



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)



**SEVENTY-SECOND MEETING
WASHINGTON, DC – SEPTEMBER 25, 2005**

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September 25, 2005

Statement by

Mr. Richard Manning

Chairman

OECD Development Assistance Committee (DAC)

DEVELOPMENT COMMITTEE MEETING
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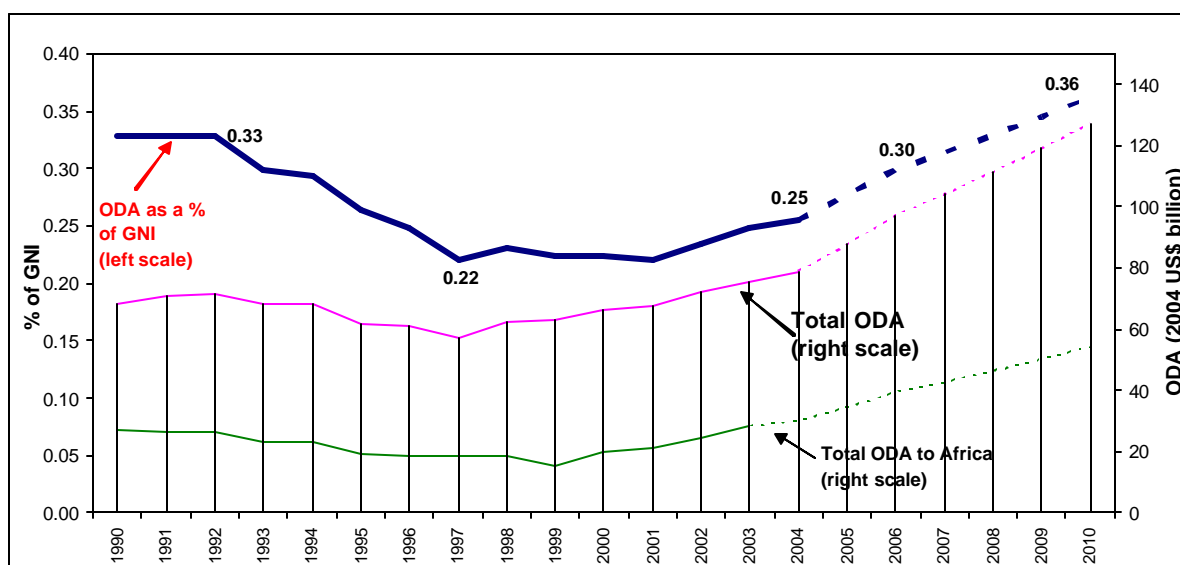
1. In this year of development we have already seen major progress on commitments to deliver more aid and to do so more effectively. This statement focuses on the commitments of the developed countries represented in the OECD Development Assistance Committee. It covers:

- Financing for Achieving the MDGs:
 - commitments made by DAC donors;
 - how aid flows will be ‘scaled up’;
 - how aid can be delivered more effectively to achieve results;
- DAC work on Aid for Trade.

Commitments by DAC Donors

2. On the assumption that DAC Members deliver on their public statements, the latest simulation by the DAC Secretariat indicates that Official Development Assistance (ODA) from OECD donors will increase by US\$ 50 billion in round numbers, from a little under US\$ 80 billion in 2004 to approaching US\$ 130 billion in 2010 (see Chart and Table). Moreover donors outside the DAC are also increasing their aid volumes. We do not have comprehensive information, but of note are the commitments by the ten new members of the EU to raise their aid to 0.33% of their national income by 2015, and China’s announcement at the UN summit of a US\$ 10 billion programme for infrastructure, along with technical co-operation and debt relief.

DAC Members' net ODA 1990 - 2004 and DAC Secretariat simulations of net ODA to 2006 and 2010



OECD-DAC Secretariat Simulation of DAC Members' Net ODA Volumes in 2006 and 2010

In constant 2004 US\$ 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 the projections of real growth for each country are taken from the *OECD Economic Outlook* No. 77 (May 2005) Annex Table 1. For the period 2006-10, 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.**

20 September 2005

Country	2004		Assumptions	2006				2010			
	Net ODA (provisional)	ODA/GNI		Net ODA	ODA/GNI	Real change in ODA compared with 2004		Net ODA	ODA/GNI	Real change in ODA compared with 2004	
						(\$ m)	Per cent			(\$ m)	Per cent
Austria	678	0.23%	0.33% in 2006 and 0.51% in 2010	1 000	0.33%	322	48%	1 673	0.51%	995	147%
Belgium ¹	1 463	0.41%	0.7% in 2010	1 815	0.49%	351	24%	2 807	0.70%	1 344	92%
Denmark	2 037	0.85%	Minimum 0.8%	2 037	0.81%	0	0%	2 185	0.80%	148	7%
Finland ^{1,2}	655	0.35%	0.44% in 2007 and 0.7% in 2010	797	0.41%	141	22%	1 475	0.70%	820	125%
France ¹	8 475	0.42%	0.5% in 2007 and 0.7% in 2012	9 877	0.47%	1 403	17%	13 885	0.61%	5 410	64%
Germany	7 534	0.28%	0.33% in 2006 and 0.51% in 2010	9 271	0.33%	1 737	23%	15 509	0.51%	7 975	106%
Greece	465	0.23%	0.33% in 2006 and 0.51% in 2010	715	0.33%	251	54%	1 196	0.51%	732	158%
Ireland	586	0.39%	0.5% in 2007 and 0.7% in 2012	731	0.44%	146	25%	1 072	0.60%	486	83%
Italy	2 462	0.15%	0.33% in 2006 and 0.51% in 2010	5 537	0.33%	3 075	125%	9 262	0.51%	6 801	276%
Luxembourg ¹	241	0.85%	1% in 2009	275	0.91%	34	14%	327	1.00%	87	36%
Netherlands	4 235	0.74%	Minimum 0.8% ⁷	4 801	0.82%	567	13%	5 070	0.80%	836	20%
Portugal ³	1 031	0.63%	0.33% in 2006 and 0.51% in 2010	558	0.33%	- 474	-46%	933	0.51%	- 98	-10%
Spain ^{1,2}	2 547	0.26%	0.5% in 2008 and 0.7% in 2012	3 446	0.33%	899	35%	6 687	0.59%	4 140	163%
Sweden	2 722	0.78%	1% in 2006	3 719	1.00%	997	37%	4 025	1.00%	1 303	48%
United Kingdom ^{1,4}	7 836	0.36%	0.47% in 2007-08 and 0.7% in 2013	9 553	0.42%	1 716	22%	14 525	0.59%	6 689	85%
EU Members, Total	42 966	0.35%		54 132	0.43%	11 166	26%	80 633	0.59%	37 667	88%
Australia	1 465	0.25%	0.36% in 2010	1 768	0.28%	303	21%	2 460	0.36%	995	68%
Canada	2 537	0.26%	8% annual increase until 2010	2 959	0.29%	422	17%	4 026	0.36%	1 489	59%
Japan ⁴	8 859	0.19%	See footnote 4	9 859	0.20%	1 000	11%	11 859	0.22%	3 000	34%
New Zealand	210	0.23%	0.27% in 2005-06 and 0.28% in 2007-08	262	0.27%	51	24%	294	0.28%	84	40%
Norway	2 200	0.87%	1% over 2006-09	2 657	1.00%	458	21%	2 876	1.00%	677	31%
Switzerland ⁵	1 545	0.41%	See footnote 5	1 596	0.41%	51	3%	1 728	0.41%	183	12%
United States ⁶	18 999	0.16%	See footnote 6	24 000	0.19%	5 001	26%	24 000	0.18%	5 001	26%
DAC Members, Total	78 780	0.25%		97 233	0.30%	18 453	23%	127 876	0.36%	49 096	62%

¹ ODA/GNI ratios interpolated between 2004 and year target scheduled to be attained.

² Finland aim to achieve 0.7% by 2010 'subject to economic circumstances'; Spain aim 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

³ Portugal's ODA in 2004 was above trend due to an exceptional debt relief operation for Angola.

⁴ Japan intends to increase its ODA volume by \$10 billion in aggregate over the next five years (2005 - 2009) compared to its net ODA in 2004. The Secretariat's estimate assumes \$1 billion extra in 2006 and \$3 billion extra in

⁵ Switzerland's ODA will increase by 8% in nominal terms from 2005 to 2008. A new goal will be determined for the following years. The Secretariat's estimate assumes maintenance of 0.41% of GNI in 2006 and 2010.

⁶ Secretariat estimate based on 2004 ODA plus \$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

⁷ The Netherlands' ODA in 2004 was below its target, as India repaid all its outstanding Dutch aid loans. The Netherlands intends to maintain its target of 0.8% of GNI, on average, over the period 2004-07.

3. In other words we can expect to see the largest expansion in ODA as measured by the DAC since the Committee was formed in 1960, even though as a proportion of Gross National Income, the level in 2010 (0.36% for DAC members as a whole) remains well below the level of over 0.50% achieved in the early years of the Committee's existence.

4. The sharpest percentage increase is likely to be in Africa, to the tune of an additional US\$ 25 billion, taking the level of aid to that continent alone to over US\$ 50 billion in 2010. Already, several OECD countries have announced that they will double their aid to Africa over the next few years.

5. These figures are impressive, but they need to be treated with some caution. In the first place for many donors they imply that aid will be perhaps the most rapidly rising element of public spending year after year. Given the pressures on public budgets in many OECD countries, delivering such increases will be a stiff challenge. And it emphasises the importance of showing the results that aid achieves, so as to strengthen and maintain public support. The joint work between the MDBs and the DAC on results and improving the quality of national statistics showing those results will be a major focus of our work in 2006 as we prepare for the third Roundtable on Managing for Development Results next autumn.

6. In the second place there will be increasing interest in the make-up of the additional aid. For example, while the last three years have seen a real and welcome increase in aid, much of it has been in the form of emergency aid, debt relief and technical assistance that, important as they are, do not necessarily mean new money for developing countries. If for example debt repayments were not being made anyway, then debt relief may regularise the situation, but it will not necessarily deliver additional cash to build and improve welfare.

7. We forecast that there will be a rapid rate of increase in ODA in 2005 and 2006, though for reasons not foreseen when most OECD countries announced medium-term commitments at Monterrey in 2002. Donors have pledged around US\$ 7 billion over the next few years for Tsunami relief and reconstruction, US\$ 5 billion of which is from government budgets, the rest from private funds. And two major Paris Club agreements on debt cancellation, for Iraq and in principle for Nigeria, will produce very large increases in reported aid, since when the official sector takes over and forgives commercial debt it can be claimed as ODA. For Iraq alone, as much as US\$ 15 billion could qualify as ODA in 2005.

8. This links to a significant debate that has emerged recently in the media and amongst NGOs about how much ODA is 'real aid' – that is, aid that actually reaches poor people or creates the conditions that can positively affect their lives. We see it as our job at the OECD to show transparently how increased aid is being allocated, so that the public can better understand the real effects of aid. I will continue to report the detail below the headline figures to the Development Committee and in the DAC's annual *Development Co-operation Report*.

9. My view is that we will indeed see a very significant increase in genuine aid to Africa and other developing regions over the next five years, though in the early years the rate of increase will be 'flattered' by some of the special features listed above. Continued scrutiny of how far aid is being allocated in ways that provide additional resources to the neediest countries will therefore be necessary.

Scaling up Aid

10. With these increased flows, better information is needed on how donors plan to allocate their aid, in order to avoid under-aiding some countries while over-aiding others. Greater predictability of aid is also needed at country level if aid dependent countries are to prepare results-based Poverty Reduction Strategies and Medium Term Expenditure Frameworks that are realistic in terms of the resources available. Such Frameworks are vital tools to scale-up expenditure plans, such as for training and recruiting teachers and nurses, in order to accelerate progress towards the MDGs as agreed at the UN summit.

11. Discussions about scaling up will need to consider both domestic and external resources for development. For external resources the issues go wider than aid flows – other capital flows, earnings from

exports and receipts of remittances are also relevant. On export earnings, the recent surge in oil prices will benefit a few oil producing countries, while hitting many other poor countries with higher bills for their energy. This raises issues of how well poor country oil exporters are able to make good use of their rising oil receipts, while the additional costs imposed on other poor countries are likely to increase the external resources they require to reach the MDGs.

12. The World Bank and the DAC are starting a dialogue on the issues around scaling up covering allocation mechanisms, scope and limitations of forward aid indications, and the need to address appropriately the needs of good performers, turnaround countries and fragile states. This dialogue will start immediately after the Development Committee with the MDBs and bilateral donors and be brought back to the Development Committee at the Spring Meeting in 2006. The intention is to work both at the national level, mostly through existing mechanisms such as Consultative Groups and Round Tables, and at the international level to improve the delivery of aid as promised in the Paris Declaration on Aid Effectiveness.

Delivering Aid More Effectively

13. The donor community has been handed both its biggest opportunity and its biggest challenge: can substantial additional aid be used effectively and deliver positive results for poor people?

14. My belief is that additional aid can be used effectively, but not without major changes in how developing countries and donors work together. Over-dependence on aid is something to avoid, but at present aid per head is well below the levels of fifteen years ago for least-developed countries or for Sub-Saharan Africa. With the right investment in capacity-building and better rates of economic growth, these countries should be able to absorb a good deal more aid productively.

15. But donors and recipients are going to have to get much smarter at working together to transfer and absorb aid without burying poor countries under donor red tape and consultants' reports.

16. There are many examples of good practice, but it is also clear from our surveys that good practice in aid delivery is far from general practice. It is therefore encouraging that in March this year donor and developing countries met in Paris and agreed to improve the way aid is delivered. Most importantly they agreed to over fifty commitments in the Paris Declaration on Aid Effectiveness and to have their efforts measured against a set of targets for 2010.

17. The UN Summit has welcomed the Paris Declaration, providing the highest level political support for greater effectiveness in delivering aid. The summit declaration states:

“We further welcome recent efforts and initiatives to enhance the quality of aid and to increase its impact, including the Paris Declaration on Aid Effectiveness, and resolve to take concrete, effective and timely action in implementing all agreed commitments on aid effectiveness, with clear monitoring and deadlines, including through further aligning assistance with countries' strategies, building institutional capacities, reducing transaction costs and eliminating bureaucratic procedures, making progress on untying aid, enhancing the absorptive capacity and financial management of recipient countries and strengthening the focus on development results.”

The international community have now embarked on a process to put in place a system to monitor how far the new directions agreed in Paris are being turned into reality on the ground. The targets and indicators (see Annex) of the Paris Declaration will be monitored twice before the next High Level Forum on Aid Effectiveness, to be held in Ghana in 2008.

18. Taken together, the commitments of the Paris Declaration should provide a strong stimulus to local efforts to change patterns of behaviour between donors and between donors and recipients in ways that should encourage more sustainable development. For example, if donors meet the target that by 2010 two-thirds of country analytical work should be done jointly, planning of aid interventions will become much more consistent

with a genuine “joint enterprise”. If parallel project implementation units that duplicate national structures really become a thing of the past, and if capacity development becomes much more of a joint response to well-articulated local priorities, we have a chance of seeing a much quicker improvement in the quality of local institutions through which increasing proportions of aid can flow. And if the DAC can broker a further move towards untying and greater use of local and regional resources, the cost-effectiveness of aid will rise. Certainly, the aid effectiveness agenda needs to remain centre stage as aid volumes rise, not least for countries already aid-dependent.

DAC Work on Aid for Trade

19. The Development Paper *The Doha Development Agenda and Aid for Trade* provides a sobering account of progress on the Doha Development Agenda. It is at a critical phase and success at the forthcoming Hong Kong WTO Ministerial Council is essential if the Doha Round is to deliver on its promise and potential. The Development Committee should reinforce the message from the UN Summit of the urgency for progress - and flexibility - in the negotiations.

20. At the same time, donors will have to work with developing countries to put them in a position to reap the greatest benefit from a further integration into world trade. Renewed efforts on trade capacity building are called for. This should include a closer look at the supply side constraints that restrict countries’ access to world markets, with particular attention to trade-related infrastructure. In this context, I welcome the simultaneous presentation to the Development Committee of a World Bank paper on infrastructure financing.

21. Trade and regulatory reforms are an essential part of the adjustment process. They stimulate exports, improve local business conditions and foster competition. This, in turn, promotes domestic and foreign investment. A consultative national policy-making process is important for preparing comprehensive development strategies, such as a Poverty Reduction Strategy, and it needs to ensure a coherent approach to trade and integrating trade policies into the strategy.

22. In practice, however, governments, institutions and enterprises in developing countries often lack the capacities to take full advantage of the opportunities provided through international trade. In many cases, they lack adequate information, policies, procedures, institutions and/or infrastructure to integrate and compete effectively in global markets.

23. Thus, it is generally accepted that market access needs to be complemented by trade capacity building if developing countries are to maximise the benefits from trade. Initially, this support was focused on providing assistance within a relatively narrow agenda (i) trade policy making at the national level, (ii) participation in WTO negotiations, and (iii) implementation of WTO agreements.

24. The Doha Development Agenda lists Trade Related Technical Assistance and Capacity Building (TRTA/CB) as a core element of the development dimension of the trading system and critical to a successful outcome of the Doha Round. Although the volume of TRTA/CB has increased significantly – to reach some 4.2% of total aid commitments in 2003 – the need for further increases has been reiterated in the WTO July 2005 Framework agreement.

25. Thus, over time, the TRTA/CB agenda has expanded even further and some now argue that it should also encompass (1) aid to manage adjustment costs from liberalisation and (2) aid to participate/integrate into global markets. The Development Committee paper confirms OECD studies that the overall adjustment costs from trade liberalisation are limited, but they might create relatively large problems for a small number of vulnerable countries.

26. I support the suggestion in the paper to use existing channels and to refrain from creating a multilateral fund to follow up priorities identified in the Diagnostic Trade Integration Study. This is consistent with the general message of the donor community to use existing channels and funds rather than creating new ones and to align assistance around local strategies. Thus I strongly support enhancing the Integrated Framework (IF) to become an effective platform for integrating the growth agenda into the national development strategies, where trade and investment are often rather neglected. In addition to exploring the adequacy of existing mechanisms to address regional and cross-country trade capacity needs, I also recommend linking the IF better to other co-ordination mechanisms – such as the DDA Trust Fund – and to expand it to non-LDCs.

27. The DAC, during a special meeting in October, will address how TRTA/CB can best adhere to aid effectiveness principles. These would ensure that it is based on local ownership, aligned around national systems and strategies, draws on harmonised donor efforts and is managed for results. Such an approach is very much in line with the Paris Declaration on Aid Effectiveness.

ANNEX

PARIS DECLARATION ON AID EFFECTIVENESS

AGREED TARGETS FOR THE 12 INDICATORS OF PROGRESS

(See www.oecd.org/dataoecd/45/46/35230756.pdf for methodology)

INDICATORS		TARGETS FOR 2010	
1	Partners have operational development strategies	At least 75% of partner countries have operational development strategies.	
2a	Reliable public financial management (PFM) systems	Half of partner countries move up at least one measure (i.e., 0.5 points) on the PFM/CPIA (Country Policy and Institutional Assessment) scale of performance.	
2b	Reliable procurement systems	One-third of partner countries move up at least one measure (i.e., from D to C, C to B or B to A) on the four-point scale used to assess performance for this indicator.	
3	Aid flows are aligned on national priorities	Halve the gap — halve the proportion of aid flows to government sector not reported on government's budget(s) (with at least 85% reported on budget).	
4	Strengthen capacity by co-ordinated support	50% of technical co-operation flows are implemented through co-ordinated programmes consistent with national development strategies.	
5a	Use of country public financial management systems	For partner countries with a score of 5 or above on the PFM/CPIA scale of performance (see Indicator 2a).	All donors use partner countries' PFM systems; and Reduce the gap by two-thirds — A two-thirds reduction in the % of aid to the public sector not using partner countries' PFM systems.
		For partner countries with a score between 3.5 and 4.5 on the PFM/CPIA scale of performance (see Indicator 2a).	90% of donors use partner countries' PFM systems; and Reduce the gap by one-third — A one-third reduction in the % of aid to the public sector not using partner countries' PFM systems.
5b	Use of country procurement systems	For partner countries with a score of 'A' on the Procurement scale of performance (see Indicator 2b).	All donors use partner countries' procurement systems; and Reduce the gap by two-thirds — A two-thirds reduction in the % of aid to the public sector not using partner countries' procurement systems.
		For partner countries with a score of 'B' on the Procurement scale of performance (see Indicator 2b).	90% of donors use partner countries' procurement systems; and Reduce the gap by one-third — A one-third reduction in the % of aid to the public sector not using partner countries' procurement systems.
6	Avoiding parallel PIUs	Reduce by two-thirds the stock of parallel project implementation units (PIUs).	
7	Aid is more predictable	Halve the gap — halve the proportion of aid not disbursed within the fiscal year for which it was scheduled.	
8	Aid is untied	Continued progress over time.	
9	Use of common arrangements or procedures	66% of aid flows are provided in the context of programme-based approaches.	
10a	Missions to the field	40% of donor missions to the field are joint.	
10b	Country analytic work	66% of country analytic work is joint.	
11	Results-oriented frameworks	Reduce the gap by one-third — Reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third.	
12	Mutual accountability	All partner countries have mutual assessment reviews in place.	

Notes:

- The targets, in accordance with the Paris Declaration, are: "designed to track and encourage progress at the global level among the countries and agencies that have agreed to this Declaration. They are not intended to prejudice or substitute for any targets that individual partner countries may wish to set." They are subject only to reservations by one donor on (a) the methodology for assessing the quality of locally-managed procurement systems and (b) the quality of public financial management reform programmes.

2. The *universe for the purpose of targeting* is limited to ODA eligible countries that have already endorsed the Paris Declaration or will have endorsed it by 31 December 2005. The *universe for the purpose of monitoring* is open to all ODA eligible countries that have already endorsed, or will endorse in the future, the Paris Declaration.