

## EXECUTIVE SUMMARY

i. **This paper provides background data and analysis to help inform upcoming discussions on the role of IDA in the global aid architecture.** The paper reviews broad trends in Official Development Assistance (ODA) flows; the growing complexity of the existing global aid architecture; and the prospects and challenges facing the donor community going forward. It relies heavily on analysis of data from OECD's DAC database, as well as from the Creditor Reporting System (CRS).<sup>1</sup>

### *Overview of Trends in Official Development Assistance*

ii. **Key trends in ODA volumes and terms:**

- Funding for ODA has been growing steadily over the last decade, with net ODA disbursements reaching US\$105 billion (at constant 2004 prices) in 2005.
- Much of the recent increase in ODA has been due to debt relief, and to a lesser extent to emergency assistance and administrative costs of donors. In real terms, debt relief alone explains almost 70 percent of the increase in ODA between 2004 and 2005.
- In contrast, the resumption of growth in ODA for core development programs since the late 1990s has been less marked than in the case of total ODA. Core development ODA grew on average 4.6 percent p.a. during 2001-2005, while total ODA grew by 11.4 percent p.a. over the same period.<sup>2</sup>
- IDA's role as the main channel for multilateral ODA has been surpassed by the European Commission and the United Nations system since the 1990s.
- ODA terms have become increasingly concessional, with almost 90 percent of bilateral ODA being in the form of grants.

iii. **Key trends in the distribution of ODA across recipient countries:**

- IDA-eligible countries have received in recent years less ODA for core development programs than they did on average during the early 1990s.
- IDA's share in ODA for core development programs for IDA-eligible countries has been growing, even on a net disbursement basis.
- General budget and sector program support rose as a percentage of total ODA commitments from 8 percent in 2001 to 20 percent in 2004.
- The share of social sectors in sector allocable ODA to low-income countries rose from 29 percent in the early 1990s to 52 percent between 2001 and 2004.
- In parallel, the combined share of infrastructure and production dropped from 59 percent to 38 percent over the same period.

### *The Growing Complexity of the Global Aid Architecture*

iv. **Proliferation of aid channels, ODA fragmentation and a significant degree of earmarking have contributed to increase the complexity of the global aid**

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<sup>1</sup> Invaluable contributions by DAC staff are gratefully acknowledged.

<sup>2</sup> The corresponding growth rates for the last decade are respectively 2.8 and 5.4 percent per annum.

**architecture.** Data analysis shows that there has been a proliferation of bilateral and multilateral agencies which interact with recipient countries. For instance, the average number of donors per country rose from about 12 in the 1960s to about 33 in the 2001-2005 period. In addition, there are currently over 230 international organizations, funds, and programs. Donor proliferation seems to be particularly pronounced in the health sector, where more than 100 major organizations are involved. This is accompanied by significant earmarking of aid resources for specific uses or for special-purpose organizations, including global programs or “vertical” funds. In fact, about half of the ODA channeled through multilateral channels in 2005 went through some degree of earmarking by sector or theme. “Verticalization” or earmarking of ODA has also been observed in some bilateral assistance programs. Available data for 2004 also indicates a large number of aid activities, which tend to be small in financial size.

v. **The complexity of the aid architecture increases transaction costs for donors and recipients alike, which reduces the effectiveness of aid.** Although the transaction costs of aid have not been systematically quantified, there is evidence that donor proliferation and aid fragmentation represent a tax on recipient countries’ implementation capacity.

vi. **Non-DAC and “emerging” donors are becoming increasingly important as ODA providers.** New donors bring with them more resources to help developing countries reach their MDGs. At the same time, new challenges for harmonization and alignment are created. Non-DAC donors are a heterogeneous group: the degree to which DAC approaches and norms as regards the provision aid finance are applied by non-DAC donors varies from country-to-country. Insufficient data on non-DAC ODA makes it difficult to accurately assess aid volumes and prospects from these sources. Non-DAC OECD countries alone are expected in aggregate to double their current ODA levels to over \$2 billion by 2010.

#### *Concluding Remarks*

vii. **ODA has grown steadily over the last decade, and is expected to continue to rise as donors have committed to significantly scale-up aid to achieve the MDGs. To make effective use of such scaled-up ODA at the country level, a number of implementation challenges would need to be addressed by donor and recipients.** The most upfront challenges include:

- Achieving complementarity across national, regional and global development priorities and programs; and
- Strengthening recipient countries’ ability to make effective use of potentially scaled-up fast-disbursing ODA, such as budget support.

viii. A platform for achieving complementarity across national, regional and global development priorities and programs can be found in the principles and targets of the Paris Declaration. In addition, country-level effectiveness of a potential scaling-up in programmatic ODA – added to the increased fiscal space brought about by recent debt relief initiatives – can be enhanced if country systems are strengthened.