development Assistance Committee

Access the complete publication at:

https://doi.org/10.1787/dcr-2001-en

Please cite this chapter as:

OECD (2003), "Perspectives on Financing the Millennium Development Goals", in *Development Co-operation Report 2001: Efforts and Policies of the Members of the Development Assistance Committee*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/dcr-2001-4-en