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2006 Development Co-operation Report
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Chapter 1

Overview by the DAC Chair

This chapter examines three fundamental and linked aspects of ODA: overall aid volume, major trends in aid allocation and more effective aid delivery. It goes on to consider how donors can do more to encourage greater domestic accountability for public expenditure, including expenditure financed by aid, in developing countries. And it reports on some key measures of progress in the development assistance field.

Introduction

The Development Co-operation Report sets out to distil observations and trends from the most notable issues in international aid, and one of its main objectives is to chart developments in official development assistance (ODA). The task is particularly significant this year, following the big decisions on aid volume announced in 2005, so in the first part of this Chapter I will focus on seeking to shed light on three aspects of ODA:

- Overall aid volume.
- Major trends in aid allocation.
- More effective aid delivery.

While the volume and quality of ODA is central to the work of the Development Assistance Committee (DAC), it cannot too often be re-stated that aid is of limited significance compared to the efforts of developing countries themselves. Equally important are the effects of the policies adopted by both developed and emerging countries on issues such as trade, investment, security and the global environment. To my mind, a crucial aspect of development effectiveness is the success or otherwise of developing countries in creating and sustaining institutions, public and private, that hold the executive to account. The second section of this chapter therefore concentrates on what we can say about the key dimensions of domestic accountability, and how donors could do a better job of supporting them. Finally, I report on some dimensions of development assistance that I seek to track from year to year.

While I do not focus this year on the **results** of development activity, I should note that there are some encouraging signs that real progress is being made. Thus the 2007 global monitoring report *Education for All* published by UNESCO records a decline from 98 to 77 million over the period 1999-2004 in the number of children of primary school age recorded as not in school. Although these figures are taken from administrative records, which tend to overstate the level of attendance, the trend is clear. Survey data is also showing steep declines, of the order of 20-30%, in infant mortality across the last two Demographic and Health Surveys in several low-income African countries, such as Ethiopia, Malawi, Mozambique and Tanzania. Infant mortality in Tanzania, for example, fell by about 30% over 1999-2004.[1] A joint enterprise for development, of which I spoke last year, can indeed achieve real results. But we need to do a better job of communicating this.

Trends in development assistance: A medium-term perspective

Overall aid volume

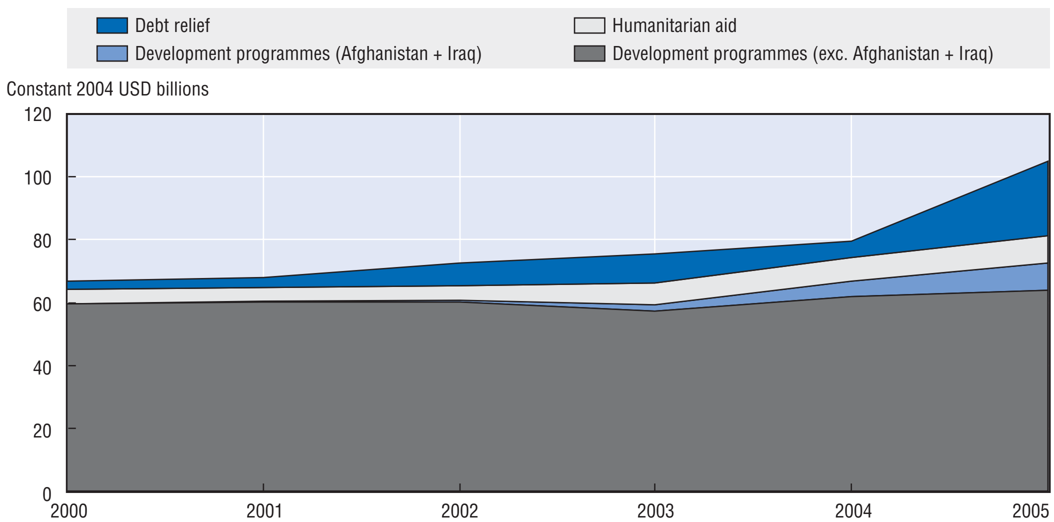
In 2005, most members of the DAC announced important medium-term plans to increase ODA. The DAC Secretariat published a widely-quoted “simulation” showing that if all donors respected their commitments, ODA from DAC members, as measured by the DAC, would rise from just under USD 80 billion in 2004 to USD 130 billion in constant dollars by 2010. In April 2006, this positive message was reinforced by the publication of estimated ODA net disbursement by DAC members of an unprecedented USD 106 billion in the calendar year 2005. At the same time, progress was being made in tapping innovative forms of finance for certain aid-financed objectives. Many donors outside the DAC announced their own plans to increase aid and other official flows, and Warren Buffett doubled the resources of the Gates Foundation overnight. So are we seeing the sort of aid expansion that some have long hoped for and other commentators view with concern?

DAC members' aid

Let us start by looking at the performance of DAC members, as this seems likely to be the most crucial single factor in the outcome. DAC ODA totalled USD 106.8 billion in 2005 compared to perhaps USD 1.5 billion from non-DAC OECD members, USD 2.5 billion from the Middle Eastern Funds and probably less than USD 3 billion from all other bilateral official donors.

The 2005 ODA figures were exceptional. Between 2004 and 2005 the increase in DAC ODA amounted to USD 25 billion of which a notable USD 18 billion is accounted for by increased debt relief, heavily dominated by the Paris Club settlements with Iraq in 2004 and Nigeria in 2005. The increase was therefore highly concentrated by recipient country, and delivered in a form which, by its nature, does not provide dollar for dollar transfers to the recipient. Excluding these exceptional items and a modest increase in both humanitarian aid and technical co-operation, bilateral aid rose sharply for the second successive year. However a large part of this increase was itself concentrated (particularly in Iraq and to a lesser extent Afghanistan), as Figure 1.1 shows. As a result, ODA (other than humanitarian aid and debt relief) to the vast majority of recipients as a group rose only very slightly in real terms.

Figure 1.1. **Major components of net ODA between 2000 and 2005**



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Some NGOs and other commentators have called for changes to the DAC definition of ODA to give more weight to "real aid", and some have argued that debt relief should be accounted for as additional to ODA. Those who cite the conclusions of the International

Conference on Financing for Development of March 2002 in support of the latter argument should, however, note that the text falls far short of any decision by the international community that this should be done.[2] Because of the importance of debt relief in ODA totals, at the end of this chapter we set out a brief account of how the DAC accounts for debt cancellation.

There is of course a case for looking further at how ODA is defined, within the basic parameters that it must be official, concessional and provided for a developmental purpose. Legitimate arguments can be made for both narrowing and widening the present scope. For example, one could narrow it by eliminating categories of flow that do not transfer either finance or expertise to developing countries, or widen it by recognising as ODA other forms of public expenditure by DAC member governments which assist developing countries cope with global threats. But the definition has the merit of existing as an international point of reference and its existing coverage, which has not changed in substance for over 20 years, corresponds to a certain broadly-accepted view of where reasonable boundaries should be drawn. It would be illogical to change it significantly (either by narrowing it or by broadening it), without at the same time reconsidering the many commitments now made by DAC members on future ODA volume, all of which are based on the existing definition.

The Paris Club debt settlement with Nigeria of October 2005 has raised a further issue about the accounting for debt-related transactions. This is described in Box 1.1.

Box 1.1. **Accounting for Nigeria's buy-back of part of its debt**

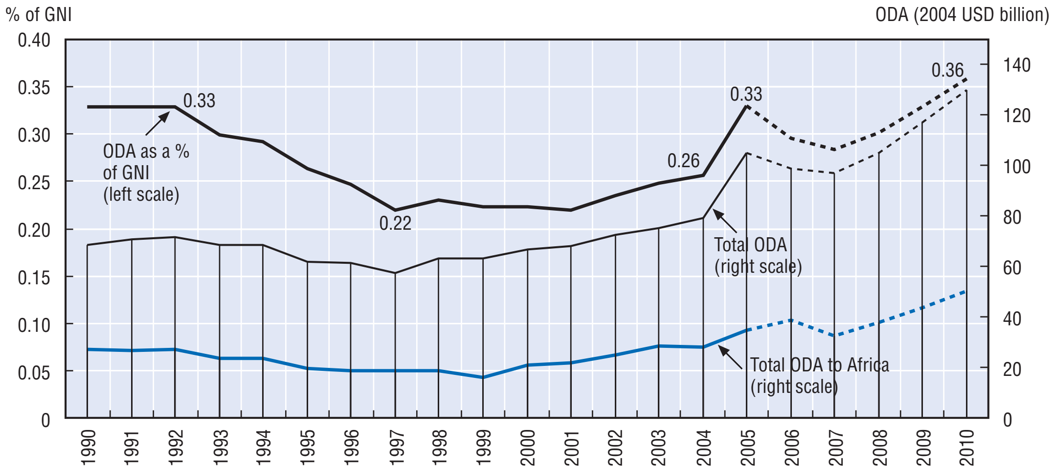
Within the Paris Club settlement of October 2005, Nigeria has bought back its outstanding debt after cancellation at an equivalent market rate of 60% of its face value, a payment of some USD 4.6 billion. The difference between the face value and the payment that official creditors received from Nigeria amounts to some USD 3.1 billion.

There is no precedent as to whether this sum can be reported as Official Development Assistance. The issue hinges on the requirement of the ODA definition that a transaction must have "the economic development and welfare of developing countries as its main objective". DAC members are divided as to whether the main objective of the buy-back element of the comprehensive debt relief package for Nigeria was developmental or commercial. Any ODA flows would be reported against the calendar year 2006, and therefore the issue does not affect the statistics shown in this report.

At the time of publication of this report, discussions were still ongoing within the DAC on the appropriate reporting of this transaction – and potentially of other future buybacks of debt. The conclusion of these discussions will be made public in a transparent manner at latest when the headline ODA figures for 2006 are announced in early April 2007.

In this situation, a particularly significant contribution by the DAC – and one that this report aims to offer – is maximum transparency about what flows are being recorded as ODA by DAC members both collectively and individually. This is particularly important to enable serious evidence-based discussion of policies to take place: for example, many econometric studies of aid are distorted by rolling together forms of ODA whose rationale and effects are quite different.

Figure 1.2. **DAC members' net ODA 1990-2005 and DAC Secretariat simulations of net ODA to 2006 and 2010**



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So what may we expect the size and composition of ODA to look like over the next few years, following the pledges of 2005? The latest DAC Secretariat simulation of future levels of ODA from DAC members to the year 2010 is shown in aggregate in Figure 1.2 and in more detail in Table 1.1. It is very important to note that these figures are indeed simulations – *i.e.* an attempt to quantify commitments made by most DAC members, and a reasoned estimate for those members who have not made such commitments. They are not forecasts of what will happen. Much past experience shows that world events have major effects on ODA levels. In some cases, as with major debt relief or large-scale emergencies, these events may increase planned aid levels. In others, for example, where national budgets are under pressure or national priorities change, or where commitments go beyond the bounds of the possible, outcomes may well fall far short of the simulation.

A particularly important issue is how far headline commitments translate into concrete action plans within donor administrations. A partial survey of DAC members carried out in 2006 showed that, for the members able to respond to questions about their plans to 2008, spending plans appeared to fall well short of a steady increase in levels agreed to by many DAC members for 2010. Although most public commitments are for the year 2010, it is clear that leaving delivery to sudden and colossal increases in the last year or two would not be a sensible policy. It is therefore very important that donors do in fact plan annual increases that bring aid to committed levels at a rate that facilitates effective planning and co-ordination at country level. This issue is of particular significance for Africa, to which donors have promised to double ODA between 2004 and 2010. It seems highly unlikely that debt write-off to Africa will continue at the levels of the recent past. Other forms of aid will therefore need to rise very fast to compensate for this if the target is to be reached.

A particularly significant test of donors' intentions will be their willingness to increase the funding for the next replenishments of the World Bank and African Development Bank soft funds, the International Development Association (IDA) and the African Development Fund (ADF). In both cases, the period for deposit of promissory notes will extend to 2010, and in both cases the forgiveness of credits to HIPC countries means that the funds will

Table 1.1. **OECD-DAC Secretariat simulation of DAC members' net ODA volumes in 2006 and 2010***

In constant 2004 USD million

The data below are not forecasts, but Secretariat projections based on public announcements by member countries of the OECD's Development Assistance Committee (DAC). The key figures from such announcements are shown as "Assumptions". To calculate net ODA and ODA/GNI ratios requires projections for GNI for 2006 and 2010. For 2006 and 2007 the projections of real growth for each country are taken from the OECD *Economic Outlook No. 79* (May 2006) Annex Table 1. For the period 2008-10, real annual GNI growth of 2% is assumed for all countries. While calculations have been discussed at technical level with national authorities, the **DAC Secretariat is responsible for the methodology and the final published results**. Note that debt relief levels are exceptionally high in 2005 and will also be high in 2006, assisting some donors to meet or exceed their 2006 targets. The 2006 simulations are based on stated targets and have not been adjusted for exceptional debt relief. Similar levels of debt relief are not expected in 2010.

	2005		Assumptions	2006		2010			
	Net ODA (2004 USD m)	ODA/GNI (%)		Net ODA (2004 USD m)	ODA/GNI (%)	Net ODA (2004 USD m)	ODA/GNI (%)	Real change in ODA compared with 2005: 2004 USD m	Real change in ODA compared with 2005: Per cent
Austria	1 539	0.52	0.33% in 2006 and 0.51% in 2010	998	0.33	1 674	0.51	134	9
Belgium	1 924	0.53	0.5% in 2006 and 0.7% in 2010	1 876	0.50	2 855	0.70	931	48
Denmark	2 076	0.81	Minimum 0.8%	2 108	0.80	2 290	0.80	214	10
Finland[1, 2]	883	0.46	0.44% in 2007 and 0.7% in 2010	819	0.41	1 512	0.70	629	71
France[1]	9 893	0.47	0.5% in 2007 and 0.7% in 2012	9 991	0.47	14 155	0.61	4 261	43
Germany	10 013	0.36	0.33% in 2006 and 0.51% in 2010	9 331	0.33	15 553	0.51	5 540	55
Greece	372	0.17	0.3% in 2006 and 0.51% in 2010	674	0.30	1 260	0.51	888	239
Ireland	703	0.42	EUR 734 million in 2006 and EUR 1.2 billion in 2010[8]	877	0.50	1 272	0.65	570	81
Italy	4 958	0.29	0.33% in 2006 and 0.51% in 2010	5 721	0.33	9 507	0.51	4 549	92
Luxembourg[1]	248	0.82	1% in 2009	284	0.90	352	1.00	103	42
Netherlands	5 036	0.82	Minimum 0.8%	5 166	0.82	5 498	0.80	463	9
Portugal	371	0.21	0.33% in 2006 and 0.51% in 2010	584	0.33	972	0.51	601	162
Spain[1, 2]	2 911	0.27	0.5% in 2008 and 0.7% in 2012	3 651	0.33	7 157	0.59	4 246	146
Sweden	3 377	0.94	1% in 2006	3 722	1.00	4 080	1.00	704	21
United Kingdom[1, 2]	10 640	0.47	0.47% in 2007-08 and 0.7% in 2013	9 682	0.42	14 851	0.59	4 211	40
DAC EU members, Total	54 943	0.44		55 484	0.43	82 988	0.59	28 045	51
Australia[3]	1 557	0.25	See footnote 3	1 813	0.28	2 538	0.36	980	63
Canada[4]	3 410	0.34	See footnote 4	2 897	0.28	3 648	0.32	238	7
Japan[5]	13 534	0.28	See footnote 5	9 922	0.20	11 922	0.22	–1 611	–12
New Zealand	251	0.27	0.27% in 2005-06 and 0.28% in 2007-08	254	0.27	284	0.28	33	13
Norway	2 494	0.94	1% over 2006-09	2 726	1.00	2 958	1.00	463	19
Switzerland[6]	1 757	0.44	See footnote 6	1 666	0.41	1 801	0.41	44	2
United States[7]	26 888	0.22	See footnote 7	24 000	0.19	24 000	0.18	–2 888	–11
DAC members, Total	104 835	0.33		98 762	0.30	130 139	0.36	25 303	24

1. ODA/GNI ratios interpolated between 2004 and year target is scheduled to be attained.
2. Finland aims to achieve 0.7% by 2010 "subject to economic circumstances"; Spain is aiming for a minimum of 0.5% by 2008, with the intention then to aim for 0.7% by 2012; the UK has announced a timetable to reach 0.7% by 2013.
3. Australia will increase its ODA to about 4 billion Australian dollars by 2010. The figures here assume ODA is 0.28% of GNI in 2006, and 4 billion Australian dollars in 2010, and allow for average annual inflation of 2.5% between 2004 and 2010.
4. Canada intends to double its 2001 International Assistance Envelope (IAE) level by 2010 in nominal terms. The ODA portion estimated here, supplied by the Canadian authorities, includes adjustments for inflation (approximately 2 per cent per annum) and for ODA expenditures outside the IAE.
5. Japan intends to increase its ODA volume by USD 10 billion in aggregate over the five years 2005-09 compared to its net ODA in 2004. The Secretariat's estimate assumes USD 1 billion extra in 2006 compared to 2004, and excluding exceptional debt relief and USD 3 billion extra in 2010.
6. The Secretariat's estimate assumes maintenance of 0.41% of GNI in the period 2006-10. A new goal is to be determined for the years from 2009.
7. Secretariat estimate based on 2004 ODA plus USD 5 billion per annum to cover the Gleneagles G8 commitments on increased aid to Africa, Millennium Challenge Account, and initiatives on HIV/AIDS, malaria and humanitarian aid.
8. These euro figures are converted to dollars at the 2004 exchange rate and discounted by 2 per cent per annum for inflation.

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require sharp increases in donor contributions to sustain, let alone to increase, their levels of operation. If donors are serious about scaling up, serious about compensating these institutions for the effects of the Multilateral Debt Reduction Initiative, wish to see multilateral aid channels sustained, and see the two soft funds as competent channels for part of their aid, donor contributions to these two replenishments should grow very significantly. It will be interesting to see whether they do so in practice.

Innovative finance

An interesting feature of the past year or so is that ideas for innovative forms of development assistance have moved ahead from the discussion phase to reality. The three main initiatives, all in the field of health, have been:

- The establishment of the International Finance Facility for Immunisation (IFFIm) in January 2006, with the support of France, Italy, Norway, Spain, Sweden and the United Kingdom.
- Pledges to introduce air ticket levies to fund development aid in a number of both OECD and non-OECD countries. As of September 2006, 19 developed and developing countries had taken at least initial steps to introduce an air ticket solidarity levy. The countries concerned are: Brazil, Cambodia, Cameroon, Chile, Congo, Cyprus, France, Gabon, Guinea, Ivory Coast, Jordan, Luxembourg, Madagascar, Mali, Mauritius, Nicaragua, Norway, South Korea and the United Kingdom.
- Agreement by – in the first instance – Canada, Italy and the United Kingdom on an "Advanced Market Commitment" to provide incentives to the development of vaccines of importance to developing countries but where the market demand is insufficient to attract the commercial sector.

How significant are these initiatives? The IFFIm is going to allow the GAVI Fund[3] (formerly the Vaccine Fund) to scale up its annual spending by up to USD 500 million, compared to total spending of about USD 600 million during its first five years of operation (to December 2005). This will therefore radically increase vaccination coverage, and estimates suggest that up to 500 000 child deaths a year can be averted. Part of the funding will be made available for strengthening health systems. The method of finance, which involves the GAVI Fund floating bonds (USD 4 billion anticipated over the period to 2015) which will eventually be redeemed by the donors, uses the market to advance funding – at a cost. The logic is that increased expenditure on vaccination now will have disproportionate benefits, for example, by driving down the unit cost or by bringing the level of some infectious diseases below a critical threshold. The additional USD 500 million per year will add to ODA flows **to** developing countries but only the annual payments by donors to IFFIm (which will be low in the early years) will score as ODA **from** the participating donors. In the coming years, therefore, the flows from this source will be substantially additional to planned ODA levels.

The scale of the contribution from air ticket levies obviously depends on the size of the levy and the number of tickets to which it applies. France, which will be one of the largest contributors, has estimated that, initially, an annual flow of some EUR 200 million (USD 250 million) might be provided from airline passengers taking flights from French airports. This would amount to roughly 2% of French ODA. It is estimated that total revenue from the initial group of countries might eventually reach the order of USD 1-1.5 billion a year, a figure that one would expect to rise with the increase in air travel, and of course if other countries decide to join in. The characteristics of the levy are very different from the IFFIm. In the first place, the funds do not have to be repaid. The full amount is therefore available indefinitely for development purposes. Based on this, the donors have decided to use the proceeds of the levy, together with predictable long-term budget contributions, to purchase treatment for malaria and TB as well as HIV/AIDS antiretroviral drugs, for which there will be a continuing requirement. Purchases will be managed *via* a new financing initiative known as UNITAID. Secondly, a mandatory levy for development purposes will score in full as ODA as soon as it is spent by the country imposing the levy. It is therefore interesting to see how far such levies are seen by donors as additional to their existing ODA commitments (the position taken, for example, by France and Norway), and how far are they perceived as a means to deliver on their commitments (the position taken, for example, by Germany and the UK). In the latter case, to what extent the funds may still be additional to what would otherwise have been provided in practice depends on the specifics of each case.

Based on this short analysis, one might expect the two initiatives above to increase developing countries' ODA receipts by up to USD 2 billion a year in the first instance, or some 2%. The percentage increase in aid-supported health spending will be a great deal higher, though there might be some substitution effect if countries spend less of other parts of their aid programmes on the objectives being targeted by the innovative finance initiatives. The Advanced Market Commitment – a market-based mechanism to support research and development of vaccines – will not increase aid flows as such; rather it will stimulate additional research and development by drug companies. This will, if successful, improve health outcomes and perhaps trigger ODA flows at some future date. There is no basis at this stage to judge whether such flows will be additional to whatever levels might otherwise have been available. The value of the initiative, if successful, will be more effective action against the diseases concerned.

Non-DAC donors

To what extent will transfers other than ODA from DAC members significantly add to these possible flows? I have argued elsewhere[4] that these have historically been larger in relation to DAC flows than was the case in the past 10-15 years; indeed ODA from the Organisation of the Petroleum Exporting Countries (OPEC) members alone reached 30% of worldwide ODA as long ago as 1978. In the recent past, flows from non-DAC countries have probably represented about 5% of worldwide ODA. This figure is set to rise again, on several accounts: *i)* non-DAC EU members are increasing their ODA rapidly in accordance with their established targets; *ii)* other non-DAC OECD members such as Korea and Turkey are increasing their already significant programmes; and *iii)* states which are members of neither the OECD nor the EU are embarking on, or expanding, ODA programmes. However, for the biggest emerging countries such as China and India, ODA programmes, while important, are likely to be less significant to developing countries than is the effect of the trade, investment and non-concessional flows of these very large countries. Non-DAC ODA will therefore become increasingly important, if starting from a much lower base. This effort by countries outside the DAC is to be welcomed, though better information on its amount and content is desirable. As with most other international issues, development assistance will become more multi-polar. It will however be very important, particularly for the poorer and more aid-dependent countries, that this broader effort is coherent and supportive of greater aid effectiveness and that, for example, debt remains at sustainable levels.

Foundations and NGOs

Flows from charitable and philanthropic sources have also risen rapidly, from USD 7 billion in 2000 to over USD 11 billion in 2004. These seem likely to continue to rise, although they remain modest in comparison to ODA flows. Total annual spending of major US foundations on development-related purposes was estimated at USD 3 billion a year in a recent report.[5] They are, however, particularly important in certain fields such as humanitarian aid and research into vaccines and tropical diseases, where major foundations and NGOs play an increasingly important role in both funding and in policy-setting. (For example, in 2004 the Gates Foundation spent over USD 800 million on international health programmes.) Closer co-operation between official and non-official donors needs to be promoted more systematically, including through the DAC. Indeed, the DAC will co-sponsor an international conference on the developmental role of philanthropic foundations with Portugal and the European Foundation Centre in March 2007.

Remittances

A good deal of prominence is also being given to remittances, sometimes obscuring the fact that remittances are flows from private citizen to private citizen and are therefore very different in character from official development assistance. Remittances are highly significant for many developing countries – ranging from large emerging countries like Mexico, to large poor countries like Bangladesh and to micro-states like the Cook Islands. As argued in the Development Co-operation Report for 2004, the headline figures need to be interpreted with care: many remittance flows are between developing countries, and there is a lack of good information on flows to many poor countries, for example sub-Saharan Africa (SSA). Estimates of remittance flows to SSA vary widely, but ODA from DAC countries is estimated to be perhaps up to four times larger than remittance flows from DAC countries to SSA. However, there is no doubt about their importance to the recipient communities, and there seems every reason to expect further rapid growth in their volume.

Commercial flows

Commercially-motivated flows have followed a path which combines a strong secular upward trend, linked to the process of globalisation, with cyclical fluctuations reflecting economic conditions in both capital exporting and capital importing countries. They are vastly more significant than ODA for the more successful emerging economies, and for countries with significant natural resources. And South-South investment and other commercial flows are becoming relatively more significant. ODA remains, however, more important than foreign direct investment and commercial lending for a large number of poor countries without, for example, large exploitable natural resources.

Conclusion

This rapid survey demonstrates the complexity of the various funding channels. Although it is hard to make confident predictions about how ODA programmes will develop, I will nevertheless offer an outline scenario that I consider reasonable:

- Overall ODA from DAC members will decline modestly in 2006 and 2007 from 2005 levels, as exceptional debt relief declines.
- Underlying ODA (*i.e.* excluding debt write-off and emergency aid) available to the average developing country should, however, start to increase up to 2007 after the relative flat profile of recent years, as donor commitments increase.
- The course of ODA after 2007 will depend crucially on the extent that DAC members can increase taxpayer-funded aid programmes faster than almost all other forms of public expenditure: even if they do so, a very steep climb will be necessary in the period 2008-10 if a figure of the order of USD 130 billion (at 2004 prices and exchange rates) is to be achieved in 2010. Arithmetically, this will require a 10% increase of ODA in 2008-10 on the basis of an underlying 5% increase in 2006-07 and no further exceptionally large debt relief agreements.
- ODA from DAC members will decline gradually as a proportion of total ODA, but remain close to 90% of total ODA for at least the period up to 2015.
- ODA will continue to decline gradually in comparison to both private grant-like flows (charitable donations and foundation funding), remittances and commercially-motivated flows, but will remain the predominant form of development finance for many poorer countries with limited diaspora, natural resources or other tradeable assets for many years yet.

Major trends in aid allocation

Much discussion about aid and development makes an unstated assumption that the world is static. The term "developing countries" itself suggests that there is a more or less unchanging group of "have-nots", whereas in fact some of these countries have experienced astonishing rates of growth over long periods which have radically changed the conditions of life of their people. While there is certainly evidence that there is a large hard-core of people who live in chronic, extreme poverty, many others move in and out of it.

It is therefore important to look at how aid flows have been changing over the years, and to consider what pattern of aid would have the best effect on the sustainable reduction of poverty in the future, particularly in the expectation of a continued increase in ODA as argued above. The OECD-DAC publishes ODA figures each year, but trends need to be observed over a much longer period. This section is based on looking at changes between three two-year periods (two-year averages help to damp some of the exceptional fluctuations that occur on the basis of annual figures): 1994-95; 1999-2000; and 2004-05, which uses the most recent data available. I would highlight the value of the annual DAC publication "Geographical Distribution of Financial Flows to Aid Recipients",[6] which is a gold mine of relevant information, from which much of the analysis below is drawn.

Aid by type of flow

Table 1.2 shows the changes in how donors have been allocating their aid by main categories of ODA over the last decade.

Table 1.2. **DAC countries' net disbursements**

	In constant 2004 USD million			As a percentage of total ODA		
	1994-95	1999-2000	2004-05	1994-95	1999-2000	2004-05
Bilateral grants						
Technical co-operation	15 129	15 479	19 590	23	24	21
Developmental food aid	1 878	1 270	1 017	3	2	1
Humanitarian aid	3 931	5 011	7 919	6	8	9
Debt relief grants	4 046	3 099	16 062	6	5	17
Aid to NGOs	1 343	1 774	2 365	2	3	3
Administrative costs	3 024	3 636	3 995	5	6	4
Other (project and programme grants)	11 078	10 952	18 434	17	17	20
Total bilateral grants	**40 429**	**41 222**	**69 381**	**62**	**63**	**75**
Bilateral loans	**4 572**	**3 105**	**–1 924**	**7**	**5**	**–2**
of which: Offsetting entry for debt forgiveness	–582	–712	–2 683	–1	–1	–3
Total bilateral ODA	**45 001**	**44 327**	**67 457**	**69**	**68**	**73**
Contributions to multilateral institutions						
United Nations	4 976	5 449	5 238	8	8	6
EC	6 110	6 778	9 008	9	10	10
World Bank (IDA, IBRD, IFC, MIGA)	5 606	4 063	5 730	9	6	6
Regional development banks and funds	1 998	2 376	2 165	3	4	2
Other	1 665	2 092	2 524	3	3	3
of which: Global Funds	–	544	1 627	–	1	2
Total contributions to multilateral institutions	**20 355**	**20 757**	**24 665**	**31**	**32**	**27**
Total Official Development Assistance	**65 356**	**65 084**	**92 122**	**100**	**100**	**100**

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Key points from this analysis are that:

- The sharp rise of debt relief grants has significantly affected the "normal" proportions of aid spending. Thus the multilateral share of ODA has fallen sharply in the latest period, despite increases in real terms in contributions to multilateral agencies.
- Within bilateral aid, the largest proportional increases over the decade were in debt relief, emergency aid and project and programme grants (which were boosted by increased spending in Iraq and Afghanistan in particular). Technical co-operation also rose in the more recent past. Aid provided to NGOs has risen quite significantly, and developmental food aid (excluding emergency food) has fallen.
- Bilateral loans, even after stripping out the offsetting entry for debt forgiveness, are now an insignificant form of net disbursements. Gross bilateral lending, however, remains significant (it amounted to USD 8 billion in 2004).
- Among the various multilateral channels, the European Commission (a quasi-multilateral body) has become more significant as a channel. Donor contributions to UN core funding and to the Multilateral Development Banks have been remarkably consistent in real terms (hence declining as a proportion of total ODA) while aid to "other" multilaterals, such as the global funds, has increased rapidly.

Aid by region

Where has this money been going? Table 1.3 shows the allocation of net aid from all donors (DAC and non-DAC, including multilateral) by region and by income group, both in constant 2004 US dollars and in percentage form. The analysis is based on the share of ODA

Table 1.3. **Net ODA from all donors allocable by region[1] and income groups**

	Including debt relief			Excluding debt relief		
	1994-95	1999-2000	2004-05	1994-95	1999-2000	2004-05
	Constant 2004 USD billion					
Africa	25.8	19.9	32.0	24.7	18.4	25.4
Sub-Saharan Africa	21.2	16.1	28.6	20.3	14.9	22.2
North Africa	3.9	3.0	2.7	3.7	2.7	2.5
Asia	16.7	16.4	17.8	16.5	16.0	17.5
South and Central Asia	7.9	6.9	10.2	7.8	6.6	10.1
Far East	8.5	9.3	7.1	8.4	9.1	6.8
America	6.8	6.5	6.5	6.5	6.4	6.0
North and Central America	3.7	3.3	3.3	3.6	3.2	2.8
South America	2.6	2.6	2.7	2.5	2.5	2.7
Middle East	4.1	2.8	15.8	3.9	2.8	8.8
Oceania	2.1	1.4	1.0	2.1	1.4	1.0
Europe	2.5	4.8	3.8	2.5	4.6	3.7
Total allocable by region	57.9	51.9	76.9	56.2	49.6	62.4
Memo: Unallocated by region	8.2	10.4	14.8	8.2	10.4	14.8
Least developed	19.2	15.8	25.4	18.5	14.8	23.0
Other low-income	10.9	9.3	14.2	10.4	8.9	9.8
Lower middle-income	19.3	19.8	29.4	18.9	19.0	21.8
Upper middle-income	3.1	2.2	2.6	3.0	2.2	2.6
More advanced developing countries	2.2	0.6	0.1	2.2	0.6	0.1
Total allocable by income	54.7	47.8	71.7	53.0	45.5	57.2
Memo: Unallocated by income	11.5	14.5	20.0	11.5	14.5	20.0
Total	66.2	62.3	91.7	64.4	60.0	77.2
	As a percentage of allocable					
Africa	44	38	42	44	37	41
Sub-Saharan Africa	37	31	37	36	30	36
North Africa	7	6	4	7	5	4
Asia	29	32	23	29	32	28
South and Central Asia	14	13	13	14	13	16
Far East	15	18	9	15	18	11
America	12	13	8	12	13	10
North and Central America	6	6	4	6	6	4
South America	5	5	4	4	5	4
Middle East	7	5	21	7	6	14
Oceania	4	3	1	4	3	2
Europe	4	9	5	4	9	6
Total allocable by region	**100**	**100**	**100**	**100**	**100**	**100**
Memo: Unallocated by region as % of total ODA	12	17	16	13	17	19
Least developed	35	33	35	35	33	40
Other low-income	20	20	20	20	19	17
Lower middle-income	35	41	41	36	42	38
Upper middle-income	6	5	4	6	5	5
More advanced developing countries	4	1	0	4	1	0
Total allocable by income	**100**	**100**	**100**	**100**	**100**	**100**
Memo: Unallocated by income as % of total ODA	17	23	22	18	24	26

1. Each region includes regional amounts which cannot be allocated by sub-region. The sum of the sub-regional amounts may therefore fall short of the regional total.

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that can be allocated by country, thus in effect assuming that the share that cannot be allocated (and which has risen from 18% in 1994-95 to 26% in 2004-05) is allocated *pro rata*.

Looking first at the regional analysis, Table 1.3 shows that, for many regions, trends between 1994-95 and 1999-2000 were reversed in the last few years. Thus for sub-Saharan Africa and the Middle East, aid fell in the first period but these falls were offset in the second period, taking the share of these regions back to, or above, their shares in 1994-95. For the Far East and Europe, rises between 1994-95 and 1999-2000 were reversed in the later period, though in the case of Europe, the proportion of total ODA remained above that of 1994-95. The figures for both the Middle East and Oceania are distorted by the fact that three major recipients of ODA in 1994-95 (Israel and the two French overseas territories of French Polynesia and New Caledonia) were removed from the list of eligible ODA recipients in 1997 and 2000 respectively. This makes the rise in aid to the Middle East even more significant.

While it is hazardous to draw long-term conclusions from this regional analysis, it would seem likely that some features of the past five years will indeed be pointers to the future. We may well see a further decline in the share of aid to Europe and the Far East, as more countries in these regions progress with their development (though the recent inclusion of Belarus and the Ukraine in the DAC List of ODA Recipients may slow the decline in Europe's share in the short term). We should also see a further rise in aid to sub-Saharan Africa (and maybe also to North Africa) as the commitments to double aid to Africa between 2004 and 2010 have their effect. Lastly, there are the unpredictable impacts of crises which result in large programmes such as those now being delivered in Iraq and Afghanistan.

Aid by income group

The analysis by income group is, in some ways, clearer. ODA is being allocated more closely to where the poor live. This is again partly because of the revisions to the DAC List mentioned above, but 96% of all reported ODA now goes to the poorer range of developing countries (least developed, low income and lower middle-income countries). An allocation *pro rata* to the number of poor people living on under a dollar a day[7] would entail little change in the allocation by income groups but major changes at the level of individual countries. It would result, notably, in a large increase in aid to India. However, India has prepaid numerous bilateral loans and thinned out the number of donors providing assistance, showing how marginal aid has been to its overall economy. The addition of multilateral aid to this analysis would raise the percentages going to the poorest countries even further.

Aid by individual recipient

It is interesting to go beyond the analysis by groups and look at individual aid recipients. Table 1.4 shows the top 25 recipients of DAC members' ODA in each of the three periods, and illustrates some important changes in the country allocation of ODA:

- It shows that several countries have, in essence, been either promoted out of the category of ODA recipients completely because of changes in DAC classifications (*i.e.* Israel) or become much less significant users of net ODA as they have developed (*e.g.* Thailand, Philippines). China's and India's ODA receipts have nearly halved in real terms over the decade, though India's latest figures reflect one-off debt repayments as noted above, and may therefore rise somewhat going forward. These changes are logical.

Table 1.4. **Main recipients of total ODA**

Net disbursements,[1] two-year averages

1994-95			1999-2000			2004-05		
	Current USD million	Constant 2004 USD m		Current USD million	Constant 2004 USD m		Current USD million	Constant 2004 USD m
China	3 304	3 300	China	2 061	2 320	Iraq	6 139	6 038
Egypt	2 209	2 559	Indonesia	1 819	1 933	Afghanistan	2 482	2 448
India	1 985	2 083	Viet Nam	1 543	1 715	Viet Nam	1 871	1 866
Bangladesh	1 502	1 681	India	1 472	1 702	Ethiopia	1 802	1 780
Indonesia	1 421	1 380	Egypt	1 231	1 436	China	1 721	1 728
Top 5 recipients	**10 422**	**11 003**	**Top 5 recipients**	**8 126**	**9 106**	**Top 5 recipients**	**14 015**	**13 860**
Zambia	1 325	1 460	Bangladesh	1 019	1 285	Tanzania	1 573	1 557
Côte d'Ivoire	1 280	1 438	Serbia and Montenegro	905	1 236	Pakistan	1 514	1 500
Pakistan	1 209	1 310	Tanzania	864	1 105	Sudan	1 410	1 386
Mozambique	1 051	1 239	Thailand	856	861	Bangladesh	1 350	1 334
Philippines	977	976	Mozambique	796	1 030	Mozambique	1 260	1 245
Top 10 recipients	**16 263**	**17 426**	**Top 10 recipients**	**12 566**	**14 622**	**Top 10 recipients**	**21 122**	**20 883**
Ethiopia	897	1 044	Bosnia and Herzegovina	731	945	India	1 209	1 194
Tanzania	895	1 020	Ethiopia	663	829	Uganda	1 196	1 183
Israel	786	951	Uganda	650	832	Congo, Dem. Rep.	1 176	1 163
Viet Nam	767	843	Philippines	632	695	Palestinian Adm. Areas	1 119	1 105
Uganda	763	879	Pakistan	628	715	Indonesia	1 059	1 050
Top 15 recipients	**20 372**	**22 164**	**Top 15 recipients**	**15 870**	**18 639**	**Top 15 recipients**	**26 882**	**26 579**
Sts Ex-Yugoslavia unsp.	733	874	Ghana	604	732	Ghana	1 042	1 032
Thailand	707	648	Nicaragua	603	742	Serbia and Montenegro	1 031	1 019
Rwanda	700	817	Honduras	587	709	Egypt	1 008	997
Kenya	695	757	Palestinian Adm. Areas	577	717	Sri Lanka	848	840
Bosnia and Herzegovina	660	744	Zambia	556	702	Morocco	702	695
Top 20 recipients	**23 866**	**26 003**	**Top 20 recipients**	**18 797**	**22 242**	**Top 20 recipients**	**31 513**	**31 161**
Haiti	630	738	South Africa	514	661	Nigeria	690	681
Senegal	606	668	Morocco	514	654	Kenya	687	680
Bolivia	587	647	Bolivia	504	624	Zambia	683	676
Ghana	587	636	Jordan	477	556	Madagascar	683	678
Sri Lanka	573	587	Malawi	435	546	Bolivia	673	668
Top 25 recipients	**26 849**	**29 278**	**Top 25 recipients**	**21 241**	**25 283**	**Top 25 recipients**	**34 930**	**34 545**
Total (176 recipients)	**47 969**	**52 976**	**Total (163 recipients)**	**37 514**	**45 469**	**Total (154 recipients)**	**57 868**	**57 244**
Total bilateral net	**57 980**	**64 428**	**Total bilateral net**	**49 314**	**60 003**	**Total bilateral net**	**78 062**	**77 211**

1. Excluding debt relief.

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- Equally logical is the fact that donors are responding to good performance: there have been rises in ODA to Viet Nam, Tanzania, Uganda and Ghana, for example. Mozambique initially experienced a falling level of ODA as emergency aid was replaced by development aid, and then rising receipts as progress was rewarded. Bangladesh has remained a very consistent recipient of aid throughout the decade, while Pakistan has returned to former levels after a decline and Egypt has received significantly less in each period.
- The table underlines the high costs in terms of ODA of major crises for: Rwanda in 1994-95; the various states emerging from the former Yugoslavia through much of the 1990s; Honduras and Nicaragua after Hurricane Mitch in 1998; and above all Iraq, together with Afghanistan, Sudan and the Palestine Administered Areas in 2004-05, and Indonesia and Sri Lanka after the tsunami.

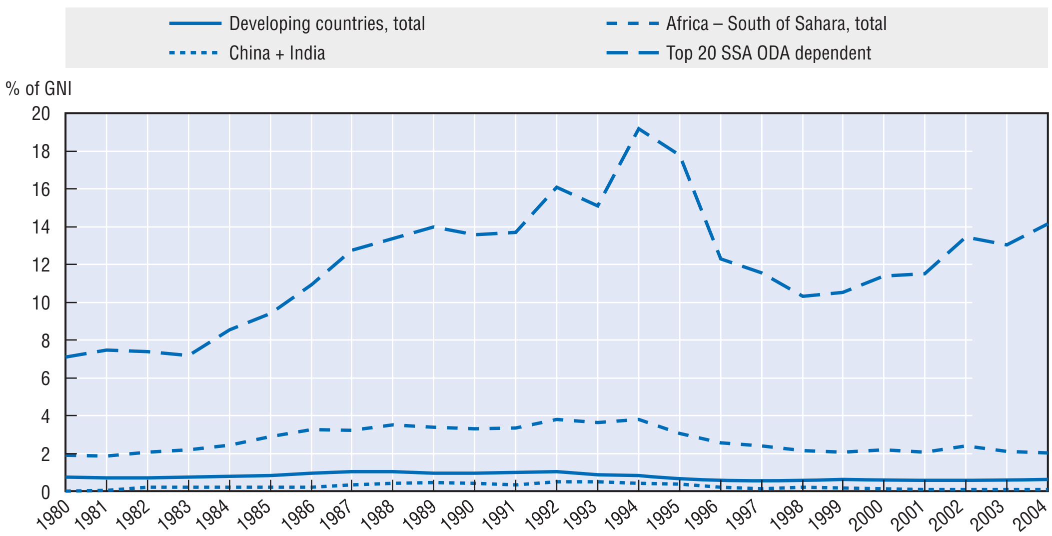
Aid dependency

A question often asked is whether aid dependency has reached, or is likely to reach, levels that threaten developing countries' macroeconomic stability and competitiveness ("Dutch disease") or leave them unhealthily dependent on aid. Figure 1.3 attempts to elucidate this issue by showing aid/GNI ratios over the period since 1980. It shows that levels of aid dependence across the developing world are low and stable, after a significant decline in the early/mid-1990s, and, not surprisingly, insignificant in China and India. Even in sub-Saharan Africa, they are only around 2%, compared with over 3% for the period 1986-94, though this figure reflects the weight of large economies like South Africa and Nigeria, where ODA/GNI levels are particularly low.

The top line shows the ratio for the 20 sub-Saharan African countries with the highest ODA/GNI ratios in each year, excluding very small economies (defined as those with a

Figure 1.3. **Net ODA receipts as a percentage of recipients' GNI**

Excluding debt relief and emergency aid



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population of less than 5 million), where dependency levels are typically high, but which account for a very small proportion of the world's poorest people. As the chart indicates, for this group, the average ODA/GNI ratio is usually in the low teens, with a peak in the early 1990s, and a recent increase after a significant decline. Such ratios are below most estimates of the levels at which marginal returns to aid would be expected to decline markedly.

If aid rises, as promised by many DAC members, these ratios may be expected to rise somewhat, particularly for Africa, where the G8 has committed its members to a doubling of their ODA between 2004 and 2010 and EU members have committed themselves to allocating half their aid increases over that period. The extent of the rise will depend on how far aid rises faster than overall economic growth (which has been running at about 5% even in Africa in the recent past). Its macroeconomic significance will also depend on how far the increment is delivered in forms that impact on the local economy. Total ODA includes several types of assistance (debt relief, emergency aid, and to some extent, technical assistance) that have much less economic impact than their face value may suggest. And, as argued by Killick and Foster,[8] the balance of spending between imports and local goods and services, and between infrastructure and the social sectors, is also highly relevant. The rate at which ODA is "absorbed" (*i.e.* leads to increased imports) is also a critical factor.

On the basis of plausible assumptions on rates of growth, it seems unlikely that the average ODA/GNI ratio for the "top twenty" group will exceed by 2010 the levels of the early 1990s, still less the benchmark of 20% sometimes cited as a level of dependence likely to cause difficulties.

It is however of some interest to look at countries which are already at such a level of aid dependence. Table 1.5 shows the 18 recipient countries for which net ODA receipts exceeded 20% of GNI in 2004-05.

It will be noted that the vast majority of these recipients fall into one or both of two main groups: first, very small states – usually islands, with few natural resources – which

Table 1.5. **Total net ODA as a percentage of recipients' GNI**

	1994-95	1999-2000	2004-05
Sao Tome and Principe	159.3	73.8	60.2
Solomon Islands	15.7	17.3	59.1
Liberia		22.3	53.8
Burundi	31.4	11.0	50.9
Micronesia, Fed. States	39.5	46.4	40.0
Afghanistan			37.7
Eritrea	27.0	24.6	32.7
Sierra Leone	29.1	20.3	32.0
Marshall Islands		45.2	30.9
Timor-Leste		64.8	28.8
Guinea-Bissau	63.8	32.1	28.5
Congo, Dem. Rep.	4.4	3.8	28.4
Malawi	36.3	25.9	27.7
Rwanda	68.6	18.7	27.3
Madagascar	10.1	9.1	23.6
Congo, Rep.	17.7	4.5	21.8
Mozambique	56.0	23.0	21.5
Nicaragua	23.4	17.0	21.5

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may well remain aid-dependent for the foreseeable future. The second group is fragile states, often embroiled in, or emerging from, conflict and where, based on past experience, exceptionally high levels of ODA/GNI are likely to decline. Furthermore, in some cases, the figures are inflated by debt relief, as in the case of the Democratic Republic of Congo. Madagascar, Malawi, Rwanda and Mozambique appear to be the prime examples where neither criterion applies in the recent past, though some countries would have been regarded as highly "fragile" in earlier years, when indeed several of them had much higher aid-dependency figures. Other countries which could see their aid/GNI ratio rising to over 20% by 2010 if commitments are delivered include Burkina Faso, Ethiopia, Ghana, Guyana, Niger, Tanzania and Uganda. Overall, the analysis suggests that very high levels of aid dependency are likely to be rare despite the scaling-up of aid. But managing levels of around 20% of GNI over the medium term is a significant challenge, to be considered further in the next section.

More effective aid delivery

A central theme of much work in the DAC and elsewhere over recent years has been the search for practical steps that would enhance aid effectiveness by tackling some of the unnecessary complications and duplication inherent in much aid delivery. The points of contention are well known, and are particularly acute in poor countries that are relatively dependent on aid and have a modest capacity to manage it. They could become even more acute if aid rises sharply and the sources of aid finance continue to diversify.

Problems include donor-led approaches that are not really "owned" by the recipient country or institution, lack of alignment of aid to local priorities, inadequate use of local systems and over-reliance on stand-alone donor-led structures and accountability. The sheer inefficiency and waste caused by the large number of donors operating in the same field each with its own "rule-book", procedures and decision-making systems compounds the muddle. This is despite the fact that, in most cases, all donors agree on the results they are seeking to help developing countries achieve, with the Millennium Development Goals providing an agreed focus at world level. The High Level Forums held in Rome (2003) and in Paris (2005) have helped cement the international discourse about aid effectiveness, with emphasis on the key principles of ownership, alignment, harmonisation, managing for results, and above all mutual accountability between donors and recipients. It is particularly noteworthy that all G-20 countries signalled their support for the Paris Declaration at the G-20 meeting in Melbourne in November 2006.

But is any of this guidance having an effect on what is really happening at country level? In seeking to address this question, it is important to note that virtually every good practice document drawn up by the DAC and others over the past 5 years is visible and being applied in some country or another. Yet, as a survey of a cross-section of developing countries found in 2004: "Good practice is not yet general practice". In 2006, new insights were available as a result of the first round of monitoring since the Paris High Level Forum, and these are analysed in Chapter 3. While this survey was designed to provide baseline data, rather than evidence of change, there is enough material to identify areas where the targets set in Paris for achievement by 2010 will require renewed energy and attention by both recipients and donors.

Information suggests that actions in support of the Paris agenda are being taken in at least 60 countries. Broad and substantial implementation is at hand in 5-8 countries and good, but less extensive, implementation in 10-15 others. In addition, 31 countries have signalled their commitment to reform by undertaking the 2006 Survey on Monitoring the Paris Declaration.

The Survey strongly suggests that greater attention is needed on managing the costs of delivering aid. But it is very important to recognise that aid effectiveness goes beyond the reduction of transaction costs: it must also involve stronger and more accountable institutions at country level. One part of this is the role and credibility of the budget systems of recipient countries, and here the Survey makes clear that there are substantial discrepancies between the funds disbursed by donors and the information recorded in the budget.

It is also clear that some of the processes recommended in the Paris Declaration may, at least initially, involve costs, not least for donors. Evidence suggests that co-ordinated multi-donor programmes may require 15-20% more time and resources than traditional stand-alone projects – although this may well be a price worth paying for better and more sustainable results. It will therefore be important to continue to look for incentives which encourage greater harmonisation and alignment by donors in the face of pressures to "get on with the job". Chapter 3 gives a fuller account of the results of the Survey.

Promoting domestic accountability

What's the problem?

As I mentioned earlier, overall, the dependence of developing countries on aid has decreased since the early 1990s. This is because average growth rates have tended to exceed the growth rate of ODA, and for some countries ODA receipts have fallen as the countries have progressed. However, for a significant number of small countries and a few larger very poor countries, or countries emerging from crises, ODA accounts for a very large proportion of the national economy. I also argued that if promised ODA increases are in fact delivered, the number of countries concerned could grow, particularly in sub-Saharan Africa.

Several authors have suggested that where ODA is relatively large there can be significant negative side-effects. There is a risk not only of loss of international competitiveness (the so-called Dutch Disease problem), but that the whole process of domestic accountability could be undermined.[9] Donors need to recognise the potential dangers of this. Every country needs to have systems, formal or informal, which hold their public authorities to account. History shows that a government's need to raise revenue has often driven a process leading to more democracy and more domestic accountability. History also shows that without such accountability mechanisms the risks of tyranny and kleptocracy are very serious, even for regimes that start out with strong developmental aims. Indeed, some very unattractive regimes have stayed in office for a long time in countries where revenue can be relatively easily extracted from natural resource rents (one version of the so-called "resource curse").

Consequently, there is at least a discussion to be had over whether levels of aid that are high relative to domestic taxation may weaken domestic accountability, however virtuous the intentions of the donor community. In an article entitled "Is Aid Oil?",[10] Paul Collier argued that aid is less intrinsically likely to have such an effect than are large revenues, but there are clearly risks. Put crudely, discussion between finance ministry officials and local – often quite junior – donor officials may carry more weight than the views of the legislature or local civil society. At the same time, the need to expand basic services and infrastructure in order to lift more people out of poverty, illiteracy and ill health argue for a rise in public as well as private investment and service delivery. For a significant number of countries there will be a real choice, if donors deliver on their pledges, between keeping aid dependence within bounds and responding to the needs of their citizens.

Here then is the problem: can developing countries which face relatively high levels of aid dependency both accept increased aid where it is on offer, and strengthen the accountability of their governments to their citizens? This is all the more important if we are to see an effective programme for reducing the extent of corruption. Corruption has to be tackled in both OECD and non-OECD countries, and most successes against corruption have been achieved through greater domestic accountability. A recent survey of 56 partner organisations of the network Catholic International Cooperation for Development and Solidarity (CIDSE) in 24 Southern countries showed that a vast majority of respondents said that donors should prioritise "… the accountability of the state to their citizens" as one of their first reform agenda items. Such an approach needs to be accompanied by work to ensure that OECD countries assume their own role with regard to corruption in developing countries. Much work is underway in the OECD and elsewhere to address private sector bribery, money laundering, weak banking regulations and recovering illegally acquired assets held in OECD countries. Greater acknowledgement of these "supply-side" problems can also make the position of donors more credible in their dialogue with partner governments over governance issues.

However, we should also recognise the difficulties of effective intervention. Donors have a long track record of trying to "enable the state to work better" by helping to build the capacity of public institutions, particularly those of the government itself. It is a much more delicate task for outsiders to become involved in the underpinnings of the social contract that sets the terms of the local political debate. And experience shows that deep-seated cultural and structural factors, which exist in every society, are seldom amenable to rapid change, particularly change pressed by outsiders. Much more progress is likely in those circumstances – as with the accession of Central European states to the European Union – where there is a basic consensus in society itself that things have to change.

Issues of domestic accountability are particularly significant for donors who provide assistance directly through the budget of recipient countries. Budget support exposes donor funds to the same risks as the contributions of local taxpayers. The systems whereby the latter are accounted for therefore become of central importance. Budget support both requires close attention to issues of domestic accountability and also provides new possibilities to address them.

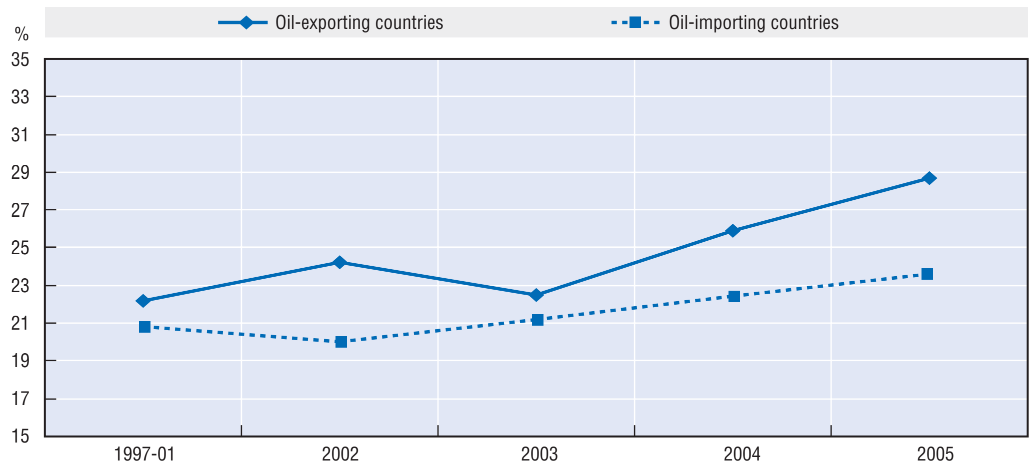
More attention to the revenue side of the budget

In this section I identify some areas where donors could – and should – be doing more, and more effectively, to promote greater accountability by the governments of poor counties to their citizens. The international community has developed quite sophisticated methods for discussing and assessing spending priorities. The Poverty Reduction Strategy (PRS) process, a central feature in most aid-dependent countries, deals extensively with how the government should use the resources available to it, and how international aid can support these priorities. Medium-term expenditure frameworks are increasingly used to help translate the aims of such strategies into spending plans. A serious attempt has been made in the second generation of such strategies to improve consultation with non-government actors in the formulation of these priorities, though arguably too little weight is still being given to the views of parliaments as opposed to those of interest groups and non-governmental organisations (NGOs). But overall, the focus on the composition of government expenditure is not matched by equivalent focus on the sources of local revenue and the scope for enhancing them.

The statistics are telling: of the USD 7.1 billion ODA spent in 2005 on government administration, economic policy and public sector financial management, only 1.7% went on tax-related assistance. The figures for 2004, 2003 and for 2002 were 2.7%, 2.2% and 3.5% respectively (IMF assistance is additional to these figures).

There is, in this connection, some encouraging news from sub-Saharan Africa. As Figure 1.4 shows, revenue has been rising steadily for the past few years as a share of GNI, even in countries without oil resources.

Figure 1.4. **Government revenue, sub-Saharan Africa, as per cent of GDP**



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The previously referenced article by Moss, Pettersson and van de Walle[9] surveys the literature on whether higher levels of aid tend to depress the revenue raising effort. They quote several pieces of work that imply that high aid is usually associated with low levels of domestic revenue and *vice versa*, but prudently conclude that it is hard to be certain that higher levels of aid weaken revenue-generating endeavours. Nevertheless, there seems to be a strong case for donors to make a greater collective effort to encourage and support higher levels of domestic revenue collection in aid-dependent countries, particularly those where levels of dependence are high or rising significantly. The large number of countries where aid dependence has fallen shows what can be done. To give just one example, ODA receipts declined as a share of Bangladesh's national income from 5.9% in 1984 to 2.4% in 2004, and the share of local taxation in the budget thus increased markedly. For most aid-dependent countries, it should be feasible to envisage a process, already well advanced in many lower middle-income countries, whereby:

- ODA increases in the short to medium term to support not only better service delivery but the underpinnings of higher growth (infrastructure, the productive sector, better public institutions, a healthier and better educated workforce).

- In the medium term, aid begins to fall as a proportion of current spending as local revenue grows.
- In the longer term, most countries become able to finance the large bulk of current spending, and to tap sources of capital spending other than ODA on an increasing scale.

There will be some exceptions, notably countries penalised by high transport costs and limited resources such as remote island communities, where it is difficult to envisage a future without continued recurrent aid support from donors, and where an open-ended commitment to international support or (even better) the establishment of some kind of "endowment fund", as in Tuvalu, may be the only way to maintain reasonable living standards.

Improved revenue collection does not necessarily mean a high and rising level of taxes on individuals or companies. In most developing countries the priorities are:

- To widen the tax base (particularly beyond trade-related taxation, where the negative effects of high rates of duty are well documented). As history shows, the wider the tax base, the greater the demands for effective representation.
- More effective, simple and transparent collection of existing taxes.

Box 1.2 shows recent examples of where relatively rapid progress has been made through strong local commitment and effective institutional support from donors. There is scope for many more collaborations of this kind.

Box 1.2. **Examples of improved tax collection**

The case of the Rwanda Revenue Authority illustrates the gains that can be made with revenue mobilisation, even in apparently unpropitious broader governance conditions. In just 6 years, it became a high performing and well respected body, helping to increase domestic revenue generation from 9.5% to 13% of GDP. Success can be put down to effective leadership, responsive donor support, institutional independence and semiautonomy and attention to educating taxpayers and information campaigns as a means of drawing citizens closer to the state.

Source: Land, A. (2004), "Developing capacity for tax administration: The Rwanda Revenue Authority", ECDPM Discussion Paper 57D, Maastricht: ECDPM.

Donors have been supporting the Government of Orissa's Commercial Tax Department (CTD) to improve tax collection and to prepare the state for value added tax (VAT) implementation under the Orissa Public Sector Reform Programme (OPSRP). The OPSRP seeks to assist the government in increasing its spending for poverty reduction by making its governance systems more effective and responsive. CTD has simplified and rationalised its tax rates; strengthened border controls to reduce tax evasion; and informed the wider public on the benefits of a new VAT system. The result has been that the implementation of VAT has enabled the state to register a healthy growth rate of 22% in tax revenue collection for 2005-06.

Source: DFID.

Several OECD donors are using communications as a development tool in partner countries to increase citizen participation and "grow" the demand for accountability, as against just using communications as a tool for public relations or corporate identity in donor countries. At the World Bank, over 50% of projects now carry a "communications for development" strategy, and all poverty reduction strategy papers (PRSPs) now include communications as part of the main activity of their design and implementation. The anecdotal results are significant. In Kenya for example, the Sexually Transmitted Infections Project sponsored a series of meetings and workshops to engage political leaders and civil society in discussions about HIV/

AIDS. The president and 98% of parliamentarians attended. As a result, evaluations showed that the environment for HIV/AIDS activities improved significantly.

More support for evidence-based policy making

Every country in the world could probably do a better job of ensuring that its policies and programmes are regularly and openly tested against the evidence. Poor countries are no exception. They are, at least, seldom short of advice. Donors spend much time and money on country and sector analytical work, on pre-feasibility and feasibility studies, on appraisal, and on monitoring and evaluation systems. What is often missing is an authentic domestic system for assessing policies, programmes and projects against the evidence. There is a real opportunity here to bring together good practice in managing for results, in participatory methods, in development research and in audit and evaluation practice to help improve the transparency and quality of public decision taking.

A focus on realistic and clear results is valuable for any consistent and accountable approach to public policies and programmes. The clearer governments can be about what they can (and cannot) deliver in terms of results that represent palpable improvements for the population, the easier it is to make use of local capacities (which are growing) to appraise and monitor whether public programmes are "delivering the goods". The more the public are involved in the process, the greater its chance of being well-grounded and understood. The more that local universities, research centres and institutions of civil society are developed and used by governments and donors to help assess and monitor policies, the greater the chance of sustainable and robust change. The more that local audit systems can be properly resourced and given the independence that they need, the more likely it is that misappropriation and waste will be brought to public attention. And the more that appropriately rigorous evaluation methods can be built into the whole design of programmes and policies, the more confidence can be had in the process of assessment – leading to greater prospects of changing policies that do not work and sustaining those that do.

My point here is that donors need to switch from going it alone, as many of them have done for years, with a high degree of professionalism in some cases, to supporting the institutions of the recipient country. The latter must demand and, increasingly, supply the basis for sound policies and programmes which can be tested against clear evidence and results. Tracking these changes – such as donor support to Southern based institutions – requires disaggregating of DAC technical co-operation statistics, which is now underway.

More support for representative government

Donors have often had an ambivalent attitude towards working with the institutions of representative government. This is not altogether surprising. If donors appear to become involved with the local political process, there is a great risk of arousing sensitivities about interference. Donors may (sometimes with reason) doubt the utility of supporting legislative bodies that may seem to them ineffective, corrupt, or tied to vested interests. Support for health care may look more "pro-poor" than helping a weak Public Accounts Committee do a better job of scrutinising public expenditure. At the same time, donors have been ready to invest substantial sums in support of the electoral process, particularly in countries emerging from conflict, though there is often a mismatch between the one-off investment at election time and the continuing support that institutions of representative government may need.

Donors should re-evaluate the role that they can play in helping such institutions to do a better job. They should recognise that these institutions are central to domestic accountability, and therefore to the sustainability of development. They should not of course be starry-eyed about the quality of such institutions. Support needs to be relevant to the local situation. It may sometimes be more readily provided through quasi-independent channels, as with the German Political Foundations and other similar initiatives. In most cases, it will need to be continued over a significant period, and to take account of the lessons learned in institutional support elsewhere (these points were well documented in a recent DAC publication[11]).

More support for an independent judiciary

In the Palazzo Pubblico in the Italian city of Siena, a famous 14th century wall painting shows both the effects and the causes of good and bad government. The effects are graphically demonstrated by the busy commercial activity of the well-governed state and the chaos and desolation of its badly-governed equivalent. But the frescos showing the causes of good and bad government are even more telling. In the well-governed state, the painting shows the state authority on one side and an independent figure representing Justice on the other; in the badly governed state, Justice is shown gagged and bound by the executive power.

What was obvious to the citizens of Siena two-thirds of a millennium ago is just as important today. If there is no independent and accessible justice system, good government cannot be sustained. Again, donors have sometimes been too reluctant to take an interest in the functioning of judicial systems, which are often woefully under-resourced, poorly managed, inaccessible to poor people and prone to interference from the executive branch of government. The DAC's work on security system reform quite rightly argues for looking at all aspects of the "security system", including the judiciary. However, an effective judiciary is no less important from the point of view of effective checks on uncontrolled executive power, enabling the private sector to invest with confidence and making it possible for ordinary citizens to object when powers are misused.

More support for independent media

Formal public institutions such as parliaments and the judiciary have a key role to play in domestic accountability, but the less formal institutions are probably at least as important. Among these are free and independent media: press, radio, television, and Internet. Governments have, of course, to set the boundaries within which media can operate and decide what part should be played by publicly funded channels. But in all countries encouragement of editorial independence, competition and access are crucial to public debate and to holding governments to account. Donors have again to be sensitive to the local situation in their support for independent media, but there is no shortage of opportunities to highlight their importance. One example is the commercial case for cheaper and more competitive access to mobile phones and the Internet, even if this dents the profits of an incumbent telephone corporation.

In many areas of the media, if the enabling environment is right, continuing aid support may be unnecessary. But there may be "public good" areas, such as training for journalists, broadcasters and providers of locally-relevant content, in which donors could be readier to invest in recognition of the importance of independent media to healthy public debate.

More support for civil society in its challenge function

The last issue which I should like to flag is that donors need to re-think their priorities for the support of local civil society organisations. The largest investments have, not surprisingly, been in service delivery by NGOs. The balance between state and civil society in service delivery varies widely between countries and over time, and "either/or" approaches are not usually appropriate, though there are some basic responsibilities which public institutions need to perform.

However, in most countries, civil society's role in domestic accountability needs to grow. This is not just an issue for "developmental NGOs". In all OECD countries the role of professional associations, business organisations and trade unions is fundamental to the close scrutiny of government policy and practice. This makes a huge contribution to improving the quality of policy and legislation, as long as vested interests are exposed to challenge effectively. A bigger investment by donors in promoting such non-state institutions is well justified, and cannot be provided by traditional government-to-government channels, which tend to be the default option for many donors.

Developmental NGOs have an important role to play as well, naturally. In particular, they can make a real contribution in confronting policy makers and donors with realities in the field, and in helping devolved levels of government to be held more effectively to account. There is scope for a fuller discussion between donors and both international and Southern-based NGOs on how this "challenge role", which is not of course uncontroversial with developing country governments, can be supported in a reasonable and effective way in the medium term.

Not just "more": "More effective"

In all the areas mentioned above, it is not just a question of donors being willing to do more. At least as important is how they do it. In many cases, one can find donor-financed activities, each of which has some justification, but which add up to less than the sum of their parts. Too seldom does one find activities that are the product of a consistent strategy, supported by the recipient country, and pursued over the medium to long term with collective and cohesive support from the donors. There are areas where donors do, in some cases, take a sector-wide approach, such as access to justice. But all too often you will find that they offer a few individual projects, or maybe just a training place or two, when something more strategic is required if real change is to be achieved over time.

More could also be done to co-ordinate aid to civil society. Anecdotal evidence suggests that the availability of unco-ordinated donor funding can trigger a proliferation of local NGOs, societies and foundations, so there are risks that outsiders can distort the authenticity of representative civil society voices. A lack of co-ordination between donors can also distort the market for capable staff in the voluntary sector, as is sometimes the case with unco-ordinated salary supplements in donor-funded projects in the public sector.

In sum, there is much scope for more lesson learning around good practice in all these areas. But there is no doubt that in developing countries – those that are responsive to the needs of the poor – effective states are those that are accountable to their citizens.

Keeping the score

In my first report as Chair of the DAC, I suggested a number of areas where I hoped that progress could be made over a reasonably short period. Table 1.6 shows the latest position. For those areas that relate to volume and distribution of aid, the interpretation of the figures needs to take account of the very large increases in aid to a few countries

Table 1.6. **Keeping the score**

Target for 2006	Indicator	2002 baseline	Latest indicator (2005 unless otherwise shown)	Progress (+ or –)
Donors deliver at least USD 75 billion in net disbursements.	Total Net ODA receipts (at 2002 prices and exchange rates)	USD 57.4 billion	USD 86.0 billion	**+**
Proportion of ODA to LDCs and other low income countries rises significantly from proportion in 2002.	Net bilateral ODA: Total net ODA:	40% 47%	36% (*Excl. Iraq: 49%*) 41% (*Excl. Iraq: 52%*)	**– (+)** **– (+)**
Higher share of ODA to countries with relatively good performance and large numbers of poor.	Net bilateral ODA: Total net ODA:	18% 22%	13% (*Excl. Iraq: 18%*) 17% (*Excl. Iraq : 22%*)	**– (. .)** **– (. .)**
Well considered interventions in poor performing countries where effective transfers possible.	*Partially assessed through work of Fragile States Group work (see section "Keeping the score")*			
Emergency and humanitarian relief is on a downtrend at least as a proportion of total aid.	Humanitarian aid as % of total aid	7%	8% (*Excl. Iraq : 8%*)	**–**
Higher proportion of aid is untied *(Data are available for financial aid only; coverage limited).*	Untied aid Tied aid Not reported	42.5% 7.3% 50.2%	50.9% 4.6% 44.5%	**+**
Recipients expand provision of services but also raise domestic resource mobilisation by several percentage points.	Public expenditure on health as % of GDP Public expenditure on education as % of GDP Current revenue as % of GDP)	2000: 2.7%[1] 2000: 4.1%[1] 2000: 15.4%[1]	2003: 2.8%[1] 2004: 4.1%[1] 2004: 18.1%[2]	**+** **. .** **+**
Much more aid clearly aligned to local priorities, programmes and systems, and shown in recipients' budgets. Indicators of harmonisation show quantum leap from 2002/03 baseline.	*The Paris Declaration Indicators provide a partial baseline for these aspects (see section "Keeping the score")*			
Bulk of increased flows involves genuine transfer of resources in balance of payments terms.	ODA flows delivering resources for development (*i.e.* excluding humanitarian aid, debt relief, admin. costs, in-donor refugee costs and imputed student costs; at 2002 prices and exchange rates)	USD 44.4 billion 76% of total net ODA	USD 54.1 billion 62% of total net ODA	**–**
TC expenditure demonstrably more efficient (including through more coordinated support, use of country systems and more use of local or other southern skills) and more effective.	*The Paris Declaration Indicators provide a partial baseline for these aspects (see section "Keeping the score")*			

Target for 2006	Indicator	Developing countries (1990)	SSA (1990)	Developing countries (2002-04)	SSA (2002-04)	(But too slow for 2015 targets)
Increased and more effective support beginning to be translated into more progress towards the harder-to-reach MDGs, not least in SSA.	Selected MDGs[3]					
	Poverty (% < $1 per day)	27.9%	44.6%	19.4%	44.0%	**+**
	Primary enrolment	79%	53%	86%	64%	**+**
	Child mortality (per 1 000 births)	106	185	87	168	**+**
	Access to improved sanitation	35%	32%	50%	37%	**+**

1. *Source:* World Development Indicators (WDI) 2003, 2004, 2005, 2006.
2. OECD Secretariat Estimate based on WDI database.
3. *Source*: Millennium Development Goals Report 2006.

StatLink http://dx.doi.org/10.1787/153104404340

(notably to Iraq) and in the form of debt relief, which affect both absolute numbers and percentages. The overall picture is modestly encouraging:

- ODA volume has, as we know, risen sharply.
- Excluding Iraq, a higher proportion of ODA is going to least developed countries (LDCs) and other low income countries (LICs) (though the write-off of Nigerian debt has probably boosted the proportion to untypically high levels in 2005).
- The proportion of aid whose tying status is not reported has fallen, and the amount explicitly untied has risen.
- Although the surge in debt relief has reduced the proportion of flows that involve a direct transfer of resources in balance of payments terms, the absolute increase in the latter is significant (although, as noted above, much is accounted for by Iraq).
- Most importantly, developing countries in aggregate are estimated to have increased their revenue effort by nearly 3 percentage points of GDP over a four year period.

Less encouragingly, there is no increase in the proportion of aid going to countries with relatively good performance and large numbers of poor, and emergency and humanitarian aid has risen as a proportion of the total, though this is not surprising in the year immediately after the tsunami. More surprising is the finding that recipient country spending on health and education, as a percentage of GDP, appears to be flat.

As for the areas where quantification is not possible (at least not yet), the work of the Fragile States Group has revealed several cases where innovative work is being carried out in fragile states. In some countries, such as Nepal, the Principles for Good International Engagement in Fragile States have served as a common starting point for the donor community for its engagement with the government. In others, such as Ethiopia, the Principles have been used as a common diagnostic tool for the donor community. These developments are certainly heartening, although it would be rash to say that this amounts yet to a significant change in donor action.

It will not be possible to establish clear trends in harmonisation and alignment until after the second round of monitoring the Paris indicators in 2008. I believe, however, that there is evidence of modest practical progress in several areas. For example, the 2006 Survey found that much analysis of public financial management is now being done jointly; this is a far cry from the position found by the DAC Task Force on Donor Practices only four years ago. The Paris monitoring process will shed light on trends in co-ordinated technical co-operation, but unfortunately not on its overall efficiency and effectiveness, which remains an area requiring further research.

Finally, Table 1.6 reminds us that results are what matters. Against the backcloth of the Millennium Development Goals, performance continues to be rapid as regards reducing income poverty (with sub-Saharan Africa still a troubling exception); most other areas are progressing but are well short of the desired pace, even on a global scale. However, the relatively rapid improvements in a few indicators over the recent past, as mentioned in the introduction to this chapter, suggest that the response should not be despair at the distance still to be travelled, but collective determination to act together now.

Box 1.3. **Reporting of debt forgiveness in DAC statistics**

DAC data on resource flows for development originated from balance of payments (BoP) statistics, which record cross-border transfers of real resources. Although aspects of the statistics have since moved towards measuring budget spending by donors, data on debt forgiveness are still based on BoP methods.

To see how this works in practice, we can follow a loan from the time it is made to the time it is forgiven. At the outset, a loan will be recorded as a disbursement from the sector (official or private) that extends it, and according to its terms (market terms or concessional). In practice there are three categories of loans:

1. Official concessional (these are recorded as ODA).
2. Official non-concessional (recorded as "other official flows", or OOF).
3. Private non-concessional (hereafter referred to as "private").

Any repayments during the life of the loan will be recorded against the sector that extended the loan, but only repayments of principal actually reduce net flows (interest payments are recorded separately in line with BoP practice of separating capital and factor income transfers).

Where outstanding amounts are forgiven, these are reportable as ODA if forgiveness had "the promotion of the economic development and welfare of developing countries" as its "main objective". Forgiveness is treated as converting the amount forgiven (including interest arrears) from a loan to a grant. DAC statistics reflect this by making two types of entries: an ODA grant for the amount forgiven, and negative entries under loans to reflect the extinction of the debt. The negative loan entries are recorded against the original sector (ODA, OOF or private), and divided into principal and interest, with only principal entries reducing net flows.

The practical result of this is that ODA grant entries are made for all amounts forgiven pursuant to Paris Club agreements. Net ODA rises by the total of these amounts, less any negative entries made for the cancellation of the outstanding amounts of principal of ODA loans (which has already been reported as ODA at the time the loans were made). All other negative entries – covering extinction of ODA interest arrears, OOF or private debt – only reduce those items, and have no effect on ODA. Thus forgiveness converts all affected loans, regardless of their original sector and including any unpaid interest arrears forgiven, into ODA grants and hence into net ODA.

In recent years, debt forgiveness action has expanded, especially with the heavily indebted poor countries (HIPCs) initiative, and massive debt relief operations for Nigeria and Iraq. This has attracted criticism from NGOs and academics, particularly on the ground that net ODA data overstate the benefit to debtor countries of forgiveness action. If debt forgiveness data shifted from measuring cross-border capital transfers to measuring official effort, the amounts recorded as net ODA would be much reduced. For example, in the case of forgiven private loans, recording official effort instead of responsibility for cross-border flows would reduce net ODA by amounts:

1. Received by the official sector in insurance premia, or
2. Borne as "own risk" losses by private creditors, or
3. Accrued as interest on loans after the official sector had indemnified private creditors but before a Paris Club debt agreement was reached.

The last item, interest accruals, often accounts for more than 50% of total loan arrears in Paris Club debt relief packages, and removing it would substantially reduce reported ODA volumes.

While recording official effort rather than cross-border transfers may seem a fairer method of accounting for debt forgiveness, it would involve a major change of approach and introduce a significant discontinuity in the data. Such a change would have to be decided by a consensus of the DAC.

Notes

1. National Bureau of Statistics (NBS) and ORC Macro (2005), *Tanzania Demographic and Health Survey 2004-05*, Dar es Salaam, Tanzania, National Bureau of Statistics and ORC Macro.
2. The relevant text reads "We encourage donor countries to take steps to ensure that resources provided for debt relief do not detract from ODA resources intended to be available for developing countries" (*www.un.org/esa/ffd/0302finalMonterreyConsensus.pdf#search=%22debt%20relief%20monterrey %20consensus%22*).
3. The GAVI Fund provides resources for the GAVI Alliance (formerly known as the Global Alliance for Vaccines and Immunisation) programmes.
4. Manning, R. (2006), "Will 'Emerging Donors' Change the Face of International Co-operation?", Development Policy Review, Vol. 24, Issue 4, Overseas Development Institute, London, pp. 371-385.
5. Chervalier, B. and J. Zimet (2006), "American Philanthropic Foundations: Emerging Actors of Globalisation and Pillars of the Transatlantic Dialog", The German Marshall Fund of the US, available at *www.gmfus.org/doc/ABCDE%20foundations%20policy%20paper.pdf*. See also OECD (2003), "Philanthropic Foundations and Development Co-operation", Off-print of *The DAC Journal 2003*, Vol. 4, No. 3, OECD, Paris.
6. For SourceOECD subscribers, this document is available at *http://new.sourceoecd.org/development/ 9264036334*.
7. Of course such an assessment is simplistic. For a more sophisticated analysis which takes account of the probability that poverty will continue to decline much faster in some regions than others, see a recent paper by Adrian Wood (2006), "Looking ahead optimally in Allocating Aid", Oxford.
8. Foster, M. and T. Killick (2006), "What Would Doubling Aid do for Macroeconomic Management in Africa?", Overseas Development Institute Working Paper No. 264, London.
9. A useful recent survey is by Moss, Pettersson and van de Walle (2006), "An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa", Working Paper No. 74, Center for Global Development, Washington.
10. Collier, P. (2005), "Is Aid Oil? An analysis of whether Africa can absorb more aid", Oxford University.
11. OECD (2006), "The Challenge of Capacity Development: Working Towards Good Practice", *www.oecd.org/dac/governance*.

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Technical Notes

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).

AMORTISATION: Repayments of principal on a LOAN. Does not include interest payments.

ASSOCIATED FINANCING: The combination of OFFICIAL DEVELOPMENT ASSISTANCE, whether GRANTS or LOANS, with other official or private funds 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. Further details are given in the DAC at Work section of this volume.

DAC LIST OF ODA RECIPIENTS: For statistical purposes, the DAC uses a List of ODA Recipients which it revises every three years. The "Notes on Definitions and Measurement" below give details of revisions in recent years. From 1 January 2005, the List is presented in the following categories (the word "countries" includes territories):

- **LDCs:** Least Developed Countries. Group established by the United Nations. To be classified as an LDC, 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 LDC group.

- **Other LICs:** Other Low-Income Countries. Includes all non-LDC countries with per capita GNI USD 825 or less in 2004 (World Bank Atlas basis).
- **LMICs:** Lower Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 826 and USD 3 255 in 2004. LDCs which are also LMICs are only shown as LDCs – not as LMICs.
- **UMICs:** Upper Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 3 256 and USD 10 065 in 2004.

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.* as an indication of the opportunity cost to the donor of making 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: in classifying receipts, the grant element concept is not applied to the operations of the multilateral development banks. Instead, these are classified as concessional if they include a subsidy ("soft window" operations) and non-concessional if they are unsubsidised ("hard window" operations).

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. The data record actual flows throughout the lifetime of the loans, not the **grant equivalent** of the loans (*cf.* GRANT ELEMENT). Data on net loan flows 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 DEVELOPMENT ASSISTANCE (ODA): GRANTS or LOANS to countries and territories on the DAC List of ODA Recipients and multilateral agencies that are undertaken by the official sector at concessional terms (*i.e.* with a GRANT ELEMENT of at least 25%) and that have the promotion of the economic development and welfare of developing countries as their main objective. 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 DAC List of ODA Recipients which do not meet the conditions for eligibility as OFFICIAL DEVELOPMENT ASSISTANCE, 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 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 ODA Recipients. "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 DAC List of ODA Recipients by banks in OECD countries. 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 ODA 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.

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: Official GRANTS or LOANS 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 loans, credits and ASSOCIATED FINANCING packages 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 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 AMORTISATION 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 (USD). 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 donor's 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 USD 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 GNI

While the definition of Official Development Assistance has not changed since 1972, 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 (USD 184 m) 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 national income has also been expanding through the inclusion of new areas of economic activity and the improvement of collection methods. In particular, the 1993 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%, while some other countries showed little change. The average fall has been about 3%. 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

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

(1997). Eritrea, formerly part of Ethiopia, has been treated as a separate country from 1993. Northern Marianas left the list in 2001.

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); 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 to 2004, several CEEC/NIS countries in transition and more advanced developing countries were included on a separate list of recipients of "Official Aid". This list has now been abolished.

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/GNI ratio, since their programmes are often smaller in relation to GNI 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. The amounts so treated are shown in the table below. 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 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.

Debt forgiveness of non-ODA claims[1]

USD million

	1990	1991	1992
Australia	–	–	4.2
Austria	–	4.2	25.3
Belgium	–	–	30.2
France	294.0	–	108.5
Germany	–	–	620.4
Japan	15.0	6.8	32.0
Netherlands	12.0	–	11.4
Norway	–	–	46.8
Sweden	5.0	–	7.1
United Kingdom	8.0	17.0	90.4
United States	1 200.0	1 855.0	894.0
TOTAL DAC	**1 534.0**	**1 882.9**	**1 870.2**

1. These data are included in the ODA figures of individual countries but are excluded from DAC total ODA in all tables showing performance by donor. See Notes on Definitions and Measurement.

Reporting Year

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

DAC List of ODA Recipients – As at 1 January 2005

Least Developed Countries	Other Low Income Countries (per capita GNI < $825 in 2004)	Lower Middle Income Countries and Territories (per capita GNI $826-$3 255 in 2004)	Upper Middle Income Countries and Territories (per capita GNI $3 256-$10 065 in 2004)
Afghanistan	Cameroon	Albania	•Anguilla
Angola	Congo, Rep.	Algeria	Antigua and Barbuda
Bangladesh	Côte d'Ivoire	Armenia	Argentina
Benin	Ghana	Azerbaijan	Barbados
Bhutan	India	Belarus	Belize
Burkina Faso	Kenya	Bolivia	Botswana
Burundi	Korea, Dem.Rep.	Bosnia and Herzegovina	Chile
Cambodia	Kyrgyz Rep.	Brazil	Cook Islands
Cape Verde	Moldova	China	Costa Rica
Central African Rep.	Mongolia	Colombia	Croatia
Chad	Nicaragua	Cuba	Dominica
Comoros	Nigeria	Dominican Republic	Gabon
Congo, Dem. Rep.	Pakistan	Ecuador	Grenada
Djibouti	Papua New Guinea	Egypt	Lebanon
Equatorial Guinea	Tajikistan	El Salvador	Libya
Eritrea	Uzbekistan	Fiji	Malaysia
Ethiopia	Viet Nam	Georgia	Mauritius
Gambia	Zimbabwe	Guatemala	•Mayotte
Guinea		Guyana	Mexico
Guinea-Bissau		Honduras	•Montserrat
Haiti		Indonesia	Nauru
Kiribati		Iran	Oman
Laos		Iraq	Palau
Lesotho		Jamaica	Panama
Liberia		Jordan	Saudi Arabia[1]
Madagascar		Kazakhstan	Seychelles
Malawi		Macedonia, former Yugoslav Rep. of	South Africa
Maldives		Marshall Islands	•St. Helena
Mali		Micronesia, Fed. States	St. Kitts-Nevis
Mauritania		Morocco	St. Lucia
Mozambique		Namibia	St. Vincent and Grenadines
Myanmar		Niue	Trinidad and Tobago
Nepal		Palestinian Adm. Areas	Turkey
Niger		Paraguay	•Turks and Caicos Islands
Rwanda		Peru	Uruguay
Samoa		Philippines	Venezuela
Sao Tome and Principe		Serbia and Montenegro	
Senegal		Sri Lanka	
Sierra Leone		Suriname	
Solomon Islands		Swaziland	
Somalia		Syria	
Sudan		Thailand	
Tanzania		•Tokelau	
Timor-Leste		Tonga	
Togo		Tunisia	
Tuvalu		Turkmenistan	
Uganda		Ukraine	
Vanuatu		•Wallis and Futuna	
Yemen			
Zambia			

- • Territory.

1. Saudi Arabia passed the high income country threshold in 2004. In accordance with the DAC rules for revision of this List, it will graduate from the List in 2008 if it remains a high income country in 2005 and 2006.

As of November 2006, the Heavily Indebted Poor Countries (HIPCs) are: Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo (Dem. Rep.), Congo (Rep.), Côte d'Ivoire, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Kyrgyz Republic, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nepal, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda and Zambia.

Preface by the Secretary-General

As the new Secretary-General of the OECD, I want to state my belief that poverty is the ultimate systemic threat. That a fifth of the world's people still live in extreme poverty is unacceptable ethically and morally, dangerous in terms of social and political stability, and it is economically wasteful as it involves a major underutilisation of resources.

The Development Assistance Committee "is the place where governments come together to make aid work". That is the central theme of the DAC, and it needs to be read today in an increasingly open sense – where all donors, old and new, bilateral and multilateral, public and private, can join in a collective process of reflection, policy analysis, statistical reporting, evaluation and monitoring. It is, in a sense, the intellectual headquarters of an expanding industry of providers of development assistance. In this report, the DAC Chair stresses the importance of local accountability mechanisms in making sure that all development efforts are producing positive development outcomes at the grass roots level and that incompetence and corruption are identified and dealt with. The report describes how the Paris Declaration monitoring process is fostering reform of aid at the national level. Donors and aid partners are sitting together for the first time in a systematic effort to identify what is – and is not – working in terms of the local aid system, and whether sustainable local capacities are being developed. We read here also of the application of the Paris Declaration principles to the proposals of the WTO Task Force on Aid for Trade – where the OECD has an important role in measuring flows, evaluating effectiveness and implementing the new approach.

With the emergence as new aid donors of major new players such as China and India; with the challenges we face in the areas of climate change, water, health and migration; with conflict and violence in several "hot spots" threatening stability and progress, I am convinced that development co-operation is one of the main instruments that we have to deploy. I am glad to have the DAC as a key part of what the OECD can bring to the broader international effort and I will work to ensure that its contribution makes an important and positive impact.

Angel Gurría
Secretary-General

Foreword

2006 has seen another year of growth in income per head for most poor countries at rates which are above those of OECD countries, in many cases significantly so. This growth has been robust for some years now, and is gradually changing the realities of development.

Despite these encouraging results, three important questions remain: are such rates of growth sustainable? Can they – in some cases – even be increased? And are the benefits of growth reaching the poor? Aid has a role to play in achieving all these goals.

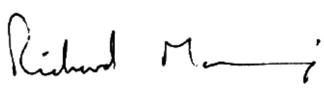
This year's Report looks at the prospects for increased aid; the issue of aid dependence; the need for greater domestic accountability; and the Aid for Trade agenda. It also provides preliminary results from the baseline survey which monitors the Paris Declaration aid effectiveness indicators, as agreed by the High Level Forum in March 2005. The Report notes some real progress on key goals set by the UN Millennium Assembly, but also notes the heavy toll of continuing crises on the aid programmes of the donor community.

As usual, we offer short descriptions of the aid programmes of each member of the OECD Development Assistance Committee (DAC), and of an increasing number of donors outside the DAC, as the more multi-polar world of modern development assistance continues to emerge. The Report also describes briefly the work of the Committee and of its Working Parties and Networks, where most of its work is carried out.

Finally, the report maintains its long tradition of providing the most up-to-date and detailed summary of aid statistics available anywhere.

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

Richard Manning
DAC Chair



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AER	Aid Effectiveness Review
BoP	Balance of payments
CDF	Comprehensive Development Framework
CFAA	Country Financial Accountability Assessment
CPIA	Country Policy and Institutional Assessment
CRS	Creditor Reporting System (of the DAC)
DAC	Development Assistance Committee (OECD)
DDA	Doha Development Agenda
DFID	Department for International Development (UK)
EC	European Community
EU	European Union
GNI	Gross national income
HIPC	Heavily indebted poor country
IDA	International Development Association
IF	Integrated Framework for Trade-Related Assistance to the Least-Developed Countries
IFFIm	International Finance Facility for Immunisation
IMF	International Monetary Fund
LDCs	Least-developed countries
MDG	Millennium Development Goal
MFA	Ministry of Foreign Affairs
MTS	Multilateral trading system
NGO	Non-governmental organisation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability Framework
PRS	Poverty reduction strategy
PRSP	Poverty reduction strategy paper
PFM	Public financial management
SSA	Sub-Saharan Africa

* This list is not exhaustive. See also Chapter 4 of this Report for country-specific acronyms.

SWAp	Sector-wide approach
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations International Children's Emergency Fund
UNFPA	United Nations Population Fund
USD	United States dollar
WHO	World Health Organization
WTO	World Trade Organization

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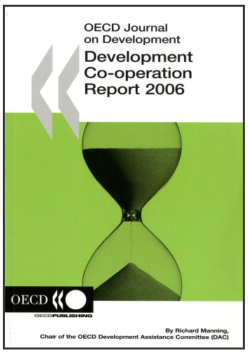

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