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Chapter 2

Aid for Trade: Making it Effective

Aid for Trade is not a new concept but concerted efforts are needed to ensure that multilateral trade liberalisation has an effective impact on pro-poor growth. For too many WTO members, market access improvement – without support to strengthen trade capacity – brings little benefit. Money, however, is not the central issue. The problem seems to lie in the poor value for money of Aid for Trade programmes, as highlighted by most Aid for Trade evaluations. In fact, the Paris Declaration on Aid Effectiveness is far from being systematically applied in these programmes, particularly in regards to country ownership and results-based management. The key value added the WTO can bring to Aid for Trade is a step change in its effectiveness. Consequently, based on its coherence mandate, the WTO should play a key role in providing the necessary political incentives to increase effectiveness. It should strengthen the scrutiny, monitoring and surveillance at a global level and thus encourage better local accountability mechanisms. The DAC has an important contribution to make to these mechanisms.

Introduction

Membership of the World Trade Organisation has often been a key tool for governments seeking to enhance the credibility of trade reform and to provide firms with a more predictable external trading environment. At the same time, successive rounds of multilateral trade liberalisations have highlighted the difficulties that many low-income countries are facing in capturing the benefits of more open markets. In these countries, governments, institutions and enterprises often lack capacities, *e.g.* information, policies, procedures and/or infrastructure, to compete effectively in global markets and take full advantage of the opportunities that are offered through international trade. Against that background, the 2005 Hong Kong WTO Ministerial Declaration called for the expansion of Aid for Trade to help developing countries benefit from WTO agreements and, more broadly, expand their trade.[1]

The OECD-DAC and Trade Committee have contributed to these efforts by examining the following three issues: *i)* how much aid do donors already provide in support of trade; *ii)* what has been the impact of these programmes; and *iii)* how can Aid for Trade be made a more effective tool. Their conclusions were published in *Aid for Trade: Making it Effective*, which was presented in 2006 to the WTO Task Force on Aid for Trade. The publication argues that the volume of Aid for Trade is not what is holding back low-income countries. Despite the considerable amount of aid spent on trade there is little evidence of the impact of these programmes. The main challenge remains the lack of genuine country ownership which is vital for making trade an engine for economic growth and development. The publication maintains that the WTO has a key interest in ensuring that multilateral trade liberalisation benefits all of its members. It should therefore take the lead in establishing clear incentives to improve the effectiveness of Aid for Trade in accordance with the principles of the 2005 Paris Declaration on Aid Effectiveness. This can be achieved by measures such as strengthening local accountability though Aid for Trade partnerships and global monitoring through a WTO-hosted body.

This chapter is structured as follows. The first section sketches some of the challenges in defining the scope of the Aid for Trade agenda. This is followed by an attempt to measure the financial assistance that donors have provided in support of the Aid for Trade agenda, and two scenarios for additional aid in the context of scaling up ODA. Next, there follows an overview of the problems related to identifying market failures and a review of whether Aid for Trade programmes have effectively addressed these. The chapter goes on to identify three priority areas where work is needed to improve the effectiveness of Aid for Trade, *i.e. i)* establish a national dialogue to formulate and implement trade policy; *ii)* mainstream trade policy into national economic development and external assistance strategies; and *iii)* better adapt donor programmes to aid effectiveness principles. Finally, it concludes with a proposal for strengthening an action-focused Aid for Trade framework, and in particular for providing incentives to apply these principles.

Defining Aid for Trade

The Uruguay Round negotiations marked the coming-of-age for many developing countries as full participants in the multilateral trading system (MTS). This presented many of them with a number of challenges, including putting in place the necessary administrative, institutional and legal machinery to implement their WTO commitments. Since then, developing countries – in particular the least-developed countries (LDCs) and other low-income countries – have consistently expressed their reluctance to agree on further significant Most Favoured Nation (MFN) tariff cuts and to undertake other trade-related commitments. This has mostly been driven by their concerns about preference erosion, loss of tariff revenue, and perceived lack of capacity to capture the gains from emerging market access opportunities and other WTO agreements.

The 2005 Hong Kong Ministerial Declaration agreed that Aid for Trade should aim to help developing countries, and particularly the LDCs. This aid should build the supply-side capacity and trade-related infrastructure that they need to implement and benefit from WTO agreements and to expand their trade. Furthermore, the Declaration called for the creation of a Task Force to provide recommendations on how to operationalise Aid for Trade and how this might contribute most effectively to the development dimension of the Doha Development Agenda (DDA) (Box 2.1).

When attempting to define Aid for Trade, the key issue is where to draw the line, *e.g.* how to distinguish between aid specifically focused on improving trade capacity and aid targeted at promoting economic growth in general. In fact, there are few economically rational criteria to ring-fence Aid for Trade activities from the overall economic growth agenda. Consequently, any Aid for Trade definition based on a typology of Aid for Trade activities would inevitably be arbitrary. Moreover, if such a definition was to be used to prioritise financial support to eligible activities, there is a risk that Aid for Trade programmes would fail to take into account the different characteristics and specific needs of developing countries. This could lead to a misallocation of resources and reduce the overall effectiveness of Aid for Trade programmes.

At the same time, there is a risk of re-labelling all development assistance which promotes economic growth as Aid for Trade. This could reduce the impact of the Aid for Trade initiative and increase scepticism about the potential of this initiative to enhance developing countries' abilities to benefit better from WTO agreements. A potential way forward would be to adopt a definition that is based on the objectives of the aid. That is, Aid for Trade would be defined by the objectives of the activity to be financed, rather than by the type or category of activity it is supposed to finance. Such an approach seems to be closer to the spirit of the Hong Kong Declaration which defines Aid for Trade in terms of the supply-side capacity and trade-related infrastructure which developing countries need if they are to fully benefit from WTO agreements and expand their trade.

The WTO Task Force on Aid for Trade has followed this logic and recommended that "Projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies". At the same time, the Task Force concluded that clear and agreed benchmarks are necessary for reliable global monitoring of Aid for Trade efforts to assure accurate accounting and to assess additionality.

Box 2.1. **Recommendations of the WTO Task Force on Aid for Trade***

The report of the Task Force was approved by the WTO General Council on 10 October 2006. The report (and accompanying recommendations) articulates the rationale for Aid for Trade, proposes widening its scope and using the Paris Declaration on Aid Effectiveness as the guiding principles for its implementation. It underlines the centrality of country ownership and country-driven approaches, and of the commitment of governments to fully mainstream trade into their development strategies. In this context, the Task Force notes that effectiveness requires selectivity, *i.e.* by focusing Aid for Trade on countries that can demonstrate results. The Task Force stresses in particular the critical issue of strengthening the monitoring and evaluation of Aid for Trade.

The specific recommendations include:

- A global periodic review of Aid for Trade should be convened by a monitoring body in the WTO, based on reports from several different sources, to be published if feasible on the WTO website.
- Recipient countries should report on efforts to mainstream trade in national development strategies, such as the poverty reduction strategy papers (PRSPs), the formulation of trade strategies, Aid for Trade needs, donor responses, and implementation and impact. The primary responsibility for reporting to the global monitoring body would lie with the National Aid for Trade Committee.

In addition, the Task Force has highlighted key areas for follow up:

- Explore the establishment of an in-country process modeled on the Integrated Framework, but separately funded, only for non-LDC International Development Association (IDA) countries, if such mechanisms do not already exist or can be improved upon.
- Step up the diagnosis of needs, costing of projects, preparation of project proposals, and the co-ordination of donor responses in relation to regional and cross-border issues.
- The Director General of the WTO will report to the WTO General Council in December 2006 the progress made in carrying forward these recommendations and in raising additional funding.

* WT/AFT/1.

The following Aid for Trade categories, building upon the definitions used in the Joint WTO/OECD database, have been identified:

a) **Trade policy and regulations,** including: training of trade officials; analysis of proposals and positions and their impact; support for national stakeholders to articulate commercial interests and identify trade-offs; dispute issues; institutional and technical support to facilitate implementation of trade agreements and to ensure that countries adapt to, and comply with, rules and standards.

b) **Trade development,** including: facilitating investment; analysis and institutional support for trade in services; business support services and institutions; public-private sector networking; e-commerce; trade finance; trade promotion; market analysis and development.

c) **Trade-related infrastructure,** including physical infrastructure.

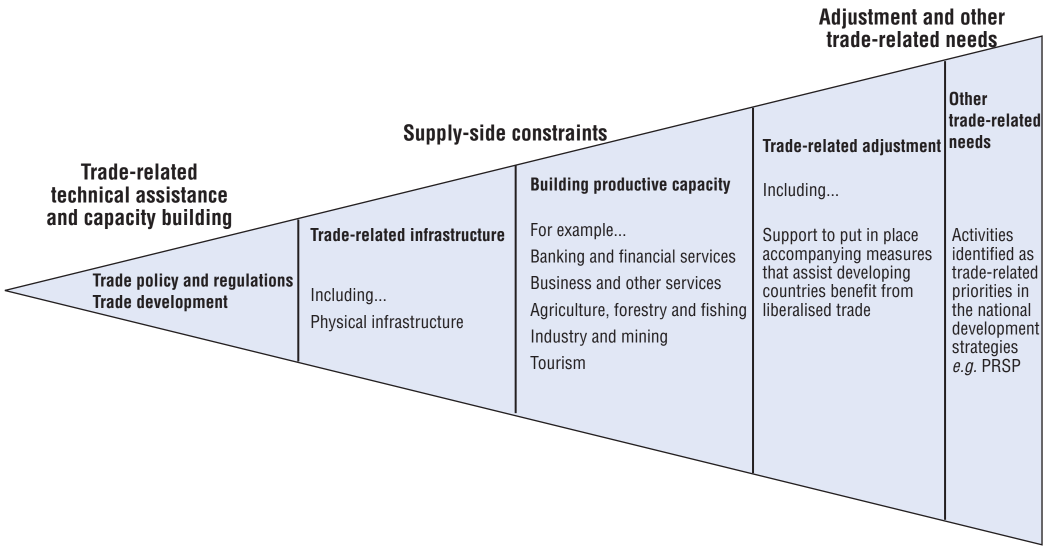
d) **Building productive capacity.**

e) **Trade-related adjustment,** including support to developing countries to put in place accompanying measures that help them to benefit from liberalised trade.

f) **Other trade-related needs.**

The WTO agreement on the scope of the Aid for Trade agenda is represented in Figure 2.1.

Figure 2.1. **Aid for Trade: The expanding agenda**



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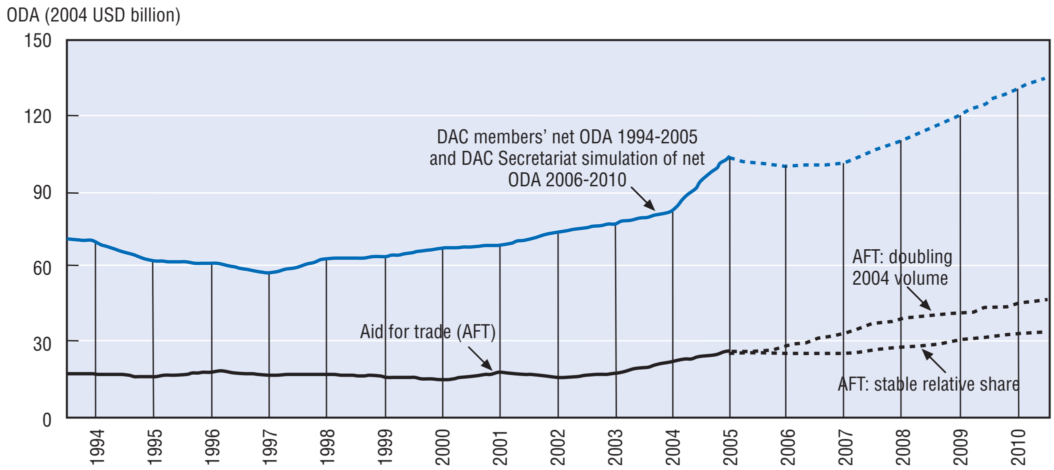
Measuring donor support

For the purposes of measuring donor support for the Aid for Trade agenda, only official development assistance (ODA) targeted towards trade-related technical assistance and capacity building, economic infrastructure and building productive capacity was considered. At a global level, it is still not possible to estimate aid to projects and programmes that have been identified as trade-related development priorities in the recipient country's national development strategies. Furthermore, assistance for adjustment, such as social safety nets and balance of payments support, are also excluded as the DAC databases do not differentiate between assistance to trade-related adjustment and other types of adjustment.

In 2004, assistance to the Aid for Trade agenda included USD 2.5 billion for trade-related technical assistance and capacity building, USD 12.9 billion to build infrastructure and USD 7.3 billion to promote productive capacities. This adds up to nearly USD 23 billion and a combined share of over 24% of total ODA, excluding debt relief.[2] In fact, since the Uruguay Round, the share of broadly defined Aid for Trade has averaged around 24% of total ODA and almost 40% of sector allocable ODA (Figure 2.2).

With increased donor attention to trade, infrastructure and the broader economic growth agenda, it seems reasonable to assume that the volume of ODA to help developing countries participate more effectively in international trade could rise significantly. On the basis of the Secretariat's simulations of the scaling up of aid,[3] two scenarios for additional Aid for Trade have been developed for the period 2005-10 which are illustrated in Figure 2.2. The scaling-up effect alone could deliver an additional USD 11 billion, a 48% increase over

Figure 2.2. **Scaling up the Aid for Trade agenda (2005-10)**



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the 2004 total of USD 23 billion. Doubling the volume would lead to an increase of USD 15 billion; Aid for Trade would then account for 30% of total ODA.

Increasing the capacity of less-advanced developing countries to become more dynamic players in the global economy will clearly require a wide range of support mechanisms. The scaling up of aid provides scope for this, but it is worth keeping in mind that these countries need to take a pro-active stance. It is their responsibility to give more priority and clearer definitions to their trade and growth strategies in order to effectively accelerate their successful integration into the world economy, a process which donors are willing to support.

Assessing Aid for Trade effectiveness

On the whole, the economic rationale for government intervention in the Aid for Trade agenda is to improve equity and efficiency. Equity concerns figure at the global level, but efficiency concerns are situated at the local/country/regional level. The main cause of inefficiency is due to a discrepancy between private returns and returns to society as a whole. In other words, the market fails to achieve economic efficiency. This can be due to imperfect information, and can occur in the case of public goods, externalities, or market dominance due to insufficient competition. It is essential to correct market failures in order to ensure that government intervention has a supply-side or structural impact that enhances the productive capacity of the economy by, for example, improving the working of markets and economic institutions or strengthening capacities.

Among donor agencies there has been a concerted effort to improve the analysis of capacity gaps in developing countries. For example, the Trade Diagnostic Tool of the Integrated Framework (IF) helps LDCs to analyse where government intervention will be most helpful. However, while these tools are vital to help the poorest countries build a coherent national trade policy and identify priority areas, they are often geared towards identifying needs and not market failures. During the last decade, many OECD countries have focused their public sector reform efforts on improving the delivery of public services through expanding the use of performance and project management tools, such as

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joined-up government, stakeholders' consultations, outcome-based targets and in-built evaluations. The development community has also developed a vast body of best practices on delivering aid effectively.

In particular, signatories of the Paris Declaration committed themselves to support such local ownership of development strategies, align their development assistance with these local strategies, harmonise their policies and procedures, and implement principles of good practice in development co-operation. In addition, donors and recipients both affirmed their commitment to foster a global partnership on managing for results and to define how aid is expected to contribute to them. Finally, donors agreed to work with, and strengthen, partner countries' monitoring and evaluation systems in order to track progress. Together, these international agreements define the principles of the aid effectiveness agenda.[4]

Aid for Trade faces the same challenges inherent to all other forms of aid delivery: harmonising donors' efforts to implement common arrangements, simplifying procedures, and an effective division of labour and collaboration. These are all key aid effectiveness principles. Reducing administrative costs – which can be extremely high in programmes based on a large number of relatively small activities – is essential to enable recipient countries' administrations to increase their absorptive and technical capacity. Recent evaluations of Aid for Trade programmes highlight, however, the lack of explicit targets in most projects and a consequent lack of effective monitoring. This problem needs to be addressed. The main challenge, therefore, will be to implement performance management and use evaluation and monitoring tools effectively. There are no magic recipes to improve Aid for Trade projects, but applying the aid effectiveness principles of the Paris Declaration is a prerequisite to improving their impact.

A number of bilateral donors and multilateral agencies that recently reviewed their trade-related technical assistance and capacity building programmes concluded that direct effects on raising export volumes have been difficult to substantiate. The most widely cited positive outcomes at a general level are improved understanding of the potential contribution trade can make to economic growth and development, increased awareness and knowledge of trade policy issues (including WTO-related), and strengthened national dialogue.

A recent review of 45 case studies on how various world economies manage the challenges of WTO participation notes the key importance of country ownership and national dialogue.[5] Cases where a high level of interaction, information exchange and collaboration occurred between key domestic stakeholders (government, business and civil society) have all been successful. Countries where, for a variety of reasons, this collaboration and information exchange broke down, or where the priorities of the government and those of the private sector were poorly identified, have derived little benefit from greater integration into the global economy. Beyond the key requirement of national ownership and stakeholder dialogue, the case studies also highlight the need for strong political will and leadership from the highest levels. These are prerequisites to creating a macro-economic policy environment conducive to private sector development and economic growth through trade liberalisation.

Local ownership, however, remains rather weak in many low-income developing countries. Under multi-donor initiatives, such as the IF, partner countries have often failed to demonstrate strong leadership and political will for the reforms needed to underpin an effective trade development strategy. The trade agenda seems to have been driven mainly by the donors. Equally, bilateral donors have not always assessed trade-related needs in consultation with all relevant stakeholders. On the whole, very few donors have used local institutions and country systems to implement their programmes. Consequently, lack of alignment has been a serious factor impeding the effectiveness of trade-related capacity development programmes. In principle, the aim of a multi-donor initiative, such as the IF, is to foster and advance a harmonised approach to trade-related assistance. Yet, in practice, donors at the field level have had little success in designing and implementing complementary trade-related interventions through an integrated approach. All too often donors have programmed their activities in isolation rather than within the framework of a broader comprehensive programme. Finally, most donors failed to ensure a results-based management of their own programmes and often lacked clear and measurable (multi-year) objectives and indicators. A number of reviewed donor programmes did not contain information regarding the cost, timing or target per activity. These findings underscore the need for donors to improve their capacity in the field of results-based management.[6]

Priorities for improvement

Based on the evaluation of past trade-related assistance programmes, there are three main priority areas for improvement that have so far proven particularly difficult to tackle: *i)* the establishment of a national dialogue to formulate and implement trade policy; *ii)* the mainstreaming of trade policy into national economic development and external assistance strategies; and *iii)* the alignment of Aid for Trade with aid effectiveness principles.

Formulate trade policies

In order to formulate and implement sound trade strategies and policies there needs to be a formal consultation mechanism or dialogue structure involving key stakeholders from the public and private sectors. This is necessary to ensure the sustainability of the process and linkages with national policy making. The objective is to devise, based on consensus, a country-owned trade/development strategy and a plan that identifies the priorities, roles and actions expected of national and external actors in implementing the strategy.

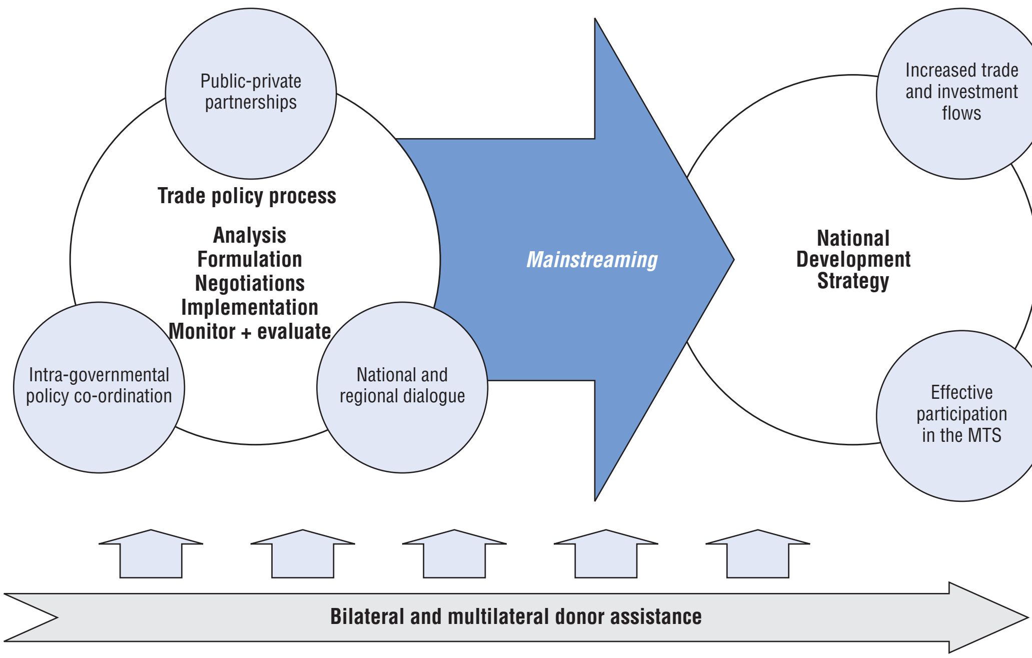
The second imperative is more joined-up government. Developments in international trade and investment today frequently have implications for the core work of ministries responsible for finance, infrastructure, social welfare, labour, economic planning, statistics, justice, and foreign affairs. The reverse is also increasingly true: policies formulated well beyond trade ministries have implications for trade. Yet officials in these disparate government departments do not always fully recognise the trade implications of the matters under their jurisdiction.

That said, many developing countries, especially the LDCs, do not have sufficient government capacity to co-ordinate activities among ministries. They are also short of effective business associations and civil society groups with sufficient capabilities to advance the interests of their members in the national policy-making process, or in international markets. Given the weakness of many business associations and civil society groups in some developing countries, a critical first step towards creating effective stakeholder policy dialogue would be capacity building and support to the development of private institutions that could act as effective interlocutors with government.[7]

Mainstream trade in national development strategies

The breadth, complexity and continuing evolution of trade development challenges have led to a consensus that one of the principal objectives of trade capacity building should be to help developing countries put in place effective and sustainable trade policy frameworks and processes. There is no single way to structure the trade policy framework, and no two countries necessarily adopt the same approach. Yet every country, regardless of the course it chooses, must master the same four-stage policy cycle: analyse and formulate trade policy and strategy; prepare and execute negotiating strategies; implement agreements; and monitor and evaluate policies and agreements. During all the stages of the mainstreaming process, donors' assistance can contribute to the effectiveness of the process, but cannot replace it. This cycle and the overall mainstreaming process are illustrated in Figure 2.3.

Figure 2.3. **Mainstreaming trade**



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Mainstreaming trade policy strategies into development strategies such as poverty reduction strategies (PRSs) is a crucial step to signal the recipient country's priorities to the donor community. Contrary to common perceptions, trade issues are part of national development strategies, such as poverty reduction strategy papers (PRSPs). In fact, import and export growth targets are included in most of them as part of their macro-economic frameworks and most include various trade objectives, such as improved competitiveness. An export-led growth strategy is implicit in many of them. But despite the fact that trade issues are present in PRSPs, trade objectives and targets are treated in a general manner, and there are weak links between strategic goals and priority policies. This weakness is a general problem with the PRSPs, rather than a trade-specific one.

It is unclear whether the superficial integration of trade policy into PRSs reflects a lack of real national priorities with regard to the trade agenda, or recipient countries' perceptions of donors' priorities in the context of poverty reduction. PRSs are tools used to obtain and manage donor assistance and it is tempting for recipient countries to emphasise donors' priorities in these plans. The history of the PRSs and the required focus on poverty reduction have not always led to prioritising the reforms needed for trade development, which tend to have complex and often indirect effects on poverty reduction. Thus, the fact that trade policy is not adequately mainstreamed into PRSs might either reflect a lack of political will, or a perception that donors do not really prioritise trade as a tool for economic growth. Indeed, the findings of the evaluations of past trade-related assistance programmes also highlight the fact that trade-related assistance is poorly integrated in donor strategies.

Align donors' strategies to aid effectiveness principles

The Paris Declaration specifically calls for donors to "… base their overall support on partner countries' national development strategies, institutions and procedures". The failure to apply aid effectiveness principles systematically is not specific to trade-related assistance. In fact, on the whole many donor agencies have few incentives to apply these principles. Too often, their performance is assessed according to levels of disbursements rather than the results they obtain. In addition, there are two constraints that particularly affect Aid for Trade assistance: lack of technical capacity and lack of political will.

Diagnostic tools are relatively weak and have tended to over-rely on external consultants' analyses with little local input. This has too often led to a superficial analysis of the binding constraints affecting trade capacity and relatively little thinking on the underlying reasons for these constraints and how aid might resolve them. Technical assistance has focused primarily on international trade policy – a key element to improve trade policy making. But it is unclear whether it has helped to improve countries' capacity to identify where aid or government intervention would be most beneficial.

One issue of major importance is that trade reform is extremely sensitive to the conditions governing the political economy of a country. In common with land reform and anti-corruption measures, trade reforms have a great potential to undermine the economic power of political elites and other vested interests. The more restrictive the trade and economic regime is, the more powerful entrenched vested interests will be. Successful integration into the world economy often demands considerable reform; there are very few countries where the binding supply constraints are only of a physical nature, and solvable by a few hefty investments in infrastructure. Thus, in many cases, genuine country ownership of a pro-growth trade strategy will not be feasible in the short to medium term. This means that mainstreaming and dialogue are unlikely to take place or to be effective tools to develop a good strategy.

In cases where donors are unable to align their priorities with that of the recipient country, different approaches, such as Drivers of Change (DoC) might be more fruitful. The DoC approach seeks to identify the political institutions, structures and agents that can act as key levers to enable pro-poor change. In particular, the role of institutions – both formal and informal – and their underlying structural features is being recognised. For this reason DoC analysis focuses on formal and informal rules, power structures, vested interests and incentives within these institutions. The aim of the DoC approach is not to steer the conditions governing the local political economy, but rather to ensure that the country and donors understand the obstacles they face.

Effective Aid for Trade: Local accountability and global monitoring

The inclusion of Aid for Trade in the Hong Kong Ministerial Declaration offers the aid and trade community the opportunity to establish an effective and efficient framework for Aid for Trade. This provision will ensure that developing countries benefit from WTO agreements and that they improve their performance in the global economy. Increasing the effectiveness of Aid for Trade requires a much more comprehensive and rigorous implementation of the aid effectiveness principles of the Paris Declaration. At the same time, it is clear that despite their apparently widespread acceptance, implementing a genuine management for results approach and setting up review mechanisms for mutual accountability remain a challenge. Moreover, there is a need in aid agencies to strengthen incentives to ensure that the principles of alignment around local strategies and harmonisation of donor procedures are adhered to in practice.

While there are compelling needs to enhance the credibility of Aid for Trade in the context of the DDA, there are no convincing arguments to create a new global institutional governance structure to mobilise and disburse additional Aid for Trade. On the contrary, the problem is not insufficient financing at the global level. The problem is prioritisation of trade in national development strategies and effective aid delivery. To ensure that trade needs at the national level are adequately addressed requires their integration in national development strategies. To ensure that national Aid for Trade programmes are effective requires the design and management of these programmes with clear and specific objectives to improve trade capacities. This requires, in turn, a system of mutual accountability between recipients and donors at the level where the intervention takes place. This will provide for genuine local ownership.[8]

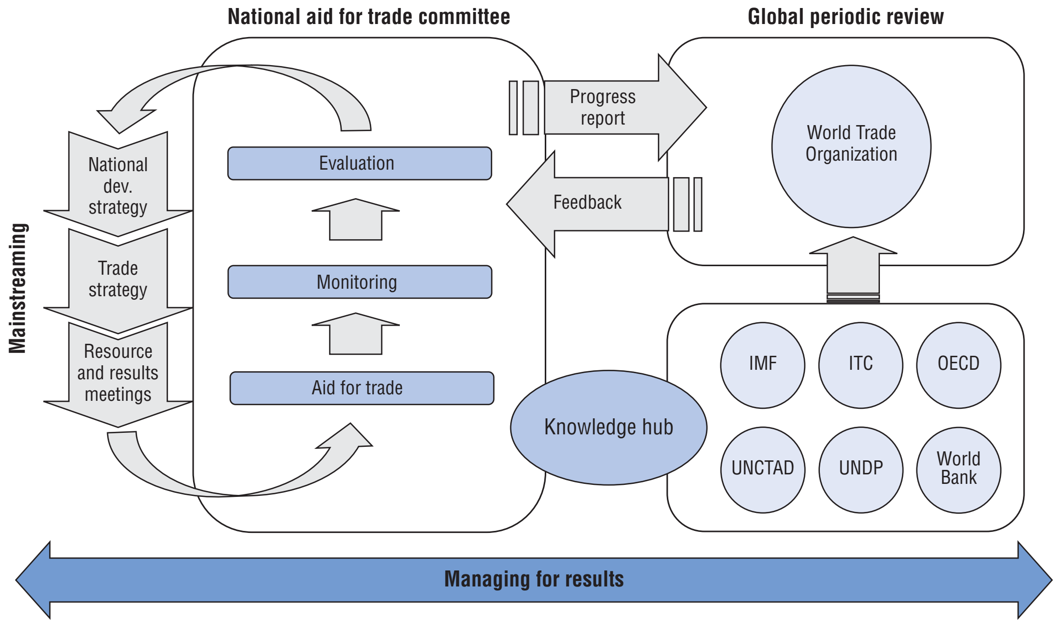
This logic has been accepted by the WTO Task Force on Aid for Trade which, in order to establish the credibility of Aid for Trade in the context of the DDA, recommends that two accountability mechanisms are necessary: one committee at a national or regional level and one at a global level. Once these are operational, strengthened in-country Aid for Trade structures should improve local ownership and management for results and increase the transparency of financial flows, from donor commitments to the disbursement of resources at the national level. The global periodic review of Aid for Trade undertaken by a monitoring body hosted by the WTO, as well as its corrective feedback, should ensure that needs identified locally – whether financial or performance related – are addressed.

Local accountability

The national Aid for Trade committees should be based upon – and aligned with – recipient-donor partnerships for scaling up aid. They should bring together all the key donors and recipient country actors that are active in the field of Aid for Trade. Their remit would focus on: *i)* integrating trade into national development strategies; *ii)* monitoring the disbursement of Aid for Trade; and *iii)* evaluating jointly the effectiveness and results of the assistance. The committees' key mandate would be to provide local feedback in the form of a joint performance/progress report on the targets set out and results achieved (Figure 2.4).

The national Aid for Trade committees' obligation to report progress to a WTO monitoring body should provide a strong incentive to improve the design and implementation of Aid for Trade programmes and focus minds on managing for results. Reinforcing mutual accountability would also create incentives at local level for

Figure 2.4. **Effective Aid for Trade partnerships: Local accountability and global review**



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strengthening country ownership, aligning donors' priorities to country strategies and stepping up collaboration among donors. It is important neither to duplicate existing mechanisms in recipient countries nor create additional bureaucratic layers or additional conditionality requirements. Many countries already have consultation or policy co-ordination mechanisms that fulfil some of the functions detailed above and could easily expand their remit. Moreover, the national Aid for Trade committees should be fully compatible and integrated, if possible, with the "resources and results meetings" currently advocated by the international donor agencies to enable recipient countries to manage the ODA scaling up process.

Global review

As well as the national Aid for Trade committees, the role of the global monitoring body hosted by the WTO is also vital. First, local obligations to report regularly will only succeed in changing practice on the ground if these reports are seriously reviewed by the trade and development community. The global review needs to be transparent and support local processes. The idea is to establish a corrective feedback process enabling the international community to act upon the identified key constraints and tackle the challenges of improved trade capacity, unmet financial needs, lack of donor co-ordination or lack of technical capacity to design, and effectively implement and manage Aid for Trade. It would also spearhead better co-ordination among the many specific trade-related initiatives on, for example, standards, trade facilitation and intellectual property.

The WTO is a suitable forum to review on a regular basis whether Aid for Trade is being adequately funded and is delivering the expected results. The WTO has a vested interest in ensuring that all its members benefit from trade and WTO agreements. It is a consensus-based organisation and has institutional experience in reviewing complex policy areas through its Trade Policy Review Mechanism. However, it lacks country presence and has little hands-on experience with providing aid (except for technical assistance). This is not necessarily a problem if its role is confined to reviewing local performance progress reports and donors' evaluations with a view to formulating recommendations and disseminating the results.

Lastly, although the traditional evaluations of individual and multilateral donors' strategies are insufficient in themselves to drive reform on the ground, they have a key role to play. They should ensure the dissemination of best practice among their own programmes, identify areas for improvement and increase transparency on pledges and commitments. The joint OECD-WTO database already monitors financial commitments in the area of trade-related assistance, while the DAC database provides financial information on donor support for infrastructure, building productive capacity and structural adjustment programmes. The database could be complemented with qualitative information and assessments based on the results obtained by different donors.

Notes

1. Paragraph 57 of the WTO Hong Kong Ministerial Declaration, WT/MIN(05)/W/3/Rev.2.
2. On a commitment basis (Creditor Reporting System data), excluding debt relief and 2003 prices, *www.oecd.org/dac/stats/crs*.
3. These are only simulations. The actual supply of ODA will depend on DAC members approving aid budgets and delivering ODA at the level indicated in their public commitments.
4. See the Paris Declaration on Aid Effectiveness, March 2005, *www.oecd.org/dac/effectiveness/parisdeclaration*.
5. WTO (2005), Managing the Challenge of WTO Participation: 45 Case Studies, Cambridge University Press, Cambridge.
6. OECD (2006), *Trade-Related Assistance: What Do Recent Evaluations Tell Us?*, *www.oecd.org/dataoecd/19/3/37326353.pdf*.
7. OECD (2001), *Strengthening Trade Capacity for Development*, The DAC Guidelines, *www.oecd.org/dataoecd/46/60/2672878.pdf*.
8. Easterly, W. (2006), *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done so Much Ill and So Little Good*, Penguin Press, London.

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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.

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- **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.

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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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