



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)



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Statement by

Richard Manning
Chairman
OECD Development Assistance Committee (DAC)

Dubai, UAE
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I. Aid volume

1. DAC Members have started to deliver on their Monterrey commitments to increase aid volume. They increased their ODA by 4.9% in real terms from 2001 to 2002, providing some US\$57 billion, equivalent to 0.23% of their combined GNI. Based on the latest information from Members, the DAC Secretariat estimates that ODA would rise by a further 31% in real terms by 2006, taking total ODA to some US\$75 billion and the ODA/GNI ratio to 0.28%. The commitments by each DAC Member are shown in Table 1 below. Fully delivering on these commitments will be a challenge for many Members, particularly given recent increases in budget deficits. Some of the ODA increase in 2002 was for current emergencies, additional to the Monterrey commitments. It is to be hoped that further resources for these emergencies will also be additional, so that the extra \$20 billion in ODA following Monterrey can be focused on the longer-term achievement of the MDGs.

Table 1. DAC Members ODA prospects after Monterrey: Latest projections

Simulation of ODA prospects for 2006									
Country	Net ODA in 2002 (US \$m)	ODA/GNI in 2002	Commitment/ Announcement/ Assumption	Year to be attained	Net ODA in 2006 (in millions of 2002 US \$)	ODA/GNI in 2006	Real change in ODA in 2006 compared with 2002 (at 2002 prices and exchange rates) ¹		
							(US \$m)	Percent	
Austria	475	0.23%		0.33%	2006	722	0.33%	248	52%
Belgium ²	1,061	0.42%		0.7%	2010	1,479	0.54%	418	39%
Denmark	1,632	0.96%		>0.7%	n.a.	1,568	0.85%	-63	-4%
Finland ²	466	0.35%		0.44%	2007	600	0.42%	134	29%
France ²	5,182	0.36%	0.5% (0.7% by 2012)		2007	7,229	0.47%	2,046	39%
Germany	5,359	0.27%		0.33%	2006	7,066	0.33%	1,708	32%
Greece	295	0.22%		0.33%	2006	476	0.33%	181	61%
Ireland ²	397	0.41%		0.7%	2007	665	0.63%	268	68%
Italy	2,313	0.20%		0.33%	2006	4,195	0.33%	1,882	81%
Luxembourg	143	0.78%		1%	2005	198	1.00%	55	38%
Netherlands	3,377	0.82%		0.8%	Already	3,566	0.80%	189	6%
Portugal	282	0.24%		0.33%	2006	420	0.33%	137	49%
Spain	1,608	0.25%		0.33%	2006	2,328	0.33%	720	45%
Sweden	1,754	0.74%		1%	2006	2,582	1.00%	828	47%
United Kingdom	4,749	0.30%		0.4%	2005-06	6,888	0.40%	2,139	45%
EU Members, Total	29,093	0.34%		0.39%	2006	39,984	0.43%	10,891	37%
Australia ³	962	0.25%		0.26%	in 2003-04	1,089	0.26%	126	13%
Canada	2,013	0.28%	8% annual increase		to 2010	2,739	0.34%	726	36%
Japan	9,220	0.23%	1998-2002 av. Level (\$10.5 bn)		in 2006	10,500	0.26%	1,280	14%
New Zealand	124	0.23%	Future level is under review			134	0.23%	10	8%
Norway	1,746	0.91%		1%	2005	2,081	1.00%	334	19%
Switzerland ²	933	0.32%		0.4%	2010	1,128	0.36%	195	21%
United States ⁴	12,900	0.12%	Increase by \$7 bn from 2001		2006	17,026	0.15%	4,126	32%
DAC Members, Total	56,991	0.23%				74,680	0.28%	17,689	31%

¹ Assumes average real growth in GNI of 2% p.a. [3% for Canada and zero for Japan] from 2002 to 2006.

² ODA/GNI ratio for 2006 interpolated between 2002 and year target scheduled to be attained.

³ Estimated ODA/GNI 0.26% in 2003/04. As aid volume determined in annual budgets, assumes same ratio in forward years.

⁴ Assumes, for 2006, additional \$5 bn from the Millennium Challenge Account and \$2 bn from the Emergency Plan for AIDS Relief, and 2% p.a. inflation in the USA to deflate from 2006 to 2002 prices.

II. Trends in Aid Allocation

2. The climate for delivering effective aid has improved in two fundamental ways in recent years. First, the **ending of Cold War** tensions has reduced the pressure to continue aid for solely political reasons. This has enabled donors to focus more sharply on aid effectiveness in their policy dialogue with recipients. Second, donors have clarified their thinking about the purpose of aid, and many have made **poverty reduction** the clear central goal of their aid efforts.

3. On the other hand, new challenges have emerged. There has been an upsurge in **complex humanitarian emergencies** – Somalia, Rwanda and the former Yugoslavia in the first half of the 1990s; and more recently Afghanistan and Iraq. These emergencies have diverted scarce aid resources away from development activities towards immediate relief needs. Moreover, the number of aid recipients increased in the 1990s while **fiscal pressures** were leading to cuts in the total resources allocated for aid.

4. Aid allocation trends reflect both the new opportunities and the new pressures. Work in progress in the DAC highlights general trends and some specific points:

General trends in DAC members' aid allocations

5. Important trends over the past decade, which will be more fully analysed in this year's Development Co-operation Report include:

- A shift towards more aid to the social sectors, including basic social services and towards improved governance and institutions.
- In parallel, a decrease in aid to the industry and energy sectors, following the restrictions on aid to commercially viable projects in the Helsinki package in 1992, and also to agriculture.
- A trend towards grant-only programmes among bilateral donors, and within grants, a tendency for reduced project and programme aid, while technical co-operation has been maintained or increased.
- Virtual stability of the share of multilateral aid¹ in total aid flows (about 30%) but important changes within the total.

Allocation based on performance

6. In the wake of **Assessing Aid** (Dollar and Pritchett, 1998), there is a wide measure of agreement that, for countries with sound economic policies and good governance, aid can accelerate sustainable broad-based growth.

7. As a result, there is an increasing tendency among DAC members to employ selection criteria or guidelines for aid allocation that include factors such as governments' respect for human rights and commitment to good policies and good governance. This is seen most clearly in the United States' Millennium Challenge Account, but is also reflected in more stringent assessment by many other donors of the policy environment for their aid inputs.

¹ Including European Commission programmes.

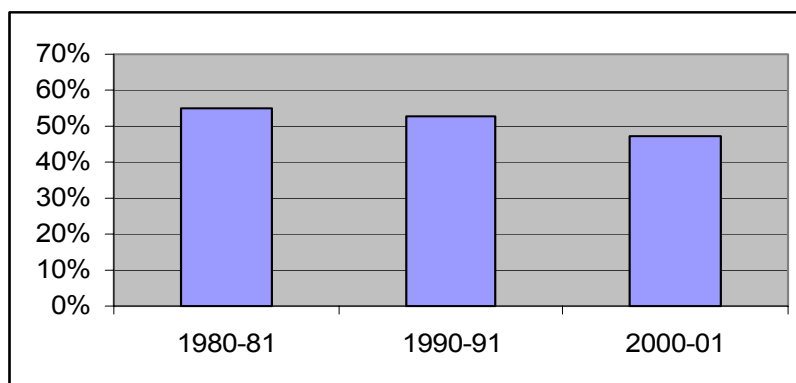
8. Important questions remain about how to approach **difficult aid partnerships**, e.g. for low income countries under stress. Experience shows that donors can play an important role by staying in these countries to continue policy dialogue and work with different stakeholders.

Concentration vs. dispersion of aid

9. While donors are showing greater selectivity in relation to the policy environment for aid, there is also a tendency towards greater dispersion of ODA. Figure 1 shows that the share of the top 15 aid recipients has fallen over the past 20 years from 55 per cent to 48 per cent, and the trend towards deconcentration is even more marked at the level of individual DAC members (since the top recipients at aggregate level may make up for some declines from their main donors by increases from new or minor donors)².

10. At the same time, a number of donors have introduced policies aimed at **concentrating ODA** on a limited number of countries, even though the effects are not yet evident at aggregate level. Potential advantages include reduced fixed costs, developing a knowledge base about the local context, increased influence in policy dialogue, and reduced administrative burden for the recipients.

Figure 1. Share of DAC members' total gross bilateral ODA to the 15 top recipients



Note: Excludes amounts unallocated by recipient

III. Aid Effectiveness

11. In the wake of the Rome High-Level Forum in February 2003, the political momentum for harmonisation and alignment has been sustained. 'Ownership' of the agenda by bilateral and multilateral agencies has broadened and now includes explicit recognition that it covers alignment with partner countries' development priorities, systems and procedures. In line with the Rome agenda, the focus now is shifting to implementation and concrete action on the ground. The donor community is firmly committed to apply the DAC Good Practices on *Harmonising Donor Practices for Effective Aid Delivery*

² Technical factors related to the DAC List of Aid Recipients also play a role. A few major recipients that have left the ODA part of the List (especially Israel), whereas countries that have joined it (successor states of the former Yugoslavia, central Asian and Transcaucasian republics of the former Soviet Union, Eritrea, East Timor) are minor to medium recipients. Both trends tend to reduce the share of total ODA accounted for by the largest recipients.

which were endorsed, first by Heads of Aid Agencies and Ministers of Development Co-operation in December 2002, and then by the donor community at large at the Rome Forum.

12. To facilitate, support, and monitor progress on harmonisation and alignment, the OECD/ DAC created the Working Party on Aid Effectiveness and Donor Practices (WP-EFF) in May 2003, with broader multilateral participation, involvement of partner countries and an expanded mandate. The mandate of the new Working Party also extends to public financial management; aid untying; procurement and capacity-building; and management for results.

- **Work on harmonisation and alignment** undertaken by a WP-EFF Task Team is being co-led by an OECD-member country and the World Bank as a multilateral donor. It is engaged in facilitating the design and implementation of donor and country-based Action Plans, and in monitoring progress through peer reviews, joint country assessment and individual self-reporting. Work on a framework of indicators to track progress towards the Rome commitments is well underway. A major challenge will be to encourage progress at the country level and, as necessary, to help resolve emerging implementation constraints and bottlenecks. The Working Party will report on progress on harmonisation and alignment to the OECD's Senior Level Meeting in late 2004, and to the next High-Level Forum on Harmonisation in 2005, which France has offered to host.
- **Public financial management.** In common with other areas discussed in Rome, there is a need to monitor progress with the commitments made in financial management. The two DAC Good Practice Papers on *Measuring Performance in Public Financial Management* and on *Financial Reporting and Auditing* largely focus on diagnostic reports. There is not yet in place an accepted set of performance measurement indicators to track progress over time. DAC members will discuss ways to support such a framework under the leadership of the World Bank where there is considerable interest in this work, in association with the IMF, the Regional Development Banks and the Public Expenditure and Financial Accountability (PEFA) programme. Members are also expected to concentrate on two priority issues: the predictability of external resources and the integration of donor activities in the budget of partner countries. Work on the preparation of an accounting standard for development assistance will continue with the MDBs and the Public Sector Committee of the International Federation of Accountants (IFAC-PSC).
- **Aid untying.** Members have taken action to implement the DAC Recommendation to untie most forms of ODA, other than food aid and free-standing technical assistance, to the LDCs. Their performance is regularly monitored against agreed statistical indicators and their tying policies and practices are reviewed through the peer process and reported in annual implementation reports to DAC High Level Meetings. The 2003 DAC High Level Meeting has requested the Committee to explore the scope for broadening the application of the Recommendation over time.
- **Procurement.** Strengthening partner country responsibility for conducting aid-related procurement and promoting local and regional procurement in partner countries are important objectives of the Recommendation. The DAC and the World Bank have initiated a joint Procurement Roundtable in January 2003 which has become an ongoing network with the objectives of addressing key capacity development needs

- and building procurement systems in developing countries around which donors can harmonise their procedures. The Roundtable format is being used to bring in developing countries from the outset to promote partnership approaches.
- **Managing and measuring for results.** Building on the international collaboration begun at the June 2002 Washington Roundtable I on Measuring, Managing and Monitoring for Results, a group of interested DAC members is currently trying to identify the scope of work. Participants in the World Bank “global monitoring” workshop held in Washington last June have expressed interest in being associated with this work suggesting that the outcome could be turned into a draft position paper to be presented to the Roundtable on Results provisionally planned for February 2004. The purpose would be to reach a common understanding on good practice principles for measuring results.

IV. Policy coherence

13. Achieving the MDGs within the time envisaged is not only dependent on the efforts of developing countries themselves and on the effectiveness donor support, but requires coherent policies of developed countries in all policy areas that directly and indirectly affect opportunities for sustainable economic growth in developing countries.

14. Over the years, DAC Members have paid increased attention to policy coherence in their activities. For instance, when endorsing the **DAC Guidelines on Poverty Reduction** in 2001, they agreed to elevate policy coherence for poverty reduction as a general concern in government policies and to develop the means necessary for promoting it across the whole of government. Recent DAC peer reviews have focused specifically on the institutional mechanisms that donors are using to tackle policy coherence issues.

15. To address policy coherence issues, the annual OECD ministerial meeting in 2002 issued a statement on “**Action for a shared Development Agenda**”, which called upon the OECD to “*enhance understanding of the development dimensions of member country policies and their impacts on developing countries. Analysis should consider trade-offs and potential synergies across such areas as trade, investment, agriculture, health, education, the environment and development co-operation, to encourage greater policy coherence in support of the internationally agreed development goals*”.

16. In response to this mandate, the OECD has launched a horizontal project on policy coherence for development. Its main task is to facilitate and support efforts of OECD countries to encourage systematic promotion of mutually reinforcing policy actions across government departments and agencies creating synergies towards achieving the MDGs.³

17. A recent OECD Policy Brief, “**Policy Coherence: Vital for Global Development**” highlights the types of issues at stake and identifies the potential for seeking greater coherence between official development assistance and other policies. These include, *inter alia*, such issues as agriculture, trade policies, investment, knowledge transfer, migration and global resources.

³ See the OECD website on policy coherence for development:
[http://olisnet2.oecd.org/COMNET/SGE/coherence.nsf/viewHtml/index/\\$FILE/home.html](http://olisnet2.oecd.org/COMNET/SGE/coherence.nsf/viewHtml/index/$FILE/home.html)

V. Mutual reviews of development effectiveness among development partners

18. Finally, reaching the Millennium Development Goals will call for efforts to build and sustain meaningful development partnerships. In the spirit of the Monterrey Consensus, efforts are currently underway to develop a mechanism to facilitate constructive, ongoing dialogue between African leaders and policy makers and their OECD counterparts on development progress in Africa as a shared responsibility of developing and developed countries. A proposal for biennial “Mutual Reviews of Development Effectiveness” is under discussion both in NEPAD and UNECA and in the DAC and OECD. The reviews would monitor performance and identify good practice among African countries as regards political governance, economic governance and capacity-building and among OECD countries as regards ODA supply, aid effectiveness including capacity-building, and policy coherence.