CHAPTER 1. WHERE NOW FOR DEVELOPMENT AFTER THREE YEARS OF CRISIS?
Introduction by the Chair of the Development Assistance Committee

The combined acute effects of the food, energy and economic crises are a major challenge to the development community, raising searching questions about the real impacts of development, how to demonstrate them, what really underlies them, and our ability to control and account for them.

In light of these multiple crises, the need for development results has become even more urgent. This chapter asserts that the development community must follow through on its ambitious reform agenda, better document its impact, and make the necessary changes to ensure that development co-operation becomes an effective instrument in managing the challenges of globalisation. The aid effectiveness commitments of the Paris Declaration and the Accra Agenda for Action are the best indications of how seriously the development community is taking these concerns, but progress in achieving them is still too slow. Recent years have demonstrated how global factors beyond aid have a huge impact on development. They have also left no doubt about the importance of development co-operation for tackling new and persisting development challenges. Development co-operation therefore needs to work in numerous policy areas and with the many different actors shaping poor countries' development.

The chapter concludes that in the future the Development Assistance Committee (DAC) will be much more involved with the global aid architecture, with making non-aid policies coherent with development goals, and with global issues like climate change and achieving an equitable world trade system. It will sharpen its policy tools, place greater emphasis on monitoring impacts and holding its members to account, and be much more inclusive and pro-active in working with others.

How is the development community responding to the crisis?

For the past three years, the development community has been in permanent crisis mode: the global economic and financial crisis followed hot on the heels of food and energy crises. The fuel and food crises hit low income countries especially severely. Then, as the world economy ground to a halt, unofficial external finance for development contracted sharply and the shock to economic activity was felt severely throughout the developing world.

Today we are seeing clear signs of a strong rebound in many emerging economies. Growth has also returned to most developed economies, although it is more subdued and its strength and future course remain uncertain. This is the first time the emerging world has led the developed world in making its way out of a global downturn. Could there be a more powerful sign of the sweeping change to the established global order?

The resurgence of emerging economies, before the effects of the economic and financial crisis trickled through and made themselves fully felt, was a key factor in softening the shock to low-income countries. However, whilst the financial crisis is affecting developing countries in widely differing ways, and in some cases the impacts have not been as dire as feared, it has certainly dealt a blow to the goal of fully meeting the Millennium Development Goals (MDGs) by 2015.

This introductory chapter outlines the DAC's response to the crises in terms of aid priorities, volumes and modes. In this first section it presents the development community's crisis action plan, analyses the impact of the crisis on aid volumes, explores the potential for innovative forms of development financing and emphasises the need for greater attention to employment and social protection in the development process. The final sections reflect on some of the challenges and criticisms levelled at development co-operation, and the changes required if the MDGs are still to be achieved.

A crisis action plan for poor countries

Over the last year, the DAC has faced the critical challenge of putting the development dimension of the crisis on the political agenda, while helping the development community work out the best response. A major achievement for the DAC has, therefore, been its role in helping members to agree on a coherent international response to the crisis in poor countries. This action plan, endorsed by DAC ministers in May 2009, involves six critical areas (OECD, 2009a):

1. **Sticking to aid pledges.** All DAC member countries confirmed that they would meet their existing official development assistance (ODA) commitments, especially to Africa, although some donors have deferred their original pledges. They also stated that they would resist pressure to tie aid (Box 1.1) and would work with their own governments to ensure that policies across the board work together to achieve coherent development.

2. **Integrating crisis management with long-term growth and the MDGs.** ODA aims for lasting, long-term development. In emergencies, however, when other flows of development finance dry up, short-term bridging financing can ensure that years of development progress are not undone in a matter of months.

3. **Improving the quality and effectiveness of aid.** Ensuring implementation of the key commitments of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action – on country ownership, use of country systems and predictability – is integral to the crisis response (Annex A). At the same time, it will be fundamental to gradually phase out some activities launched during crisis mode that may distort long-term recovery or fragment the global architecture.

4. **Ensuring that ODA can meet the urgent needs of individual countries quickly.** Multilateral institutions are often better placed to act quickly to shift existing programmes towards priority needs during a crisis. DAC members agreed to support this rapid and flexible response in providing crisis-related aid resources, whilst ensuring that this does not reduce the predictability of existing aid commitments.

5. **Using all available instruments to tackle the crisis, not just official aid.** A wide array of other financial instruments, channels and sources are available and can have important development impacts (see below). It is important to take advantage of these, while ensuring complementarity between, and greater public understanding of, ODA and the other forms of development finance.

6. **Jointly monitoring and accounting for the crisis response by donors and partner countries.** Monitoring is necessary to ensure donors are keeping their promises on aid volumes and effectiveness, and that their actions support the needs of their partners. DAC members agreed to work with partners to ensure that aid intentions match partners' needs.

Box 1.1. **Untying aid**

An important test of donors' commitment to coherent policies and effective aid delivery is whether they untie their aid. When aid is tied, funds intended to help alleviate poverty have to be spent on suppliers from the donor country. Tying aid raises the cost to developing countries of many goods and services by 15% to 30% on average, and by as much as 40% or more for food aid. In fact, the real costs may be higher, as these figures do not incorporate the significant indirect costs of tying, such as higher transaction costs for partner countries. Another problem with tied aid is that it is at least partially guided by commercial considerations, which do not necessarily match developing country needs and priorities. When aid is tied it also makes it difficult for developing countries to feel a sense of ownership of the projects involved.

For these reasons, in 2001 the DAC adopted a recommendation to untie ODA to the poorest countries in the world (the least developed countries). This recommendation, with which all DAC members have to comply, covers all aid except technical co-operation and food aid. The agreement has since been expanded to include any heavily indebted poor countries which did not already qualify as least developed countries.

Enormous progress has been made since 2001. For example, the vast majority of DAC member countries have by now either fully or almost fully untied their entire bilateral aid programmes. As a result, 79% of DAC bilateral ODA was reported as untied by 2007. Of the remainder, 17% was still tied, while the status of the remaining 4% (mostly technical co-operation) has not been reported. And progress continues. For example, both Canada and Spain have recently announced plans to fully untie their aid over the coming years (including food aid, which Canada already untied in 2008). Korea, which has just become a DAC member (Box 1.3), has announced plans to untie 75% of its aid by 2015. Only Italy, Greece, Portugal and the United States still have a considerable way to go in untying their aid.

However, realising the full benefits of untying depends on more than the above factors alone. It also requires from donors a genuine and positive approach to untying, from developing countries the quality and capacity of procurement systems , and from local and regional suppliers the ability to compete for contracts on an equal and open footing with due consideration of corporate social responsibility. Despite donor countries having formalised their processes to ensure that procurement contracts are issued through open competition, the high share of aid that still goes to domestic suppliers is a cause for concern. Commitments to untie aid need to be backed up by comprehensive and transparent reporting, including information on untied aid offers and especially on procurement outcomes, for which statistics are very incomplete.

The next step is for DAC member countries to implement the untying commitments they made under the Accra Agenda for Action, *i.e.* that by 2010 they would develop plans for untying their aid as much as possible. The DAC is now engaging those countries which still have sizeable amounts of tied aid to join their peers in implementing fully or largely untied bilateral aid programmes.

While a crisis response is clearly vital, it is also important to remember that the purpose of development co-operation is not, and cannot be, to fight crises. Rather than "fire-fighting", development co-operation must focus on putting in place the conditions for lasting development, as defined by the MDGs. It is useful to recall that before entering into this period of immediate and successive crises, the world was witnessing strong growth and almost unparalleled economic performance in developing countries. Today, a situation in which strong economic expansion is accompanied by moderate developments of commodity and raw material prices seems difficult to envisage. The world has changed profoundly, but this must not change the goal of development.

The effect on official development assistance volumes

As the extent of the financial and economic crisis became clear, the development community closely observed if ODA levels would be hit. The relief was palpable when the DAC published ODA figures for 2008 which showed a rise in aid to USD 121.5 billion, the highest ever amount in absolute terms.[1] A survey of donors' forward spending plans suggests there will be an 11% increase in programmed aid between 2008 and 2010, including larger expenditures by some multilateral agencies (Chapter 8).

1. While ODA as a share of gross national income (GNI) has been higher in the past due to economic growth (and inflation), ODA has never before reached this total amount.

However, despite the strong increase in ODA in 2008, and the plans for further aid increases in 2009 and 2010,[2] a more nuanced view of aid commitments reveals a very different picture. In 2005, donors committed to increase their aid at the Gleneagles G8 and UN Millennium +5 summits. Many of the pledges were in the form of targets to provide ODA as a specific percentage of gross national income (GNI). The pledges made at or around these summits implied lifting aid from USD 80 billion in 2004 to USD 130 billion in 2010, at constant 2004 prices. The economic crisis, through falling GNI in donor countries, subsequently reduced the aggregate value of the commitments to USD 124 billion in 2004 prices. As commitments made by most donors remain in place, an ODA level of USD 107 billion on 2004 terms looks now set to be achieved by 2010 – an increase of 35% over the 2004 baseline. However, many countries – including some large donors – had important shortfalls by the end of 2009. This will mean that the total ODA level in 2010 will be about USD 17 billion in 2004 prices (or USD 21 billion in 2008 prices) below that envisaged in 2005. Similarly, whereas annual aid to Africa is estimated to increase by USD 12 billion in 2004 prices, this is well below the USD 25 billion target announced at the Gleneagles Summit for Africa, although a number of individual donors are meeting their individual commitments to sub-Saharan Africa for 2010 included in the Gleneagles outcome document.

A very recent check on DAC member' budget proposals for 2010 shows a range of prospects. Countries such as Finland, Spain, the United Kingdom and the United States, have continued budgeting to meet their commitments. Denmark, Luxembourg, the Netherlands, Norway and Sweden continue to allocate at least 0.7% of their gross national income to ODA, in line with the long-standing UN target.[3] Australia, Canada and New Zealand appear on track to double their aid by 2010. Switzerland was planning to give 0.46% of its GNI as ODA in 2009, exceeding its previous commitment of 0.4%. Ireland has cut its forward ODA estimate, but still expects to meet the European Union ODA/GNI target of 0.51%. Meeting its target of 0.7% ODA/GNI in 2010 constitutes a significant challenge for Belgium, whose ODA volume in 2008 was USD 2.39 billion (0.48% of GNI). However, in 2009 it surpassed the EU country target of 0.51%, and the government has secured the necessary resources for its 2010 budget to reach the 0.7% target.

Other countries, however, do not seem to have taken the action needed to meet their announced commitments. Instead, the agreed 2010 budget frameworks for some countries suggest that they may fall further behind their commitments, as ODA budgets stagnate or shrink. For example, among the EU countries committed to a minimum ODA/GNI ratio of 0.51% in 2010: Austria's current three-year programme on development policy estimates an ODA/GNI ratio of 0.37% in 2010. France's draft finance bill for 2010 estimates an ODA/GNI ratio of between 0.44% and 0.48% for 2010, depending on the timetable of debt forgiveness for countries reaching decision point under the Heavily Indebted Poor Countries Initiative. Greece's ODA budget is not yet available for 2010, although the DAC Secretariat estimates that its ODA/GNI ratio will be 0.21% in 2010. Italy's current draft budget plans estimate an ODA level of EUR 2.79 billion in 2010, representing an ODA/GNI ratio of 0.19%. Portugal's 2009 official budget report indicates an estimated ODA/GNI ratio of 0.34% in 2010.

The outlook looks challenging for Germany, where ODA in 2008 was USD 13.98 billion, or 0.38% of GNI. The new government budget, which was expected shortly after this report went to press in early

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2. Some planned volumes figures for 2009 could not be confirmed before this publication went to press in early 2010.

3. The 0.7% figure dates back to United Nations General Assembly Resolution 2626 (24 October 1970, www.un.org/documents/ga/res/25/ares25.htm) for developed countries to increase their ODA to 0.7% of their national income by the middle of the 1970s. In 2005 the European Union set a minimum individual target for its member states of 0.51% ODA/GNI (0.17% for new member states) to be achieved by 2010, with 0.7% to be achieved by 2015 (source: http://europa.eu/legislation_summaries/development/general_development_framework/r12533_en.htm, accessed 21 October 2009).

2010, should give a clear indication of how Germany will deal with the challenge of increasing its ODA volume to meet the targets for 2010 and beyond. Of the other major donors, in 2008 Japan was USD 4 billion short of its Gleneagles undertaking (to raise ODA by a total of USD 10 billion between 2005 and 2009).

While the global economic crisis partly explains the difficulty in meeting these commitments, it is not an adequate justification. Some countries, despite being hit hard by the crisis (Spain and the United Kingdom), have maintained sharp aid increases in line with their commitments. The aid community welcomes the efforts made by these countries. However, there are concerns on many sides that other countries will not reach their targets, which will seriously impact developing countries' ability to make progress towards achieving the Millennium Development Goals.

What lessons should we take from this experience?

1. Setting commitment targets creates a powerful motivating force for many countries to increase their ODA. Some countries, however, did not plan early enough for aid increases. As a consequence, they now find their credibility called into question. This may affect their wider engagement on other important issues, *e.g.* climate change financing. Fulfilling commitments made repeatedly at head-of-state level is not an optional luxury.

2. Future aid commitment targets should include annual rates of increase, so that performance can be checked each year and aid volumes kept at predictable and reliable levels. To support lasting development, ODA needs to be reliable and predictable. Unpredictable and erratic ODA undermines development and can have a terrible cost for developing countries, as well as taxpayers in donor countries. Steady increases are more predictable and allow partner countries greater certainty for their own medium-term spending plans.

The DAC will continue to use the peer review system (Chapter 8) to monitor all donors' progress against their commitments.

Innovative financing

The crisis has given fresh impetus to efforts to find new and more predictable sources of development finance. A range of schemes has developed over the past decade and new approaches continue to be considered.

The types of innovative financing described in Box 1.2 and Table 1.1 (at the end of this chapter) are making increasingly important contributions to development. Such approaches have raised significant new funds. They involve new partnerships between public and private entities, a positive step that helps maintain public support for development. Nonetheless, this new and evolving landscape is a challenge for the DAC because it is difficult to track innovative financing accurately. Donors will need to provide clear details in their reporting on where funding is coming from if the DAC is to be able to monitor trends and assess whether innovative financing is adding to donor ODA efforts, or merely substituting for them.

Another problem is that some innovative financing mechanisms involve allocating ODA funds several years ahead ("frontloading"). This could help some donors to fulfil their ODA pledges, especially for 2015. But there is also a risk that, as these public finance liabilities become due, donors may have to reduce their traditional bilateral aid to meet their innovative financing commitments.

The DAC (Enting & Harmeling, 2011)will help monitor frontloading to help ensure it does not impair members' future ODA budgets. It will also monitor these new ways of financing development against the aid effectiveness principles established in Paris and Accra, because there is a danger that the new financing approaches could further complicate an already complex aid architecture. It is important to guard against the potential negative impacts on our partner countries of a proliferation of new funding mechanisms. The downsides might include more complex access to funds or more planning and reporting processes. Innovative funding needs to be adapted to developing countries' technical and absorptive capacities. Reporting requirements need to remain focused on achieving maximum development impact through appropriate integration with the countries' own systems. And finally, donor accountability must not undermine local accountability.

Box 1.2. **New ways of financing development**

There is a growing range of new development funding mechanisms and approaches involving new partnerships and revenue streams. This trend started a decade ago with two major international funds that combined public and private contributions to meet global health challenges (the Global Alliance for Vaccines and Immunisations – GAVI – set up to finance immunisations, and the Global Fund to Fight AIDS, TB and Malaria). Each took advantage of the upsurge in private philanthropy for development, particularly through the Gates Foundation, to create a new type of public-private partnership that would fund major disease-fighting campaigns in developing countries. The large new funds in the health sector have themselves become drivers of further innovation. GAVI is now largely funded through the International Finance Facility for Immunisations (IFFIm),[4] which is expected to raise a total of USD 4 billion by issuing bonds against long-term ODA commitments from eight donor countries. Meanwhile, the Global Fund is now receiving contributions from ProductRed, under which credit card and other companies contribute a share of their profits on goods marked with the ProductRed trademark. The Global Fund has also developed its own scheme for mobilising debt relief. Under its Debt2Health initiative, donors forgive developing country debt on condition that the country allocates half the forgiven amount to local Global Fund programmes.

The crisis has quickened interest in new schemes, such as:

- Small levies on a private, or sometimes a public, purchase. The air ticket levy scheme launched in 2006 has now been adopted by 13 countries, and an international purchase facility, UNITAID, has been created to distribute its proceeds with the objective of scaling up access to treatments for AIDS, tuberculosis and malaria.

- Auctioning permits to emit greenhouse gases. Germany announced that it would allocate EUR 225 million from the 2009 proceeds of these auctions to fund development activities.

- The use of guarantees and insurance. The first Advance Market Commitment has been made to spur development of a vaccine against pneumococcal disease. Under this scheme, private and public donors agree to subsidise a vaccine which passes agreed tests. This provides a new incentive to pharmaceutical companies to develop a product that might otherwise not be commercially viable. Another type of financial promise that has recently been trialled is weather insurance. Here donors put up the funds to buy an insurance policy that triggers an indemnity for farmers if and when stipulated rainfall or other thresholds are met.

Other schemes are being considered by the Pilot Group on Innovative Financing for Development. These include a tax on foreign exchange transactions (the "Tobin Tax", named after its original proponent, Nobel economist James Tobin). Table 1.1 at the end of this chapter summarises some of these initiatives and assesses to what extent they qualify as ODA.[5]

4 Governments contribute to IFFIm to meet interest payments and the ultimate redemption of the bonds.

5 Private contributions do not count as ODA, but are included in data on developing countries' resource receipts.

Employment and social protection in the development process

The crises have also highlighted the need for greater attention to two critical approaches for achieving "pro-poor growth"[6] which have been largely neglected until now. First, productive employment and decent working conditions are the main routes out of poverty. Most poor women and men earn their livelihoods in the informal economy, and policies need to take account of this. Well-functioning labour markets and an environment in which local entrepreneurship can thrive are essential for increasing employment opportunities for the poor. This, in turn, allows them to contribute to their country's growth.

Second, social protection measures – *e.g.* social insurance, social transfers and minimum labour standards – enhance the capacity of poor and vulnerable people to escape from poverty and enable them to better manage risks and shocks. They also contribute to social cohesion and stability, and help build human capital, manage risks, promote investment and entrepreneurship and improve participation in labour markets.

Supporting employment and social protection programmes can be affordable and offers good value for money, as evidence from South Africa and Brazil has shown (OECD, 2009b). The impacts can be mutually reinforcing: better and more productive jobs raise incomes, allow social spending by poor workers and help finance social protection. At the same time, social protection improves the productivity and employability of poor people and stabilises and increases their incomes. In doing so, it links short term coping strategies with longer-term growth and poverty reduction.

In May 2009 the DAC produced a policy statement, endorsed by ministers from DAC member countries, which establishes productive employment and decent work as key objectives of development co-operation (OECD, 2009c). It calls for DAC members to give adequate, long-term and predictable financial assistance to partner governments for politically and financially sustainable social protection programmes. It emphasises the need for actions in these areas to be harmonised and aligned with national policy, as called for by the Paris Declaration and Accra Agenda for Action. This focus on employment and social protection is particularly timely in the light of the crisis-related downturn in developing countries. It also links to the aid-for-trade agenda (Chapter 4), in that most low-income countries consider trade as a key component of their growth and poverty reduction strategies. We need to ensure that the increasing openness of markets is accompanied by policies that lift people out of poverty and distribute the benefits of trade equitably across and within developing countries. This is especially the case now, with the economic crisis causing trade flows to decline by around 10%, undermining confidence in the role of trade as an engine for growth and poverty reduction.

Where is development going next?

The crises have raised questions about the impacts of development, how to demonstrate them, what really underlies them, and our ability to control and account for them. We have also seen the emergence of an increasingly critical public debate on development co-operation:

- **Does development co-operation have an impact?** Much of this criticism was voiced during the high-growth era before the crises, when a number of well-performing countries seemed able to outgrow aid dependency in a more benign global macroeconomic environment. This situation, however, has changed dramatically following the decreasing domestic tax receipts, sharply dropping remittances, contracting export earnings and more than 80% decline in private

6. A pace and pattern of development that enhances the ability of poor women and men to participate in, contribute to, and benefit from growth.

investment flows to developing countries between 2007 and 2009. Chapter 2 discusses how the development system is making impact central to its focus, and how we assess that impact.

- **Does development co-operation help or hinder sustainable growth and the self-reliance of poor countries?** Another important criticism is aimed at an "aid industry" that is increasingly ritualistic and self-referential, and that needs to deal with the question of institutional self-interest. Development co-operation is often viewed as ineffective, redundant and ultimately even an obstacle to self-sufficiency. Chapter 3 explores how the development community is striving to counter this criticism by working through partner country's own systems in order to build self-reliance.

- **Is aid money squandered by corrupt governments?** This is a common perception among the public. It is true that corruption is a serious challenge for development. The fight against corruption will never be over – even in the most advanced economies. Aid is not immune to this reality; no-one can guarantee that aid resources will never be misused. However, while it is necessary to be aware of and manage this risk, focusing on aid as the problem when dealing with corruption would be to miss the point completely. On the contrary, development co-operation is an important instrument for tackling corruption. DAC members devote considerable time, energy and resources to supporting governance improvements and reducing corruption in developing countries (Chapter 7).

While much of the criticism is very pertinent, some is based on an outdated perception of development co-operation. For example, distinctions are often blurred – or simply not made – among development partnerships, other policies and private, commercial relationships. Nevertheless, all criticism must be dealt with, especially when it challenges development co-operation's fundamental rationale: making a difference to the poor. Development co-operation has to change, and the development community is already responding with vigour.

The road ahead: reaching beyond the development community

The aid effectiveness agenda, which has been the defining driver of development co-operation reform since 2003, is the best indication of how seriously the development community is taking these concerns. The chapters that follow look at what the development community is doing to address them. There is still a long way to go to meet the targets set for making development co-operation more effective. There are less than two years left before the 4th High Level Forum on Aid Effectiveness in Seoul, which will assess how all parties have progressed in making aid more effective. Progress is currently too slow to reach the agreed targets. Meeting the aid effectiveness agenda and addressing the other concerns about development outlined here will require an evolution in how the development community works and how it thinks about development. It is increasingly evident that in the years ahead, development impact will become the defining theme for aid effectiveness, and for development co-operation.

Having an impact also requires active recognition that it takes more than aid to achieve development results. A strategic reflection exercise concluded by the DAC in May 2009 explored how development assistance needs are likely to evolve over the next 10-15 years given the rapidly changing global context (OECD, 2009d). Key findings include:

- **Development co-operation must be viewed as a strategic investment in a common future.** In a globalised world it is a key instrument to achieve stability, economic integration, human security and opportunity for everybody. A major task now is to communicate this function of development co-operation better, especially to dispel the common but inappropriate myth that development is public charity.

- **The development community needs to become less insular and more involved in other policy areas that shape the international context for development.** To date the tendency has been to discuss policies largely in internal fora; the development community needs to better match the talk with joint action and approaches beyond the "development industry". Successful development means tackling global issues such as climate change (Chapter 5), control of infectious diseases, financial stability, accessible and equitable world trade, access to knowledge, and international peace and security. Development co-operation needs to help foster coherent policy actions in areas like trade (Chapter 4), investment, security (Chapter 6), migration, tax co-operation and anti-corruption (Chapter 7).

- **The current architecture and institutional set-up of development institutions must be changed.** This will require a better focus on poor countries and people as the beneficiaries; simplified organisational structures, instruments and procedures; greater synergy and coherence among bilateral and multilateral assistance; and a more effective division of labour among institutions.

- **The development community will have to deal much more with factors beyond its direct remit, and often beyond its control.** In its determination to support poor countries' development, the development community must become involved in a wider array of policies and activities that have a bearing on poverty and the effectiveness of their co-operation. Development agencies must move beyond the sphere of traditional development partnerships to work on these broader issues together with other government departments and policy portfolios. This will be a crucial factor for achieving development results in poor countries.

Implementing these ideas will mean transforming today's DAC. The DAC of the future will be much more involved with the global architecture of development finance; with the development dimension of global public goods such as climate change, peace and security; and with an equitable global trading system. In doing so, the DAC will build on its analytical strengths, its convening power and its unique position as an impartial facilitator with no operational functions at stake in providing development assistance. Another change will be a stronger focus on policy coherence for development, as the DAC works much more, and more directly, with the non-aid policy communities. An enhanced emphasis on policy coherence by the OECD overall has decisively increased the scope for such joint work, and for its impact. To achieve all this, the DAC will need better and sharper policy tools, notably peer reviews and statistics. We will place greater emphasis on monitoring the impacts of our work and holding ourselves to account. Finally, we will be much more inclusive and pro-active in working with others, for example by expanding our membership (Box 1.3) and reaching out to work with a broader array of countries.

There is no doubt that many other economies have made important, and often long-standing, contributions to development co-operation. In particular, with the rise of major emerging economies, the profile and significance of South-South co-operation have reached new dimensions and are bound to continue to grow. The DAC welcomes and supports this, and is looking to work with others who share the commitment to supporting poor countries in an open-minded and self-critical way. But this will not work if the process is consumed by terminology and language questions; it must be driven by a shared desire to have concrete and lasting impacts in poor countries. DAC members are defined by their commitment to supporting poor countries as they strive to develop, and by doing so together in a spirit of mutual learning, transparency and accountability. In this commitment, and in the way it works, the DAC acknowledges that perspectives and approaches differ, and appreciates the richness that comes with diverse experience gained both within and outside of the DAC membership.

Box 1.3. **A symbolic moment as Korea joins the DAC**

In November 2009 the DAC welcomed Korea as a new member, marking a very significant occasion. One of the poorest countries in the world some 50 years ago, Korea has received substantial development assistance itself. Its journey to becoming a strong economy with its own rapidly growing development co-operation programme is one of the most remarkable development success stories to date. For the DAC, Korea's membership symbolises the shedding of the "traditional", yet outdated, image that categorises "Northern" countries as donors and Southern countries as aid recipients.

It is this broader approach that also underpins the work of the China-DAC Study Group. The study group began in 2009 through a partnership with the International Poverty Reduction Centre in China, and takes China's impressive poverty reduction experience as its reference point for research. Its first major event – on the theme of development partnerships – was a unique opportunity for participants from China and Africa and DAC donors to think about applying the China experience to the design of development co-operation and strategic policies for improving development in Africa. Similarly, a policy dialogue meeting co-hosted by the Mexican government in September 2009 and the establishment of the Task Team on South-South Co-operation (a Southern-led platform hosted by the DAC Working Party on Aid Effectiveness) are clear evidence of the DAC's willingness to engage more strongly with other providers of assistance, based on a recognition of their specific strengths.

The DAC's new orientation will be defined by a focus on development as an outcome rather than aid as an input. However, there is no danger that ODA will be neglected or downgraded. Instead, the new focus will allow ODA to have better results. Recent years have demonstrated how global factors beyond aid have a huge impact on development. They have also left no doubt about the importance of development co-operation for tackling the development challenge. The conclusion is straightforward: development co-operation needs to work with, and on, numerous related policy areas, and with the actors who shape the outlook for poor countries' development. We are encouraged that the route has been well charted by the Paris Declaration and the Accra Agenda for Action. We are confident that we are walking down this road together as a strong alliance of developing and developed countries, donor and development institutions and civil society.

Table 1.1. **Some innovative financing mechanisms**

(proposed schemes in italics)

	Purpose	How does it work?	Revenues	Is it C
00)	Public-private partnership for immunisations	Pooled funds for distribution following proposals from poorer developing countries	About USD 300m a year. USD 3.7b approved for 2000-2015, as of 2009	Yes, but contributio
2002)	Public-private partnership to fight AIDS, TB and malaria	Pooled funds for distribution following proposals from poorer developing countries	About USD 3.2b a year. Total of USD 14b raised by 2009	Yes, but contributio
IS: (A) NEW REVENUE RAISING				
06)	To fund a purchase facility (UNITAID) for AIDS, TB and malaria treatments	13 countries apply a domestic tax (2009). UNITAID funds are channelled through existing institutions, esp. Clinton Foundation	USD 251m per year (more than 60% from France)	Yes, when paid to U internationa
of (2009)	Provide funds for climate mitigation and adaptation	Under EU regulations, EU Allowances (EUA) for carbon dioxide emissions are sold to emitters	Germany's 2009 budget allocates EUR 225m in EUA sales to development.	Yes, when developme
tion levy	*Increase the funds allocated to finance development*	*Governments apply a tax on foreign exchange transactions*	*Levying 0.005% on major currencies would yield USD 33b a year*	*Yes, when spent c assistance*
IS: (B) BONDS				
nce nunisation	Fund GAVI campaigns	Bonds are sold in the international capital markets against legally binding long-term ODA commitments from 8 donor countries	USD 2.4b raised by 2009; aim is to raise a total of USD 4b	Yes, for go to meet I principal
IS: (C) VOLUNTARY CONTRIBUTIONS				
Solidarity	Promote an inclusive information society	Public or private bodies voluntarily contribute 1% of digital procurement contracts	Since 2003, more than EUR 30m allocated to 300 grantees	Yes, but contributio
6)	Provide additional funding to Global Fund's activities in sub-Saharan Africa	Product RED trademark licensed to global companies that pledge a share of profits from sales of RED Products to Global Fund programmes	USD 134.5m transferred to Global Fund to date	No, only involved
voluntary ution	*Provide additional resources to fund UNITAID activities*	*Individuals or corporations elect to contribute to development when booking flights*	*USD 2 per ticket contribution might raise up to USD 980m a year*	*No, only involved*
IS: (D) GUARANTEES				
C, 2007)	Provide incentive to develop new vaccines	Donors commit to buy a successful vaccine from vaccine makers at a negotiated price, which covers development costs	USD 1.5bn pledged by 5 donors and Bill & Melinda Gates Foundation for AMC for pneumococcal disease	Yes, but governmen
weather	*Reduce the vulnerability of the rural poor to extreme weather events*	*Partnership between the International Fund for Agricultural Development and the World Food Program provides farmers with weather-indexed insurance*	*Weather insurance schemes already piloted in Ethiopia, Malawi, Nicaragua, Honduras, and India*	*Yes, but contributio premiums*

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CHAPTER 2. RISING TO THE CHALLENGE: MANAGING AID IN 2009

> What do the global economic downturn and the commitments most donors have made to increase both the volume and effectiveness of aid mean, in practice, for managing aid? This chapter summarises the practical implications, focusing on three main aspects: dealing with major changes (either increases or decreases) in aid volumes; improving accountability; and building more effective organisations. It shares some of the practical steps taken in 2009 by individual DAC members to rise to these challenges.

The challenges of today's context: managing changing budgets, accountability and effectiveness

DAC members are committed to increasing both the volume and the effectiveness of their aid. They have made these promises to each other, to partner countries and to their own taxpayers. Recently, the global economic downturn and financial uncertainty have placed greater pressure on policy makers to deliver, and to demonstrate the results of government spending. For aid agency managers this political and economic framework implies substantial practical challenges (Figure 2.1). This chapter discusses three such challenges:

- **Dealing with major changes in aid volumes.** Some managers need to scale up spending while cutting back on administration costs. Others are facing cuts to their overall budget. In both cases, they need to make sure that recipient countries can still depend on reliable aid flows, *i.e.* predictable aid.

- **Improving accountability.** Taxpayers in donor countries are increasingly demanding to know what their money achieves and how efficiently it is managed. Partner countries are also calling for better mutual accountability (*i.e.* where both donors and partners are accountable for development impacts).

- **Building more effective organisations.** Many DAC members have found some aspects of the Paris Declaration and Accra Agenda for Action (Annex A) challenging to implement, often because of the need to reshape their organisational structure or staffing profile.

DAC members have taken different approaches to address these issues. This chapter draws on their experiences in order to share ideas more widely.[7]

Figure 2.1. **The context for managing aid in 2009**

Managing shifting aid budgets: growth, cuts, and predictability

Increasing aid effectively

Some DAC members have rapidly scaled up their aid budgets to meet their promise to allocate 0.7% of their gross national income (GNI) to official development assistance (ODA). However, implementing larger aid budgets requires enough staff with the right skills. Spain, for example, aims to reach 0.7% of GNI by 2012. Yet, the 2008 DAC peer review of Spain found that the system's implementation capacity was not keeping up with its soaring aid budget. The review recommended increasing staff capacity and preparing a detailed plan of the various instruments for using increased funds, as well as the staff and skills needed to manage them effectively (OECD, 2008a). In Austria, the Ministry of Foreign Affairs established the Austrian Development Agency to manage its planned increases in ODA. However, these increases in the aid budget did not materialise and it is not clear whether sufficient flexibility was built into the system to allow it to re-allocate human resources in line with finances (OECD, 2009a). The Australian Agency for International Development had an increase in staff numbers of nearly 50% in just four years (OECD, 2008b). This needed to be complemented by significant investments to integrate and train these new staff members.

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7. At an OECD seminar in May 2009, high-level participants from DAC member countries expressed an interest in investing more time in discussing and sharing experiences in practical aid management issues, particularly managing programmes and agencies for greater aid and development effectiveness.

Another challenge for donors associated with scaling up the volume of their aid is to prevent the international aid system from becoming any more fragmented. The temptation to establish new vertical funds[8] or agencies for priority issues is often high, but it can lead to duplication and inefficiency and can complicate harmonisation. Because of these risks, some donors (*e.g.* Spain and Italy) are spending increased funds through existing multilateral channels. Other donors have reservations about the effectiveness of multilateral organisations and choose to retain a focus on bilateral programmes. However, the donor community as a whole still regularly establishes new initiatives, funds and organisations.

The more donors put into the multilateral system, the more they – and their taxpayers – want to be sure that it is used effectively. However, lots of different bilateral assessments of multilateral agencies can create unnecessary burdens and duplicate efforts. Working together is more efficient, and initiatives such as the Multilateral Organisation Performance Assessment Network (MOPAN) can increase such joint work. Some donors are now calling for a single multilateral assessment framework to be agreed and used by all donors.

Cutting back responsibly

While some donors are upping ODA volumes, for a growing number of DAC members the global economic downturn has forced development budget cuts. The key is to do this responsibly and predictably. For example, Ireland has cut almost EUR 15 million from its 2010 ODA budget, but will ensure that these cuts do not affect existing commitments to its partners in its bilateral country programmes. Instead, it is scaling back its plans to expand bilateral activities and will cut some of its planned support to multilateral agencies and non-governmental organisations (NGOs) (OECD, 2009c). Sweden's aid budget is a generous 1% of its GNI; however, the economic downturn means that in actual volume terms the 2010 budget will be less than the previous year's. Because of this, the government has chosen to accelerate its planned phasing out from Latin America, while protecting its allocations to its focus countries, including those in Africa. Similarly, where donors (like Italy) are major supporters of the multilateral system or specific agencies, cuts need to be communicated in advance because they can have a major impact on these agencies' planned activities.

Ensuring flexibility and predictability

Remaining both predictable and flexible is a challenge for all donors. Aid budgets and programmes are often approved annually by member country parliaments. But donors need to make, and keep, multi-annual promises to partners so that they can plan ahead. Thus, communicating budget changes in advance is crucial to allow partners time to adjust their budgets and work plans.

In the current context of economic uncertainty, mechanisms to move funding around within the system and to cross over financial years can be helpful. New Zealand's legislation allows its development agency NZAID to overspend by as much of 10% or under-spend by as much as 20% in one financial year, so long as the imbalance is redressed the following year. This has given NZAID more budgetary flexibility than many other donors and has proved a useful management tool (OECD, 2009d). However, not all donors have this flexibility, and some even require legislative approval for relatively minor adjustments or transfers between funding channels. This both slows things down and constrains organisations from managing across budget lines.

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8. A vertical fund, or a global vertical programme, is an international initiative which provides significant funds to developing countries to tackle a specific problem, through a specific channel. An example is the Global Alliance for Vaccines and Immunization (GAVI).

Improving accountability – at home and away

In donor and partner countries alike, people want to know that aid is working and that it provides value for money, especially at this time of heightened economic austerity. Governments must be accountable to their electorate and to their taxpayers. At the same time, partner countries are seeking greater mutual accountability. In this climate, it is crucial to ensure, identify and communicate development co-operation impacts. To do so requires effective systems of management and public communication that are driven by results.

Managing for results

Creating an organisation that is truly managed by and for results takes time, but the closer DAC members get to such a system the easier they find it to reassure the public about the effectiveness of development co-operation. Results-based management should permeate all stages of project and programme management, from design, through everyday management, to regular monitoring, review and evaluation. Monitoring should be used to address problems and make changes as necessary. Some donors, such as the US and Canada, have prioritised and professionalised results-based management throughout their work. Others are still trying to integrate the approach. Many find that the challenge is to design an approach that is a genuine tool for managers and field staff, rather than simply fulfilling a corporate requirement. In this vein, Canada has recently tried to consolidate some of its results-based management procedures in order to create a more streamlined and user-friendly system.

Identifying results

Evaluation is one very important component of an organisation managed by and for results; it is also an important mechanism for transparency and accountability. Most DAC members have a good foundation in evaluation, and draw on the *DAC Principles for the Evaluation of Development Assistance* (OECD, 1991). But almost all DAC members want to improve their evaluations and increase the work they do together. To support these efforts the DAC is developing new quality standards for evaluation (Box 2.1).

Box 2.1**. DAC quality standards for development evaluation**

Evaluation is a key accountability and learning tool for informing decision makers and the public at large about development results. To have the desired impact on policy makers and others involved in development work, it is essential that evaluations are of high quality and based on solid evidence.

The DAC Network on Development Evaluation aims to increase the effectiveness of international development programmes by supporting robust, informed and independent evaluation. It encourages high quality and harmonised development evaluation by continuously evolving its normative framework. This framework includes the DAC Criteria for Evaluating Development Assistance*,* a glossary of key evaluation terms and various guidance publications that are widely used in practical evaluation work and training.

The network is currently developing standards for development evaluation. These standards aim to improve the quality of evaluation and ultimately strengthen its contribution to development effectiveness. The standards provide guidance for evaluation managers and practitioners and can be used during the different stages of the evaluation. They cover the whole evaluation process: from planning to implementation and reporting. The standards underline the importance of actively disseminating the results of evaluations once they are completed. The standards can also facilitate the comparison of evaluations across countries, themes and sectors; support partnerships and collaboration on joint evaluations; and increase development partners' use of each others' evaluation findings.

The evaluation quality standards were approved for a three-year test phase in 2006 and have been used extensively during this period. They are now being revised based on contributions from a range of development partners, including donors and partner countries, during workshops in New Delhi and Auckland. Although the standards were developed primarily for use by DAC members, they can be useful to all development partners.

The draft version of the standards and other material from the network can be found at www.oecd.org/dac/evaluationnetwork/documents.

Communicating results

It is not easy to demonstrate and communicate that aid money is well managed and that it is having an impact. One problem is that international development is cloaked in jargon and technicality. The principles of the Paris Declaration can be obscure, and because they focus on process they are difficult to measure. New ways of working, with donors increasingly joining together in country-led activities, means that it may be neither possible nor appropriate to attribute particular results to specific donors. This complicates the communication task still further. An increasingly large number of donors, including Ireland, the UK, Sweden and Norway, are starting to explain to the public how their specific activities have contributed to general improvements in a partner country. This approach allows donors to engage jointly in and report on programmatic approaches and to use shared indicators, often those agreed with partner countries.

As taxpayers and legislators are really only interested in results and impacts, not process, this is where the focus of communication should be. The closer the communication team is to operational teams, the more able it will be to report real results. At the same time, the public also needs to understand why their government is working in particular ways; this is why communicating the value of co-ordination and use of local systems is important, helping provide context to reporting wider results rather than individual outputs of specific projects. Many donors have found that how they communicate results to their public – whether attributing them to their own specific funding or to approaches shared with others – is critical. The Netherlands, for example, is using impact evaluations to examine the steps that lead to tangible positive changes in people’s lives. They include the role of Dutch NGOs in their assessments and openly acknowledge what has not worked and why. They prepare a biennial results report for parliament, which draws on all these sources to demonstrate the Dutch contribution to overall development progress. This is coupled with investment in public communication and development education, focused on achieving behavioural change amongst Dutch citizens.

Building more effective organisations

Implementing the aid effectiveness agenda (Annex A) requires organisations that are staffed, run and structured appropriately. The 2009 OECD report on *Managing Aid* (OECD, 2009e) identified three main institutional challenges to implementing the principles of the Paris Declaration: decentralisation, human resource management and adaptation of procedures. The structure of the organisation itself can play an important enabling role. While many members have initiated some sort of organisational changes since the Paris Declaration was signed, most are still seeing if new structures, processes and human resourcing strategies have improved organisational effectiveness and, ultimately, development results.

Getting the right people and skills in place

With strong staff teams in their partner country offices, donors can increase the responsibility of these offices. This also increases efficiency in planning and approving projects. Most DAC members have started to place more staff in partner country offices as part of their decentralisation process. But there is still enormous variation: for example, Germany, Denmark, Switzerland and the EC have at least 70% of staff stationed in the field, while New Zealand and Portugal have at least 70% in headquarters (OECD, 2009e). Smaller donors need a critical mass of people at headquarters and so are likely to have low levels of decentralisation. The additional expense of stationing staff overseas can often be an obstacle to decentralisation. In Sweden, parliament has allocated extra funds specifically to cover these costs. In Canada, lessons from a past aborted decentralisation effort are being used now to ensure the process is better planned. In Spain, civil service recruitment regulations restrict staff from moving between headquarters and the field, which significantly limits the system’s flexibility. Some agencies have used incentives – for example promotion and extra personal support and leave – to persuade staff to take up difficult or unpopular postings. Some are making greater use of staff recruited locally in the partner country. The quality and country knowledge of Irish Aid's locally-recruited staff, for instance, are considered key strengths by the agency's partners (OECD, 2009c). Staff recruited in-country by the UK's Department for International Development (DFID) are able to take their experience to other postings and build a career within DFID. Many DAC members, however, still do not allow non-citizens to climb to mid-grade or senior positions.

Greater use of broader programme approaches (as opposed to implementing specific projects) can help to reduce partner country transaction costs and improve co-ordination and alignment. However, in practice managing programmes is time consuming, particularly at the start, and also requires special skills. Some peer reviews have noted staff cuts can be risky during the transition to programmatic approaches. Instead, additional investment will often be necessary for building appropriate staff capacity and skills. The Netherlands and the UK have invested in staff training in public financial management[9] and in managing sector-wide approaches;[10] Sweden offers training in programme-based approaches. Canada, Denmark, the EC and France have trained staff in applying aid effectiveness principles in practice. In general, donors find there is a high demand for practical, rather than theoretical, training.

Changing how agencies work

Implementing the Paris Declaration principles requires many changes to the way donors work. These include involving partner countries in planning and reviewing their programmes, reforming procurement rules,[11] untying aid (Chapter 1), improving co-ordination among donors, increasing delegation (a shift of decision-making authority from a higher to a lower organisational level) and reducing long authorisation chains. The Japan International Cooperation Agency (JICA) has started to simplify planning by conducting one overall survey of each country's needs, rather than separate research on grants, loans and technical co-operation. The Netherlands has streamlined and simplified its planning and monitoring system. Some donors have also invested in trying to co-ordinate their various agencies at field level, which is often a pre-requisite for genuine harmonisation (one of the key tenets of the aid effectiveness agenda – see Annex A) and can also reduce transaction costs for partner countries. A number of donors which have more than one agency and ministry involved in development co-operation are looking at ways to improve their co-ordination in the field. Delegating authority, including for project planning, management and financial authorisation, has been an important way for some donors to strengthen the field orientation and efficiency of their operations. For example, Canada's strengthened field operations in Afghanistan have allowed it to become a more nimble, responsive and effective partner there.

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9. Public financial management looks at all phases of the budget cycle – including the preparation of the budget, internal control and audit, procurement, monitoring and reporting arrangements, and external audit – to make sure that resources are allocated to priority needs, and that public services are funded efficiently and effectively (see OECD, 2003).

10. A sector-wide approach (SWAp) involves donors giving significant funding to a partner government's own sector policy and expenditure programmes (for example health or education). SWAps offer potential advantages over stand-alone projects. These include greater government ownership and leadership, enhanced transparency and predictability of aid flows, enhanced harmonisation among donors and reduced transaction costs.

11. Procurement is the full range of activities needed to acquire a good or deliver a service. These typically range from the initial identification of need, right through to contract management and the evaluation of performance (definition from www.dfid.gov.uk/Global-Issues/How-we-fight-Poverty/Government/Public-Financial-Management-and-Accountability/Aid-effectiveness-procurement1/, accessed 20 October 2009).

Effective organisational structure

Organisational restructuring has been taking place in a wide range of DAC member agencies. The Swedish International Development Agency (Sida), for example, was re-structured in 2008 so as to be better placed to implement aid effectiveness principles in practice. The most significant change was to re-group country teams around types of assistance, rather than by geographical location. These departments will be linked by staff "networks", designed to share knowledge and lessons across the team groupings. In Japan, merging two agencies in 2008 has made the Japan International Cooperation Agency responsible for implementing almost all Japanese ODA, and it is now the world's biggest bilateral development agency. This approach should reduce fragmentation, bureaucracy and transaction costs and increase synergies between grants, loans and technical co-operation. But regardless of how a donor chooses to structure its development co-operation system, and indeed its individual agencies, co-ordination and communication are the watchwords of successful structural change.

Conclusion

While policy makers continue to fine-tune policy and define what it is aid agencies should be doing, aid agency managers have to work out how this can be done in practice. From our brief look at these three themes – managing changing budgets, improving accountability and building effective organisations – it is evident that there is huge potential and demand among members for learning from each other's experiences in managing change. The DAC provides a forum in which such lessons can be shared.

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CHAPTER 3. COUNTRY SYSTEMS, AND WHY WE NEED TO USE THEM

For aid to be effective, donors need to respect partner country ownership over their own development policies and practices. This means, among other things, using a country's own administrative systems to deliver aid. Decades of development experience show that bypassing country systems and policies weakens a country's ability to determine its own future.

Nonetheless, many donors are hesitant to use this approach because of fear of financial misuse and lack of attribution for development impacts. This chapter highlights the long-term advantages versus the risks of using country systems, and outlines donor and partner country efforts to both strengthen and use these systems.

Global commitments to using country systems

While development co-operation can improve people's lives, it is often criticised for being ineffective, redundant and ultimately delaying the achievement of self-sufficiency by partner country governments. It is certainly true that the way in which aid has been delivered in the past – for example, when donors create their own mechanisms for implementing development rather than using partner countries' systems – has risked undermining the sustainability of development efforts. By bypassing the government's existing systems, these "parallel systems" can contribute to the country's continued dependency on donors. Bypassing a country's decision-making bodies can undermine these institutions and hence the accountability of the government towards its own citizens. These risks need to be considered alongside donors' own concerns as they make efforts to increase their use of country systems in the delivery of aid.

Current international commitments to using country systems emphasise what the donor community is learning from decades of experience. The 2005 Paris Declaration and the 2008 Accra Agenda for Action (AAA) (Annex A) commit donors to more systematic use of country systems and to supporting countries in strengthening their systems, whether for financial management, procurement, statistics or in the management of technical assistance (Box 3.1). For their part, partner countries have committed to strengthening their own systems to encourage donors to use them (Manning, 2007).

Box 3.1. **The Accra Agenda for Action and the use of country systems**

At the High Level Forum in Accra in September 2008 donors agreed:

- to use country systems as a first option for aid programmes managed by the public sector;
- to be transparent when they decide not to use country systems;
- to support country-led reform programmes;
- to develop corporate plans for using country systems; and
- to channel 50% or more of government-to-government aid through country financial systems (public financial management – PFM – and procurement).

Partners and donors also agreed to jointly assess the quality of country systems. The DAC is strongly committed to measuring progress in this area (see below).

This chapter explains what is meant by "country systems" and looks at the degree to which donors are using them. It assesses why donors may be reluctant to use them more fully, and outlines a range of reasons why their use is important. Finally, it describes some encouraging measures being implemented by donors to increase the use of country systems, concluding by listing further actions needed by both the DAC and developing country governments to increase and broaden their use.

What are country systems and how can we use them?

In the Paris Declaration and the Accra Agenda for Action, "country systems" include national arrangements and procedures for public financial management, procurement, audit, monitoring and evaluation, and social and environmental procedures. For example, in the case of public financial management, national systems for the management of funds are those established by the country's general legislation and implemented by government. Beyond the more traditional administrative systems, country systems also include statistical systems, analytical work and technical assistance management (Box 3.2).

Box 3.2. **Statistics: what every country needs**

All countries need statistics. Reliable, timely data are crucial in policy making for identifying problems, informing the design and choice of policy, forecasting the future, monitoring policy implementation and evaluating policy impact. Appropriate disaggregation of data (for example, by sex, region and socioeconomic status) is also important. However, in many developing countries national statistical systems lack adequate, predictable funding to support their regular work programmes. Therefore, at times they must rely on additional donor-led surveys to provide the data they need to inform national policy debates. Yet, these *ad hoc* and often donor-driven surveys do not always reflect the priorities of the country's own national development strategy.

The Partnership in Statistics for Development in the 21st Century (PARIS21) – whose Secretariat is hosted within the OECD's Development Co-operation Directorate – promotes the design, implementation and monitoring of national strategies for the development of statistics (NSDS). An NSDS provides a nationally-agreed vision for where the statistical system should be in five to ten years and sets milestones for realising that vision. It presents a comprehensive and unified framework for continual assessment of evolving user needs and priorities for statistics and for building the capacity to meet these needs in a more co-ordinated, synergistic and efficient manner. The NSDS also provides a framework for mobilising, harnessing and leveraging resources (both national and international) and a basis for effective and results-oriented strategic management of the statistical system.

Over recent years, the NSDS have become the benchmark for building sustainable statistical capacity in countries. By mid-2009, approximately 70% of International Development Association[1] borrowers and lower middle income countries were either designing or implementing a statistical strategy. Continued support is needed for the NSDS if partner country priorities are to be respected within their own national development strategies.

1. The International Development Association is the part of the World Bank that helps the poorest countries by providing no-interest loans and grants for programmes aimed at boosting economic growth and improving living conditions.

Donors use country systems when their funds or services are managed according to partner country procedures, and implemented by the national government. For example, using country systems for financial reporting means that donors do not create separate accounting systems to satisfy donor reporting requirements, and do not create a separate chart of accounts to record the use of donor funds. Instead, they use the country's own reporting systems and chart of accounts. To take another example, using country systems for implementing projects and programmes means that the goods and services needed are procured according to national procurement procedures, under the partner country's own legislation.

Often, only some components of a country system are actually used. Table 3.1 identifies some of these key components. For instance, donors provide their aid "on plan" – *i.e.* aid is integrated into spending agencies' strategic plans – but not "on audit". This means that donors still require special additional audits to be carried out on the use of their funds. While such additional measures may be appropriate short-term safeguards in some situations, they risk bypassing partner country systems and undermining national lines of accountability. Donors can also ensure their aid passes through a country's legislative system. When aid is included in the revenue and appropriations approved by parliament, donors are said to be providing aid "on parliament". This strengthens domestic accountability by ensuring members of parliament know the amount of aid that is coming in and from where (CABRI and SPA, 2008).

Table 3.1. **Key dimensions in the provision of aid through country systems**

Term	*Definition*
On plan	Programme and project aid spending is integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions.
On budget	External financing, including programme and project financing, and its intended use are reported in the budget documentation.
On parliament (or through budget)	External financing is included in the revenue and appropriations approved by parliament.
On treasury	External financing is disbursed into the main revenue funds of government and managed through government's systems.
On accounting	External financing is recorded and accounted for in government's accounting system, in line with government's classification system.
On audit	External financing is audited by government's auditing system.
On report	External financing is included in ex post reports by government.

Source: CABRI (Collaborative African Budget Initiative) and SPA (Strategic Partnership with Africa) (2008), *Synthesis Report: Putting Aid on Budget*, CABRI, Pretoria.

One key way of using country systems is for a donor to provide "budget support". This means that aid money is not linked to specific projects or expenditure items. Rather, it is disbursed through the country's own administrative systems. Budget support is accompanied by conditions and procedures for dialogue between the countries and donors; efforts by donors to harmonise their aid and align it with national priorities; and technical assistance to strengthen the country's administrative systems (OECD, 2006). The decision by donors to use budget support goes hand-in-hand with partner country commitments to strengthen their public financial management systems to ensure credible planning, budget, accounting, auditing and reporting.

If designed appropriately, all forms of aid (including project support) can use country systems. However, in practice, many projects still rely on parallel systems or make only partial use of country systems. The reasons for this may vary, and could include capacity bottlenecks, or donor-side constraints preventing fuller use of country systems. Project finance often leads to the creation of separate project implementation units (PIUs) and use of parallel systems, or reliance on non-governmental organisations to implement activities that might otherwise be undertaken by government. For example, project support often involves donors using aid to support a specific activity, with donors retaining control of the project's financing and management.

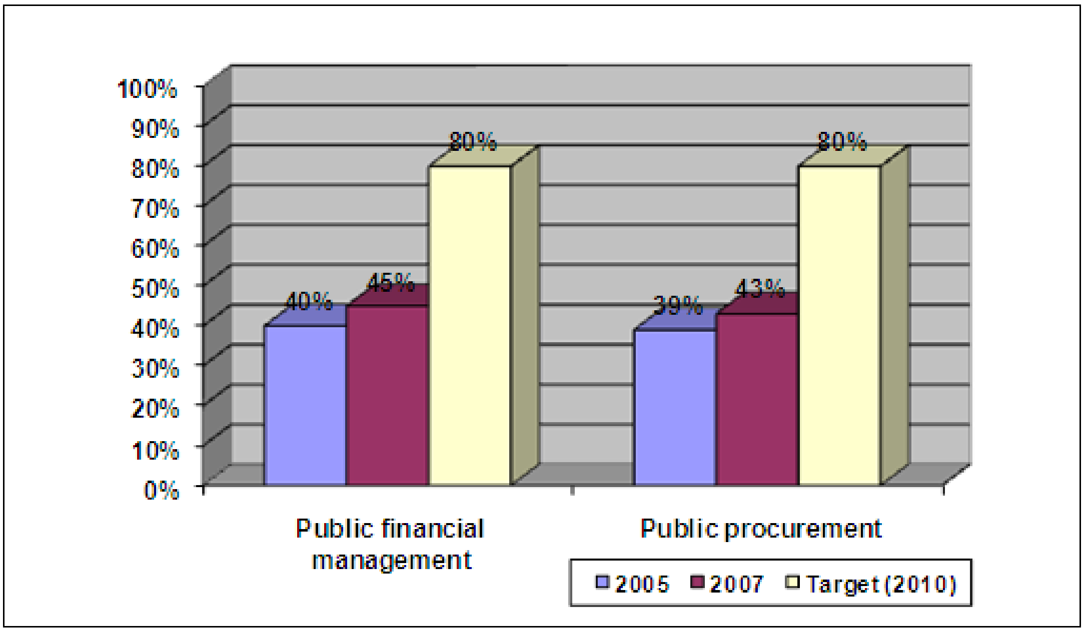
Are we reaching our targets for using country systems?

Evidence shows that country systems are still underused by donors. Some progress has been achieved in strengthening country systems – since 2005, 36% of partner countries have improved their score for public financial management (PFM). Less progress has been made to date in using country systems, although some time lag might be expected between the improvement in the quality of a country's systems and their increased use by donors. Figure 3.1 shows that only 45% of aid to the 54 developing countries surveyed in 2008 used those countries' PFM systems (the target is 80%; OECD, 2008a).[12]

12. The Paris Declaration on Aid Effectiveness (2005) makes clear that donors' use of country procurement and PFM systems should be conditioned by the quality of those systems. As such, improvements in the use of country systems should go hand-in-hand with efforts to further strengthen them.

Figure 3.1. **Are donors fulfilling their Paris Declaration commitment to use partner country systems?**

Aid using partner country systems (as a percentage of total aid disbursed by donors for the government sector)

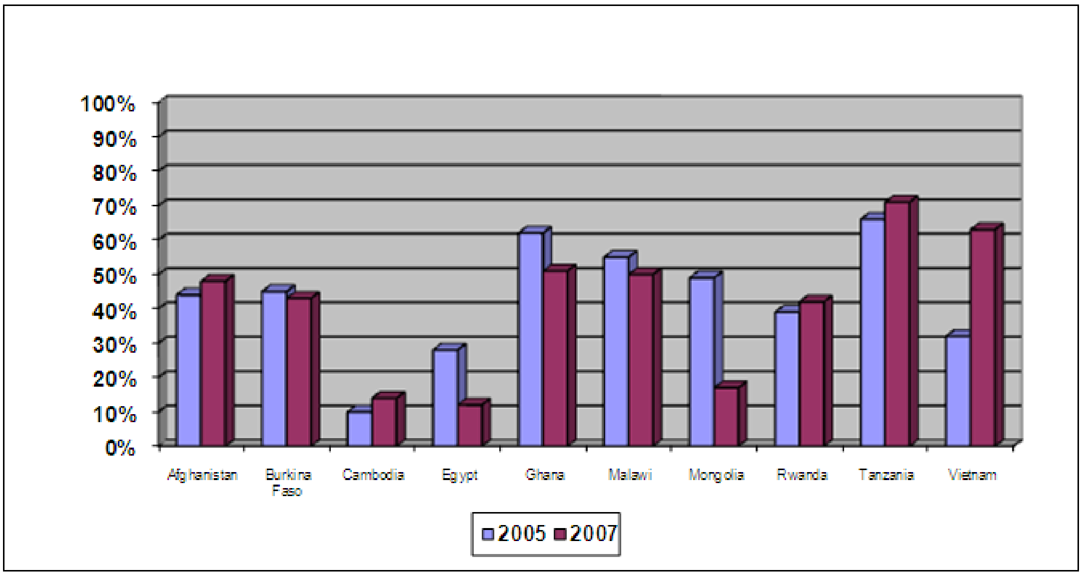


Source: OECD (2008a), *2008 Survey on Monitoring the Paris Declaration*, OECD, Paris.

The survey results also point to a weak correlation between the quality of a country system and its use by donors. In some countries, such as Ghana, the 2008 survey shows a slippage in the proportion of aid using country public financial management systems (to 51%, from 61%) even though the quality of the system has improved (Figure 3.2). This finding would tend to imply that donors do not base their decision to use a country's systems solely on the strength of those systems.

Figure 3.2. **Use of partners' financial management systems (selected countries out of 54 surveyed), 2005 and 2007**

Aid using partner country PFM systems (as a percentage of total aid disbursed by donors for the government sector)



Source: OECD (2008a), *2008 Survey on Monitoring the Paris Declaration*, OECD, Paris.

There is some evidence that progress in the use of a country's systems in a sector such as health is also limited. In Mali, for instance, despite strengthened decision-making and implementation mechanisms in the health sector, donors vary in the extent to which they are using these systems. A study conducted by the Task Team on Health as a Tracer Sector (IT HATS, 2009) shows that government representatives in Mali also feel that where questions arise over the quality of one component of a country's system, donors bypass the system too quickly rather than trying to discuss how best to support it. This is particularly true when it comes to managing technical assistance.

Why are donors concerned about using country systems?

Analysis undertaken by the OECD shows that in the majority of cases donors decide not to use country systems to avoid four main perceived types of risk:

1. that aid will be mismanaged or misused ("fiduciary risk");

2. that aid will be diverted to other objectives and so will not contribute to development ("developmental risk");

3. that individual donor efforts will not be recognised if countries manage their own funds; and their reputation will suffer if development objectives are not achieved, even if this failure is not attributable to their individual action but is the result of factors beyond their financial control ("reputational risk"); and

4. that decisions to use country systems will delay funds being made available, especially in fragile states or emergency situations ("delaying risk").

Donors may vary in their tolerance for different risks based on their own legal frameworks, political commitments or internal incentives. Some donors, therefore, place developmental risk higher up the scale than fiduciary risk, whilst others try to avoid reputational risk more than the risk of delaying the availability of aid money. In finding the right balance in all these areas, it is fundamental that aid practitioners, aid sceptics and the public at large better understand what using country systems entails, the risks of both using and not using a country's systems, and the ways in which mutual support and partnership can help achieve the commitments set in Paris and Accra.

Why shouldn't we be afraid of using country systems?

The potential risks of using country systems need to be balanced against the benefits. However, the latter are often not understood or communicated well enough. One reason is that the benefits are institutional, long-term and diffuse in nature, whereas fiduciary risks are seen to be much more immediate and are likely to engender stronger political pressure to avoid them. In addition, the question of using a country's own administrative systems is quite technical and therefore difficult to communicate to a wider audience (OECD, 2008b). There is also some evidence that donors feel that the longer-term benefits of using country systems are attributed largely to other donors, rather than to the donor who steps up first to use the systems and who may incur short-term costs while essentially providing a public good for other donors (Knack and Eubank, 2009). There is a strong need, therefore, for a variety of stakeholders in donor countries to improve their understanding of the longer-term benefits of using country systems. This section outlines a number of key benefits in the use of country systems.

Use them or lose them

Donor use of a partner country's established institutions and systems helps to strengthen the partner's long-term capacity to develop, implement and account for its own policies – both to its legislature and to its citizens. Evaluations of donor support to public sector reforms confirm that channelling aid through country systems strengthens budget processes and improves the country's own administrative and financial systems (Independent Evaluation Group, 2008). A joint evaluation of general budget support showed that channelling funds through the budget played a significant role in making government agencies take the budget process more seriously. Previously, donor money was "invisible" to those making decisions in ministries responsible for the budget.

Donors' concerns about the misuse of funds can motivate them to focus their attention on strengthening country processes in order to combat corruption (Wescott, 2008; and Chapter 7). Even though fiduciary risks remain high in certain countries, evaluations show that efforts to reduce corruption have better prospects when they emphasise building country systems to reduce the opportunities for corruption, rather than engaging in donor-created parallel systems (Independent Evaluation Group, 2008). It must also be noted that stand-alone projects are not immune to corruption. Whilst a stand-alone approach to project management and implementation may offer benefits in terms of clearer accountability and management lines, such projects often rely on a small team of individuals, and the degree of risk – and ultimate success or failure of a project – can rely as much on the individuals involved than on government as a whole. Although parallel systems can at first seem to promote effective project management, when the project ends, so does the good practice and learning, leading to very short-term gains. Reforming national institutions is therefore a more challenging, but ultimately more effective and long-term solution to corruption challenges and financial misuse (World Bank, 2009).

More accountable governments

Most development requires governments to account to their parliaments and people for how national resources are spent on economic and social development. When donors bypass government systems, accountability lines tend to become more diffuse, especially if the funds are managed in project implementation units. Agencies become accountable to donors instead of to their citizens for delivery of services. In a recent fiduciary assessment in Uganda, for instance, the World Bank outlined how using internal control arrangements ensured clearly demarcated responsibilities for acquiring and paying for goods and services: line ministries perform the procurement function while treasury makes payment to suppliers (World Bank, 2009). The government, rather than the donor, is ultimately responsible for performance.

Less fragmented aid delivery

When donors use country systems, aid delivery tends to be less fragmented as all donors align their support behind the partner government's own policies. This is particularly the case when donors use the partner government's planning tools. When donors operate outside the planning system, government representatives cannot plan effectively for their long-term development efforts as they do not know what funds are coming in or through which treasury account. Moreover, accountability becomes further fragmented when a partner government has to be accountable to different sets of donors. Governments also have a responsibility to facilitate donor harmonisation to support their national policies (see below for discussion of partner countries' role in deciding when to use their own systems).

Better value for money, for donors and partners

Ineffective aid can be costly. For example, the cost of failing to implement the aid effectiveness agenda in full across the European Commission's aid programme could range from EUR 5 to EUR 7 billion a year (European Commission, 2009). Implementation through local systems substantially reduces downstream transaction costs for governments because they no longer have to account for and audit separate projects. Evidence from an evaluation of general budget support shows that partner governments' transaction costs in implementation have been significantly reduced by virtue of being able to follow standard government procedures rather than a multiplicity of donor ones (IDD, 2006).

These benefits need to be better understood and examined in the light of the risks (be they fiduciary, developmental, reputational and/or delaying) and the country context (for instance, these risks will differ depending on whether donors are operating in a fragile country or in a middle income country). A more evidence-based evaluation is needed to understand the benefits that accrue to both donors and countries when using a variety of different country systems – from the management of technical assistance, to procurement, to sophisticated financial management systems.

Where do we go from here?

The Paris Declaration, and especially the Accra Agenda for Action, have prompted donors to review their procedures and practices to increase their use of country systems. Donors are introducing incentives for their staff at the country level for using country systems, developing better staff guidance, as well as systematically monitoring the use of country systems in their programmes. For example, Australia has revised its guidance for developing country strategies by emphasising the importance of working through partners' financial procurement and decision-making systems and strengthening these over time. Their new Pacific Partnerships for Development, signed with Papua New Guinea, Samoa, Kiribati, Solomon Islands, Vanuatu, Nauru, Tuvalu and Tonga, take this into account. Canada has linked staff performance assessments to commitments to aid effectiveness (including on using country systems). Similarly, Sweden has made each country team director responsible for ensuring that the use of country systems is considered as the first option in all new aid programmes. The European Commission has created an internal information system to monitor progress on use of country systems. Some donors have sought to promote the approach beyond their immediate staff to their partners delivering aid on the ground: for instance Norway has put pressure on its civil society partners to align their operations with country systems (OECD, 2009). The United States has launched a process to evaluate how much of its development assistance programme can be managed through the Government of Pakistan's public financial management and procurement systems. This process includes assessing specific government units, looking at how they manage these systems, and establishing local capacity to help units resolve any management weaknesses.

In the health sector, concerns that the growing number of global programmes and initiatives targeting specific health objectives could bypass or weaken sometimes fragile health country systems have led governments and donors to re-focus on health system strengthening and to seek to create a common Platform for Health Systems Strengthening. This would promote the use of country systems to reduce transaction costs for partner countries. There are already signs of progress. The Global Fund to Fight AIDS, Tuberculosis and Malaria, for example, reports that 82% of the programmes it supports use national monitoring and evaluation systems and 56% use national procurement systems. In some countries, such as Uganda, funds that were originally managed by a separate project implementation unit will – through a long term institutional arrangement – be provided in the form of budget support (TT HATS, 2009).

A role for the DAC

The DAC and its associated bodies are taking several steps to increase members' use of country systems:

1. The DAC encourages and supports donors to use country systems.

2. The DAC provides a forum for donors and partners to exchange views and practical ideas on the risks and benefits of using country systems in a variety of different contexts.

3. The Working Party on Aid Effectiveness has created a Global Partnership on Country Systems. It includes donor and partner country representatives and brings together the Task Forces on PFM and Procurement. It is jointly chaired by Ghana and the United States. The role of the global partnership is to:

   - Support the development of joint partner country and donor guidance and good practice to address the technical challenges of strengthening and using country systems (including in public financial management, procurement, monitoring and evaluation, and social and environmental assessment).

   - Facilitate a dialogue on partner country efforts in strengthening country systems and on when to use country systems, building on existing fora for dialogue where possible. This dialogue will be undertaken at the country level to ensure better and more evidence-based discussion of the benefits and risks of using country systems.

4. As part of its work to support the Working Party on Aid Effectiveness, the Task Team on Health as a Tracer Sector (TT HATS) has identified the use of country systems – including procurement and public and financial management systems – as a critical challenge that needs to be addressed. The TT HATS has facilitated a joint learning and self-assessment exercise by Ghana and Madagascar of their country procurement systems and donors' use of them. This study presents the main lessons and conditions for donors to move towards greater use of country systems and points out the critical need for donors to further support countries' efforts to reform, monitor progress and strengthen their systems, including through appropriate capacity development support.

The DAC is also working to promote the use of country systems in the delivery of emerging forms of assistance, going beyond traditional aid. For example, it is striving to ensure that climate adaptation funds – a new source of funding – are not provided through parallel systems. In the context of its ongoing efforts to ensure gender equality, it is also working to strengthen gender-responsive budgeting (Box 3.3).

Box 3.3. **The importance of country systems for cross-cutting issues**

Mainstreaming the environment in country systems

By 2030, additional annual investments for climate change mitigation and adaptation are likely to range from USD 50 billion to several hundred billion USD. This climate change financing needs to be channelled through country systems and funding mechanisms must encourage broad national ownership, strengthen national capacity to address climate change and promote coherent approaches to development and climate change challenges.

A "country system" approach to environmental capacity development implies mainstreaming environment across government – in other words, not only enhancing the capacities of environment ministries, but also of central planning ministries, ministries of finance and other sectoral ministries. It also involves looking at the role and capacity of non-governmental actors in the private sector and civil society.

Gender responsive budgeting: improving the lives of women and men

The AAA recognises the importance of gender equality and women's empowerment in development. Partner countries and donors have agreed to "ensure that their respective development policies and programmes are designed and implemented in ways consistent with their agreed international commitments on gender equality, human rights, disability and environmental sustainability" (Accra Agenda for Action, 2008).

In this respect, "gender-responsive budgeting" can help governments to ensure that resources are used to help both women and men. The DAC is examining how gender-responsive budgeting techniques can be integrated into the public financial management cycle and the country's overall legal framework.

In Morocco, one of the countries where most progress has been made on integrating gender equality into overall budget reform, this is seen as a means of more efficiently using government resources to achieve development and equity objectives. The first phase of Morocco's gender-responsive budgeting initiative, led by the Ministry of Economy and Finance since 2002, focused on capacity building and the production of gender budgeting tools and methodologies. The second phase aimed to develop a culture of policy and programming evaluation within line ministries. Since 2005, annual gender reports – evaluating the relevance of public policies to the different situations of women and men – have been prepared and presented to parliament alongside the finance bill. The number of ministries and departments producing gender reports has increased rapidly, from 4 in 2005 to 25 in 2009 (Burn, 2008).

The role of partner country governments

The benefits and risks of using country systems also need to be evaluated by the countries receiving aid. Partners are not bystanders in donors' decisions to use country systems. Beyond the Paris Declaration commitments to strengthen their systems, developing countries may also request that donors delay the use of certain components of their national systems. The reasons for this may vary from country to country, but could include the perception by some domestic stakeholders that their own systems need to be strengthened further before they can be used fully, as was the case in Ukraine (Vani, 2007). In other instances, countries may wish to ensure that they are responsible for managing the funds they receive. For instance, a government may ask donors only to use certain components of their country systems when they feel they have sufficient control over the use of that aid, knowing that they will be made to be accountable for its use (CABRI, 2009). In still other cases, where aid remains a small fraction of the national budget, the use of country systems may entail overly high transaction costs and reduce opportunities for quick, demand-driven actions. Ultimately, therefore, whilst most partner countries demand stronger use of country systems across the entire government cycle, the decision to use country systems must be taken in collaboration with partner countries and in line with their own priorities.

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CHAPTER 4. AID FOR TRADE: A ROUTE OUT OF POVERTY?

Many developing countries consider trade to be a key component of their growth and poverty reduction strategies. However, trade flows are estimated to have declined by around 10% in 2009 as a consequence of the economic crisis, undermining confidence in trade's role as an engine for growth and poverty reduction. Despite this, turning away from trade is not the answer. On the contrary, this chapter argues that it is all the more important to ensure that the right conditions are in place for integrating developing countries into regional and global markets.

This rationale of the Aid-for-Trade Initiative, as this chapter describes, has already made remarkable progress. Developing countries are prioritising trade in their development strategies and donors are scaling up resources. The chapter concludes that maintaining momentum despite the economic crisis will require broad-based country and regional dialogue to ensure that aid for trade contributes to wider development goals and can set and achieve specific development targets. And trade integration must be accompanied by policies that lift people out of poverty and distribute the benefits of trade more equitably across and within developing countries.

Why aid for trade?

Trade, and especially international trade, is an essential component of economic growth and can reduce poverty when the right conditions are in place. As a result, many developing countries have begun to integrate themselves further into the global economy. However, lack of capacity – in institutions, information, policies, procedures or infrastructure – has meant that many countries have been unable to benefit from greater access to international markets or to compete with wealthier countries. In response, in 2005 the World Trade Organization (WTO) members launched an initiative to support poorer members in their use of trade as an engine of growth and poverty reduction (Box 4.1). This chapter explores the role that trade can play in poverty reduction, assesses the progress and impacts to date of the Aid-for-Trade Inititiative and highlights the growing value of regional trade. It concludes by assessing how the momentum of the initiative can be maintained, particularly in light of the current economic crisis.

Box 4.1. **The Aid-for-Trade Initiative**

The Aid-for-Trade Initiative was launched at the 2005 Hong Kong WTO Ministerial Conference. It aims to help developing countries, particularly the least developed, overcome the structural limitations and weak capacities that undermine their ability to compete, and to realise and maximise the benefits of trade and investment opportunities. The initiative will "enable developing countries, particularly least-developed countries (LDCs), to use trade more effectively to promote growth, development and poverty reduction and to achieve their development objectives, including the Millennium Development Goals (MDGs)" (WTO Task Force on Aid for Trade).

Because trade is a diverse and complex activity, aid for trade is broad and not easily defined. It includes:

- Technical assistance: helping countries to develop trade strategies, negotiate more effectively, and implement changes.
- Infrastructure assistance: building the roads, ports, and telecommunications that link domestic and global markets.
- Productive capacity assistance: investing in industries and sectors so countries can build on their comparative advantages to diversify and add value to their exports.
- Adjustment assistance: helping with the costs associated with tariff reductions.

The initiative is reviewed every two to three years at a global level. The Second Global Review (July 2009) evaluated progress and scrutinised how the initiative is being implemented on the ground. The next global review is tentatively scheduled for 2012.

The rationale for aid for trade has been strengthened by the crisis. The quantity and quality of aid, including aid for trade, are now more important than ever for economic growth and human welfare. Aid for trade provides an essential stimulus in the short term, creating employment and reigniting growth, while also addressing long-term competitiveness challenges. Global food security is a case in point. Aid for trade can help improve the productive capacity of the agricultural sector and trade-related infrastructure, storage and distribution systems. All of these are key for long-term global food security (Box 4.2).

Box 4.2. **Food security**

The sharp rises in food prices in 2007 and 2008, and their subsequently even steeper fall, have underlined the fragility of global food security. The price rises led to riots and substantial instability in a large number of developing countries. Donors responded quickly to provide short-term emergency assistance. However, there is increasing concern about falling domestic and donor spending on agriculture. ODA to agriculture and food security fell from its 1980 high of 17% to under 4% of total bilateral ODA in 2007. The joint *Agricultural Outlook 2009-2018* published by the OECD and the Food and Agriculture Organization of the United Nations (FAO) forecasts that global food markets will remain volatile for some time, given their strong links to crude oil prices (OECD/FAO, 2009).

Achieving global food security in the longer term requires actions for agriculture, as well as actions outside the agricultural sector. Farmers, especially small-scale farmers, need to increase productivity, diversify their income base and improve their ability to respond to market needs. They also need effective social protection and insurance mechanisms, much greater access to innovation and technology and more effective public institutions. All stakeholders (developing countries, donors, private sector and civil society) will need to work together to increase the capacity of countries to invest in agriculture and to make the sector a prosperous one that raises income and feeds the poor. More broadly, efforts are needed to diversify the structure of economies and reduce poverty to make food more affordable. This will have to include aid-for-trade arrangements that bolster the critical infrastructure and systems on which food production, marketing and access depend.

Global food security is now at the top of the international agenda. It was a central theme at recent G8 and G20 meetings, with a UN General Assembly and a World Food Summit coming hot on their heels. Many donors are now scaling up aid to agriculture, rural development and food security and making them much higher priorities. A key challenge ahead will be to turn political promises (by both developing countries and donors) into sustainable, effective and responsible investments in food security.

Aid for Trade at a Glance 2009 – an overview of the latest monitoring of the Aid-for-Trade Initiative published jointly by the OECD and the WTO (OECD/WTO 2009) – highlights the initiative's many achievements. To build on these achievements, however, it must be shown that the initiative ultimately contributes to trade creation and poverty reduction. This is particularly important in the face of the worst economic crisis in generations. Stakeholders in developed and developing countries alike are eager to know whether the Aid-for-Trade Initiative is leading to the desired results. In particular, they are asking: do country-owned trade strategies and donor-funded trade programmes build capacity to trade, improve trade performance and reduce poverty? How do we know we are on the right track? How can we tell success from failure? Some of the answers to these questions are explored in the next section, before the progress of the initiative is outlined in the section which follows.

Under what conditions can trade reduce poverty?

> "Aid for trade should support the broader development goals we all share, focusing not only on building trade capacities but also on contributing to a healthier environment and to fighting poverty." (OECD Secretary General Gurría, at the 2nd Global Review of the Aid-for-Trade Initiative, 6-7 July 2009)

The relationships among trade, growth and poverty are complex. Though opinions differ as to the nature of these relationships, most agree that developing countries can gain real benefits from opening up their economies. Indeed, the weight of evidence is that greater openness is important for growth and has been a central feature of successful development. No country has developed successfully by closing itself off from the rest of the world, very few countries have grown over long periods of time without experiencing a large expansion of their trade, and most developing countries with rapid poverty reduction also enjoy high economic growth (*i.e.* the growth accounts for a large share of observed changes in poverty reduction).

Of the numerous empirical studies on the topic, however, most have failed to establish a systematic relationship between greater integration and growth, and there is little agreement on causality (OECD, 2009). Economic growth in general is a rather messy process and will not be equitable if left to its own devices. For this reason, governments need policies that bring the benefits of growth to those sub-groups of people that would otherwise not be reached. To make growth more beneficial to the poor, policies need to tackle the multiple dimensions of poverty, including the economic, political and social dimensions, as well as the cross-cutting dimensions of gender and environment. Policies must also help to empower the poor to contribute to and participate in the growth process (OECD, 2006).

In looking at both trade-to-growth and growth-to-poverty links, Cicowiez and Conconi (2008), for example, conclude that the critical elements in translating economic growth into poverty reduction seem to be complementary and multidimensional public policies. Work by the University of Adelaide exploring the links between trade, growth and poverty reduction lists five pre-requisites for a positive relationship between trade and poverty reduction: (i) trade openness; (ii) domestic reform; (iii) a robust and responsible private sector; (iv) institutional reforms; and (v) political will and co-operation (Redden, 2008).

In short, while trade, and therefore aid for trade, may be positively linked to growth, trade policies are by no means the only policies that are important for reducing poverty.

The Aid-for-Trade Initiative: a progress report

As mentioned earlier, monitoring has shown that the Aid-for-Trade Initiative has made good progress. Partner countries are mainstreaming trade in their development strategies and clarifying their needs and priorities. Donors are improving aid-for-trade delivery and scaling up resources. In 2007, as was the case in 2006, aid for trade grew by more than 10% in real terms; total new commitments from bilateral and multilateral donors in 2007 reached USD 25.4 billion, with an additional USD 27.3 billion in non-concessional trade-related financing. Preliminary data for 2008 show a continued increase in aid for trade. This section outlines some of the impacts of the initiative on trade

An OECD/WTO partner country and donor aid-for-trade questionnaire sought to shed light on the impact of this funding on trade (OECD/WTO, 2008).[13] Over 80 partner countries and 50 donors responded, giving a clear sign of across-the-board engagement in the initiative. In these self-assessments, partner countries generally agreed that the following four aid-for-trade programmes have been most effective:

1. **Trade policy analysis, negotiation and implementation.** The Philippines suggest that training and workshops have been particularly useful in helping officials to better understand the function, structure and rules of the multilateral trading system. Sri Lanka reports that WTO technical assistance has helped to train trade negotiators, but it also expresses concern that WTO

13. Other than this survey, there have been very few aid-for-trade-specific evaluations, in part because the initiative has only recently emerged as a distinct objective of development co-operation. Consequently, the WTO Task Force has recommended that increased evaluation of aid for trade should be promoted and funded. This will also mean developing appropriate methods for evaluating aid for trade at the programming and policy levels. In particular, the evaluation and aid-for-trade policy communities should work out specific measures for evaluating aid-for-trade activities, as compared to other development programmes.

programmes risk turning officials into "rule takers" rather than "rule makers" by focusing too narrowly on rules, rather than development policy.

2. **Trade facilitation.** This is the second most frequently identified area where aid for trade is seen as effective. Simplification of customs procedures and improvements to port authorities are considered particularly important and useful (e.g. Ghana, Kenya and Malawi). An OECD (2009) study found that customs reform – often supported by technical assistance programmes, financial assistance or public-private partnerships – may bring important increases in customs revenue over a relatively short period of time: for example 150% in Angola half-way through the five-year reform programme, and 58% in Mozambique during the first two years of the programme. More importantly, however, trade facilitation and custom reforms lead to increased trade.

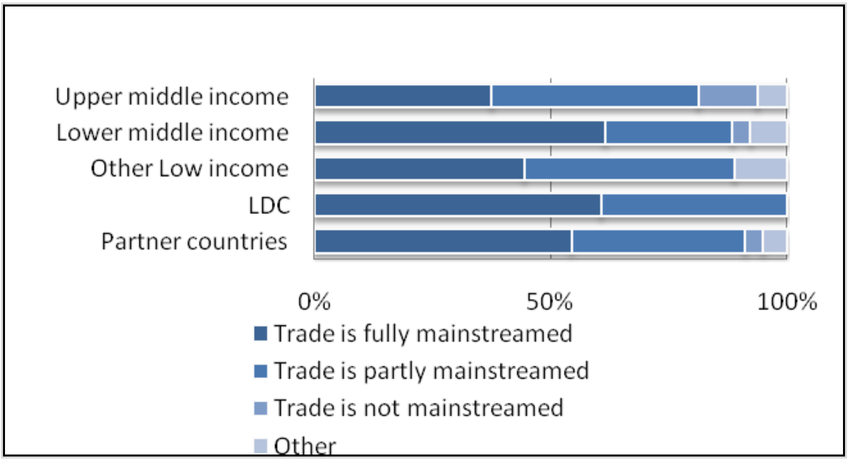
3. **Competitiveness**. Belize reports that the EU-funded Banana Special Framework of Assistance, which provided technical assistance, supplies, infrastructure, schools and teacher training, played a significant role in improving the competitiveness of its banana industry.

4. **Export diversification.** Zambia reports that European Development Fund projects helped it to increase the export capacity of its horticulture and floriculture sectors. In Grenada's case, an initiative that brought together the public and private sectors, as well as NGOs, enabled the design of a broad strategy for increasing and diversifying exports.

Mainstreaming of trade by partner countries

Increasingly, partner countries are becoming actively involved in the Aid-for-Trade Initiative. Nearly all partner countries report having national development strategies and more than half have fully "mainstreamed" trade by incorporating it into well-developed government priorities and action plans (Figure 4.1). Although independent surveys raise questions about this assessment, it is nevertheless a clear indication of the growing awareness among partner countries that trade can play a positive role in promoting economic growth and reducing poverty.

Figure 4.1. **Mainstreaming of trade by partner countries**



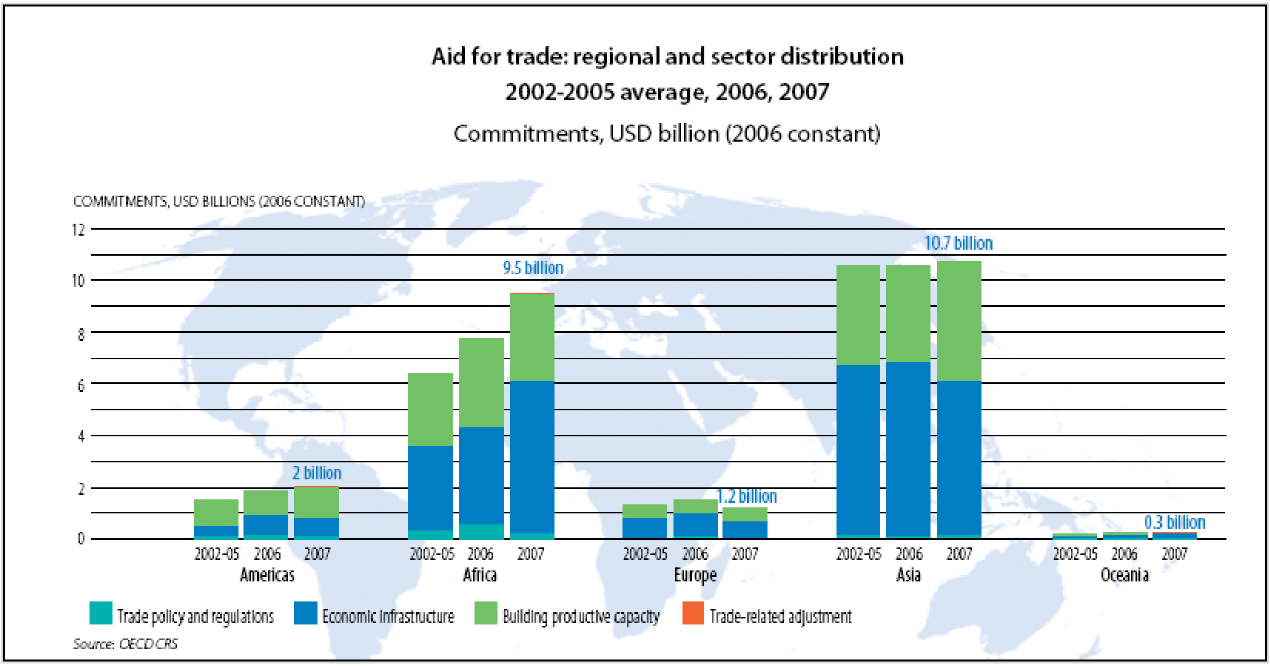
Source: OECD (2009a), *Aid for Trade at a Glance 2009*, OECD, Paris. Figure based on responses to OECD and WTO (World Trade Organization) (2008), *Donor Questionnaire on Aid for Trade*, OECD, Paris, available at www.oecd.org/dataoecd/2/3/43040336.pdf.

While partner countries increasingly discuss their priorities with donors through a variety of dialogue fora, donors note that the success of these discussions depends critically on the extent to which trade-related priorities have been mainstreamed and implemented by those countries. Mainstreaming is essential, because without a trade-development strategy that works, it is hard to attract donor support to address specific supply-side constraints. With competing claims on limited resources, especially in times of economic crisis, it will be difficult for donors to sustain increased aid-for-trade flows without clear demands from partner countries.

An increasing commitment by donors

Aid-for-trade flows to low income countries are growing faster than to any other income group. Most are spent on infrastructure, in particular transport and power, whereas flows to middle income developing countries reflect their priority to build productive capacities, including trade development. The largest share of aid for trade goes to Asia, although Africa, especially sub-Saharan Africa, is catching up and received most of the additional funds in 2007 (Figure 4.2). With the exception of Europe, all other regions (*i.e.* Latin America and the Caribbean, and Oceania) also saw their volumes of aid for trade increase during 2006 and 2007.

Figure 4.2. **Geographical and sectoral aid for trade, 2002-2007**



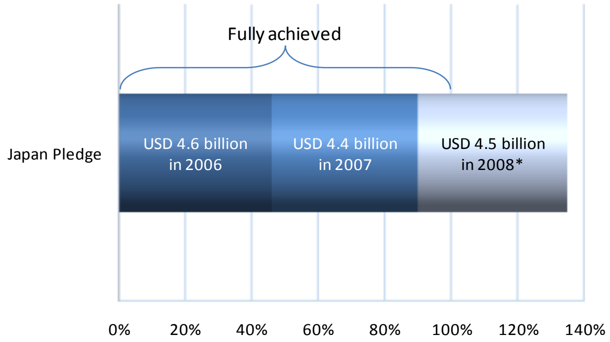
Source: OECD Creditor Reporting System (CRS) database, www.oecd.org/dataoecd/20/29/31753872.htm.

At the 2005 Hong Kong WTO Ministerial Conference (Box 4.1) a number of donors pledged to increase their aid for trade by 2010. Donors are on track to meet, or have already met, these pledges (Figure 4.3). The USD 4.3 billion increase in aid for trade in 2007 was additional, *i.e.* not at the expense of other programmes, such as health or education. Donors are planning to continue increasing funds for aid for trade over the medium term. Furthermore, calculations suggest high disbursements of commitments.

Bilateral donors provided USD 15.8 billion in aid for trade during 2007, well over 60% of total flows, and many channelled their funds through multilateral agencies. Consequently, multilateral donors tended to allocate a significantly higher share of their sector allocable aid to aid for trade than bilateral donors.

Donors are also strengthening their capacity to respond to rising aid-for-trade demand by bolstering in-house expertise and raising awareness among policy makers and practitioners at headquarters and in the field. Furthermore, donors are aligning around partner countries' procedures and systems, and undertaking more and more joint initiatives, including triangular co-operation. Partner countries acknowledge these positive trends.

Figure 4.3. **Selected donor progress towards Hong Kong pledges, 2009**



Source: OECD/WTO (2009), *Aid for Trade at a Glance 2009*, OECD, Paris. Based on data from the CRS.

Regional aid for trade: an area for growth

International experience has demonstrated that regional trade integration can be a powerful catalyst to economic growth. However, developing countries sometimes face particular capacity constraints in their ability to capitalise on the full potential of such processes. For example, poor cross-border infrastructure may prove to be a particular challenge for low-income developing countries. This highlights the need for more and better aid to address the constraints to regional trade integration, a point increasingly confirmed by partner countries and donors alike.

Partner countries have identified common priorities for regional integration, including transport infrastructure, trade facilitation, competitiveness and export diversification, as well as capacity for regional trade negotiations. Donors have also recognised the importance of regional integration and report a rising demand for regional aid for trade. Financial support for trade-related global, regional and multi-country programmes – areas which were among the challenges highlighted during the first Global Aid-for-Trade Review – has doubled since 2005 (OECD/WTO, 2009). Most partner countries confirm that they benefit from regional aid for trade and that their main constraints to regional trade are being addressed.

Aid for Trade at a Glance 2009 (OECD/WTO, 2009) includes three case studies of regional aid-for-trade efforts: (i) a pilot programme to improve the trade and transport corridor in the Southern region of Africa for the freer flow of goods and people; (ii) a regional integration project to boost inter-connectedness among the countries in Mesoamerica through improvements in transport infrastructure and the regulatory environment; and (iii) an economic corridor development project in the Greater Mekong sub-region of Asia to enhance physical links and promote closer economic ties among countries in the sub-region. All three case studies illustrate how aid for trade is being used to tackle both common and region-specific challenges. However, one challenge to regional integration efforts is a lack of co-ordination between donors and partners. To strengthen regional capacity and improve effective participation in the regional and multilateral trading systems, further co-ordination on regional aid for trade activities is needed.

The next steps

As noted in this chapter, the relationship between trade, growth and poverty reduction is complex. But it is clear that openness and integration can contribute to economic development and poverty reduction. The Aid-for-Trade Initiative has succeeded in raising awareness about these important links, but also about the binding trade-related constraints that keep developing countries from benefiting fully from trade expansion. The initiative has also succeeded in mobilising resources to build trade capacities related to policies, institutions and infrastructure.

In order to maintain momentum, particularly in light of the current economic crisis, several practical steps are needed. The OECD, in collaboration with international partners, is working to achieve these objectives:

- Broadening the aid-for-trade dialogue to engage parliaments, civil society and the private sector more effectively. Without broader engagement and outreach the initiative is likely to be only of interest to bureaucrats and to remain divorced from the political landscape in which it must be carried forward. This more inclusive dialogue is especially important given the political sensitivity of many trade reforms.

- Showing that aid for trade is worth doing by exploring and demonstrating the large potential gains from broad-based multilateral trade liberalisation and the integration of developing countries into the global economy. We need to develop better methods for evaluating the impact of aid for trade, and we need to promote their use.

- Demonstrating that aid for trade can hit specific targets. This means case-by-case, country-by-country identification of the nature and extent of the impediments that are preventing the benefits of trade from being fully realised.[14] We need to identify exactly how aid for trade will address these impediments, how it will work with, and add value to, initiatives by private firms, and how it will fit into the evolving framework of regional and multilateral co-operation.

- Incorporating the Paris Declaration on Aid Effectiveness principles of ownership, mutual accountability and management for results (Annex A) into aid-for-trade programmes. Aid for trade is part of a larger picture encompassing international co-operation, improved policy coherence and a whole-of-government approach to economic development and poverty reduction. It needs to be shown that aid for trade contributes to the wider goals of partner countries. Trade development strategies will only be successful and sustained where the partner country takes the lead in determining the goals and the priorities of the strategy and sets the agenda for how they are to be achieved. To date, local ownership remains relatively weak in many developing countries.

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14. The monitoring report (OECD/WTO, 2009) contains around 80 *Aid for Trade at a Glance* fact sheets which provide a tool for each country to strengthen the links between demand, response, outcomes of priority programmes and their impact on trade performance. These fact sheets help to create incentives, through a sustained dialogue among governments, civil society, the private sector and donors, to improve the coherence of aid for trade with overall development strategies around which donors should align their support.

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CHAPTER 5. CLIMATE CHANGE: HELPING POOR COUNTRIES TO ADAPT

While the developed world is working out the best mitigation strategies for reducing greenhouse gas emissions, the developing world needs help to adapt to the impacts of an already changing climate. "Development as usual" will not be adequate to climate-proof vulnerable populations and countries. Adaptation needs to be built into planning at all levels, from projects to national and sectoral strategies. This chapter outlines the DAC members' role in this process and the challenges ahead.

Development co-operation in the context of a changing climate

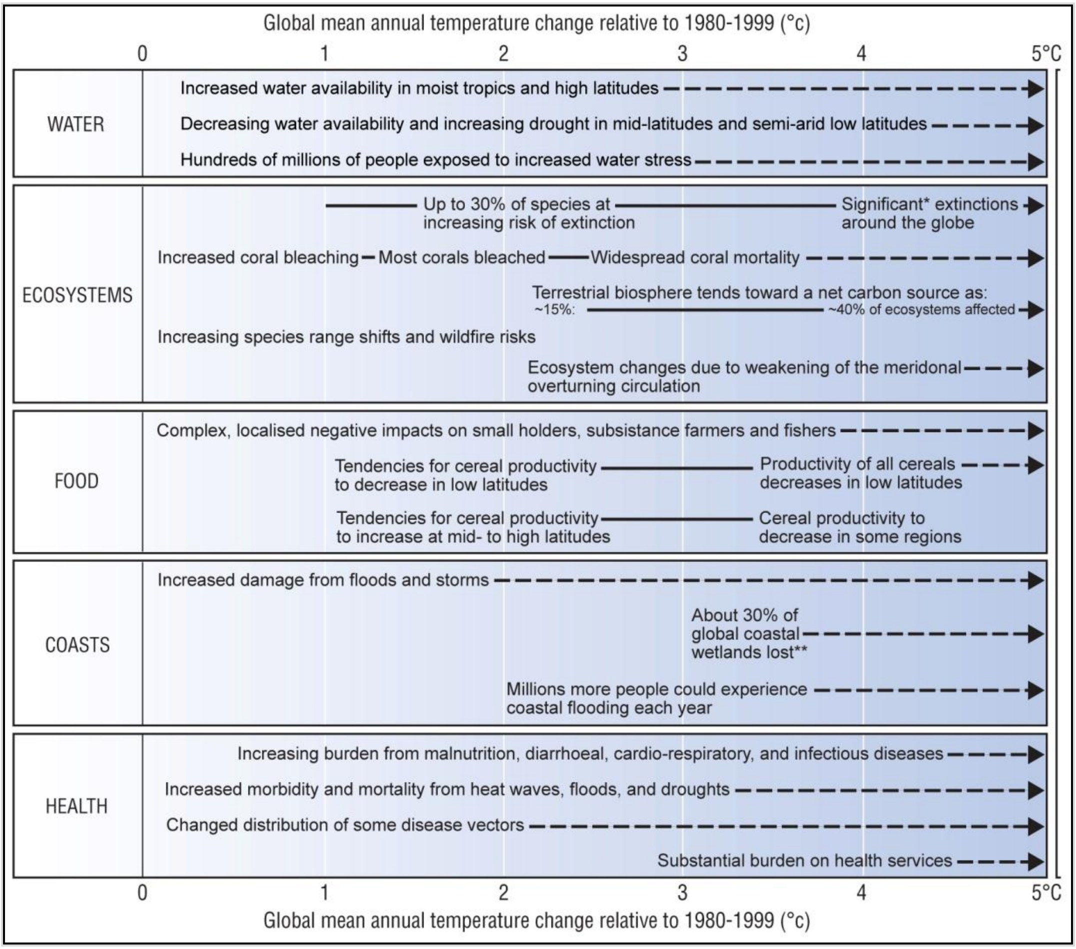
The changes occurring to our climate can seem remote compared with such immediate problems as poverty, disease and economic stagnation. Yet without addressing climate change, progress towards resolving these other core development priorities will be seriously undermined.

Climate change will increasingly affect basic elements of life for people around the world: water availability, food production, health and the environment (Figure 5.1). If left unchecked, climate change could cause significant economic and ecological disruption (IPCC, 2007a), especially for already vulnerable populations, including women and children.

"Development as usual", without considering climate-related risks and opportunities, will not resolve these challenges. Although many development activities may help to reduce vulnerability to many climate change impacts, other development initiatives may increase vulnerability. For example, coastal zone development plans that fail to take into account sea level rise will put people, industries and basic infrastructure at risk and prove unsustainable in the long term. This type of negative impact is called "maladaptation". In addition, climate change considerations may raise the importance of supporting such sectors as agriculture, rural development and water resource management.

Figure 5.1. **Key impacts as a function of increasing global average temperatures**

Impacts will vary by extent of adaptation, rate of temperature change, and socio-economic pathway



Notes:

* "Significant" is defined here as more than 40%.

** Based on average rate of sea level rise of 4.2 mm/year from 2000 to 2080.

The black lines link impacts; dotted arrows indicate impacts continuing with increasing temperature. Entries are placed so that the left-hand side of the text indicates the approximate onset of a given impact. Quantitative entries for water stress and flooding represent the additional impacts of climate change relative to the conditions projected across the range of Special Report on Emissions Scenarios (SRES) scenarios A1FI, A2, B1 and B2. Adaptation to climate change is not included in these estimations. Confidence levels for all statements are high.

Source: IPCC (Intergovernmental Panel on Climate Change), (2007), "Climate Change 2007: Impacts, Adaptation and Vulnerability", Working Group II Contribution to the *Fourth Assessment Report of the Intergovernmental Panel on Climate Change*, Cambridge University Press, Cambridge.

Poor people and poor countries will bear the brunt of climate change. This is because developing countries, and notably the least developed, rely heavily on climate-sensitive sectors, and have high levels of poverty, low levels of education and limited human, institutional, economic, technical and financial capacity. Unless tackled urgently, climate change will prevent several of the Millennium Development Goals (MDGs) from being achieved (Table 5.1), undermining national poverty eradication and sustainable development objectives.

Table 5.1. **Potential impacts of climate change on selected Millennium Development Goals**

Millennium Development Goal	Examples of links with climate change
Eradicate extreme poverty and hunger (**Goal 1**)	Climate change is expected to reduce the assets of many poor people, alter the path of economic growth, and worsen regional food security. Water resources are likely to be stressed through increased evaporation losses and increasing water demands resulting from rising temperatures. Food production, which is closely linked to water availability, will face increased stress in regions where water is scarce.
Promote gender equality and empower women (**Goal 3**)	In the developing world in particular, women are disproportionately involved in natural resource-dependent activities, such as agriculture, which are particularly vulnerable to climate change.
Health related goals (**Goals 4, 5 & 6**)	Climate change may affect health, directly through increased temperatures, heat waves, floods, droughts and storms; and indirectly through increased disease incidence and reduced quantity and quality of food and water.
Ensure environmental sustainability (**Goal 7**)	Climate change is likely to alter the quality and productivity of natural resources and ecosystems which contribute a significant share of income in developing countries Coastal zones are particularly vulnerable to the impacts of sea level rise, storm surges, and increases in the intensity of cyclones in certain regions.

Sources: Multi Agency Report (2003) Poverty and Climate Change: Reducing the Vulnerability of the Poor through Adaptation, report by the African Development Bank, Asian Development Bank, UK Department for International Development, Federal Ministry for Economic Co-operation and Development (Germany), Ministry of Foreign Affairs – Development Co-operation (The Netherlands), the OECD, United Nations Development Programme, United Nations Environment Program and the World Bank, Washington, DC; IPCC (2007b), Fourth Assessment Report of the Intergovernmental Panel on Climate Change, Cambridge University Press, Cambridge; WEDO (Women's Environment & Development Organization) (2008), Gender, Climate Change and Human Security, policy report developed for the Greece Government Chairmanship of the Human Security Network, WEDO, New York/Athens.

Against this background, this chapter explores how the threats to the planet's climate are being dealt with, and what is being done to incorporate adaptation into development co-operation policies from the local and project level up to the national level.

How are we dealing with climate change?

There are two main ways we can respond to climate change:

1. Mitigation: reducing climate change itself, by lowering emissions of greenhouse gases.

2. Adaptation: taking action to reduce the adverse consequences of climate change, as well as to harness positive opportunities.

Mitigation

Historically, the majority of greenhouse gas emissions have come from developed countries. The United Nations Framework Convention on Climate Change recognises that all countries should protect the climate system for the benefit of present and future generations of humankind, on the basis of equity and in accordance with common but differentiated responsibilities and respective capabilities. Accordingly, the developed countries should take the lead in combating climate change and its adverse effects. The most advanced developing countries also have an important role to play.

At the same time, against the background of a projected doubling of world greenhouse gas emissions by mid-century, it is essential for all countries to move towards low-carbon growth paths. Development choices made today will not only influence adaptive capacity; they will also determine future greenhouse gas emissions.

A recent Joint High Level Meeting of the OECD Development Assistance Committee (DAC)[15] and the Environment Policy Committee (EPOC) has recognised the need to support developing countries in achieving low-carbon development pathways. Meeting participants highlighted that low-carbon development can simultaneously stimulate growth, promote energy security and contribute to climate change mitigation and adaptation. Furthermore, the *Declaration on Green Growth* (OECD, 2009a), which was endorsed by the OECD Ministerial Council Meeting in June 2009, underlines the special need to co-ordinate development co-operation activities in order to help developing countries promote green growth. It recognises the role of the DAC in contributing to OECD-wide efforts in these areas.

Simple measures and technologies to facilitate low-carbon growth and its associated co-benefits are already known. Renewable energy technology, policy and measures for improved energy efficiency, promotion of improved urban planning and public transportation may all contribute, simultaneously, to climate change mitigation and economic growth. International co-operation can provide incentives to encourage the adoption of such win-win strategies.

Adaptation

While mitigating climate change is absolutely critical, there are clear signals that the climate is already changing, and some countries are already feeling the effects. Therefore, adaptation is all the more urgent and needs to become integral to economic policies, development projects and international aid efforts. In 2006, development and environment ministers from OECD countries endorsed a *Declaration on Integrating Climate Change Adaptation into Development Co-operation* (Box 5.1), in which they called for "meaningful co-ordination and sharing of good practices" (OECD, 2006a). *Integrating Climate Change Adaptation into Development Co-operation: Policy Guidance* (OECD, 2009b) was published in response to this request. The rest of this chapter summarises its main messages.

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15. The DAC's work on environment and climate change is carried out through its Network on Environment and Development Co-operation (ENVIRONET), an international forum that brings together practitioners from bilateral and multilateral development agencies. Representatives from partner countries, regional development banks, non-governmental organisations and research institutions also participate in its work.

Box 5.1. **How the DAC countries intend to provide effective support for climate change adaptation**

The DAC-EPOC *Policy Statement on Integrating Climate Change Adaptation into Development Co-operation* states that support to developing countries to address the new challenges of climate change adaptation will:

- Be guided by the commitments in the Monterrey Consensus, the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action (Annex A).
- Be aligned to partner countries' long-term visions, development plans and programmes, such as National Adaptation Programmes of Action (NAPAs, Box 5.5).
- Seek to use partners' own systems and harmonise approaches. Capacity development support will enable partners to lead and manage all aspects of climate change adaptation.
- Use a variety of aid approaches, emphasising programme-based and sector-wide approaches rather than specific projects.
- Be efficient and effective, and mobilise private sector support.
- Ensure that climate risks are adequately taken into account in all programmes which development agencies support.

Specific attention will be paid to the most vulnerable: least developed countries; small island developing states and African states affected by drought, floods and desertification; vulnerable communities and groups, including women (Box 5.3), children and the elderly.

A key approach will be to identify and implement win-win adaptation-development solutions and to seek synergies between climate change adaptation and mitigation, notably in sectors such as energy, agriculture and forestry, and with the other Rio conventions (on biological diversity and desertification). In addition, links will be reinforced between climate change adaptation and disaster risk reduction and management.

Source: OECD (2009c), *Policy Statement on Integrating Climate Change Adaptation into Development Co-operation*, OECD, Paris, available at www.oecd.org/dataoecd/26/36/42747468.pdf.

Implementing and "mainstreaming" adaptation

It is fundamental to integrate climate change adaptation measures into existing country-led and owned development processes and activities at several levels, *i.e.*, the project, local, sectoral and national. Further, adaptation should not be treated as a stand-alone agenda, but be integrated into other environmental and socio-economic policies ("mainstreamed"). Adaptation within each of these levels is discussed in turn in the sections which follow.

Adapting projects to climate change

A development project may be directly or indirectly vulnerable to the impacts of climate change. At the same time, a project may increase or decrease the vulnerability of recipient communities or systems to climate change. The vulnerability of a project to climate risks depends on the type of infrastructure it establishes, the activities it supports and its geographical location. In addition, the expected lifetime of project activities is likely to be a critical factor determining the need to assess climate change vulnerability. For example, investment in long-lived infrastructure (such as a dam or irrigation network), should consider the effect of future climate conditions on the viability of the project, since climate change impacts will most likely become increasingly relevant over its planned useful life.

In order to integrate adaptation at the project level, considerations of climate risks and adaptation need to be incorporated into every step of the project cycle: identification, appraisal, design, implementation, and monitoring and evaluation.

Donor agencies can play two roles in integrating climate change adaptation at the project level. First, if they provide development co-operation through project support, they can integrate adaptation within the projects in which they are involved. Second, they can develop and share assessments, frameworks and tools that can be of use to other partners. Various donors have developed tools and instruments for screening their project portfolios for climate risk, and for selecting and integrating adaptation measures within projects (Box 5.2). More work will be needed, nonetheless, to harmonise these methodologies across donors.

Box 5.2. **Some donor-developed methods for climate change screening**

The United States Agency for International Development has prepared generic guidance on how to incorporate climate change considerations into project development, using a six-step process to examine whether modifications are needed to account for climate change. The World Bank has designed a computer-based tool for the Assessment and Design for Adaptation to Climate Change (ADAPT). Working together, Intercooperation (the Swiss Foundation for Development and International Co-operation), the International Institute for Sustainable Development, the International Union for Conservation of Nature and the Stockholm Environment Institute have developed the Community-based Risk Screening Tool – Adaptation and Livelihoods (CRiSTAL); this tool helps users to foresee possible negative effects of community-level projects on climate resilience and to adjust the projects to enhance local adaptive capacity. The UK Department for International Development has developed a computer-based tool to assess Opportunities and Risks of Climate Change and Disasters (ORCHID). This process-based tool offers a light-touch screening process for donor programmes. On behalf of the German Ministry for Economic Co-operation and Development, GTZ (German Technical Co-operation) has developed a climate check tool which covers both adaptation and mitigation issues associated with development projects.

For more information, see OECD (2009b), *Integrating Climate Change Adaptation into Development Co-operation: Policy Guidance,* OECD, Paris.

Adapting to climate change locally

Some policy initiatives of development assistance agencies have clear implications for adaptation at the local level (Box 5.3). For example, donor support for decentralisation in partner countries – whether focused on political, fiscal, or administrative decentralisation – may have important implications for climate change adaptation. The process usually has the overarching aim of increasing participation and government accountability, as well as making the delivery of public services more efficient, accessible, equitable and responsive to local needs. As the process of decentralisation continues, local-level adaptation to climate change may provide a means through which donors can better understand the relationship between decentralisation and local vulnerability reduction.

Box 5.3. **Climate change adaptation and gender issues at the local level**

Within poor communities, women and children tend to be particularly vulnerable to environmental degradation and natural disasters. For this reason, when developing and implementing adaptation strategies at the local level – whether in rural or urban settings – it is critical to recognise and respect the greater vulnerability of women and children to the impacts of climate, as well as the difference in the way women and men are affected. Further, it is critical to include women as equal participants in any adaptation strategy. This will help to avoid contributing to differences in the relative vulnerability to climate change.

Women can be supported through livelihood activities that are more tolerant and/or less vulnerable to an increasingly extreme and variable climate. In Bangladesh, for example, in light of the growing risk of floods, women have been supported in moving away from raising chickens to raising ducks for household consumption and income generation purposes (CARE Canada, 2008).

Sources: CARE Canada (2008), *Bangladeshi Women are Knowledge Keepers in Mitigating Climate Change*, online article, http://care.ca/main/?en&BangladeshiWomen, accessed 15 Dec 2009; IUCN (World Conservation Union) (2007), "Women and Climate Change – Women as Agents of Change", *IUCN Climate Change Briefing*, Dec 2007, available at http://cmsdata.iucn.org/downloads/climate_change_gender.pdf.

Climate change adaptation within key economic sectors

Certain sectors are particularly sensitive to climate variability and therefore need to factor climate change into sector policy and planning as a matter of priority. Some of these sectors are directly affected by climate, such as agriculture, while others incur mainly indirect impacts. For example, industrial production can be affected if climate change reduces (or enhances) hydropower production for electricity. This has happened recently in Ghana, where drought conditions have limited hydropower production, cutting economic growth by 2%. Key climate-sensitive sectors include agriculture, forestry, fisheries, water resource management, human health, nature conservation, energy, and infrastructure.

Development co-operation is often earmarked for specific sectors. In these sectors, taking into account climate change information at the policy-making stage can allow adaptation actions to be identified, avoid maladaptation risks and reveal new opportunities. For example, in the agricultural sector, increased temperatures in some regions may make certain crops more suitable than others. Identifying this long-term prospect can help guide sectoral policy and, subsequently, the rural development options pursued for the region. For long-lived infrastructure facilities, climate change concerns may prompt the revision of sector-wide plans, construction and design criteria, and site selection.

Strategic environmental assessment (SEA) can be a useful tool for applying a “climate lens” to sectoral policies, strategies and plans. The term refers to “a range of analytical and participatory approaches that aim to integrate environmental considerations into policies, plans and programmes (PPPs) and evaluate the inter-linkages with economic and social considerations” (OECD, 2006b). Although SEAs have mainly been used to evaluate the impact on the environment of policies, plans and programmes, rather than the other way round, they provide a generic framework and sound methodology for integrating environmental considerations into policies, plans and programmes (Box 5.4).

Box 5.4. **SEA of land-use planning for the Nhon Trach District, Viet Nam**

SEA was conducted in 2007/08 to integrate environmental issues into the land-use planning for Nhon Trach District near Ho Chi Minh City. As part of the SEA, an assessment of the possible consequences of climate change for the district was carried out. The SEA report proposed, therefore, not only environmental protection solutions, but also measures for adapting to expected climate change impacts, including estimated costs and implementation considerations. The assessment of climate change impacts included analyses of possible temperature increase, precipitation changes, sea-level rise, and salt water intrusion. Proposed recommendations and measures for adapting to climate change included:

- Maintain and further develop dike systems to prevent the invasion of seawater in the district.
- Identify new varieties and species of crops, and adapt cropping systems in order to reduce the vulnerability of the agricultural system to climate change impacts.
- Maintain a minimum of 15% tree coverage on agricultural land converted to other uses, such as dwellings or construction land, to contain soil erosion.
- Improve the maintenance and extension of the drainage system at the same pace as urban development; enhance environmental management of urban and industrial parks, including regular dredging, in order to avoid local flooding in the rainy season.
- Continue to preserve existing mangrove forests in the district in order to mitigate increasing hazards from high tides.

Sources: ADB (Asian Development Bank) (2009), *Strategic Environmental Assessment as a Tool to Improve Climate Change Adaptation in the Greater Mekong Subregion*, Asian Development Bank, Manila; SEMLA, Vietnam-Sweden Cooperation Programme on Strengthening Environmental Management and Land Administration in Vietnam (2008), *Evaluation of SEMLA SEA Projects*, SEMLA, Hanoi.

Donor agencies can support many of the above actions through sector-level budget support and sector-wide approaches. They can also support capacity development in adaptation assessment and planning. Finally, donor agencies can provide financial and technical support for monitoring and evaluating progress towards integrating climate adaptation into sectoral strategies, plans and programmes.

Adapting to climate change at the national level

The national level is critical for mainstreaming climate change adaptation. Strategic decisions taken at this level create the enabling environment for public and private sector actors as well as for communities and households. Medium to long-term development and poverty reduction strategies and objectives are also established at this level through national visions, development plans and strategies.

Priorities at the national level include:

- Improving the coverage and the quality control of climate monitoring data.
- Commissioning national-level assessments of climate change impacts, vulnerabilities and adaptation options. This will lead to improved and more targeted information on how climate change affects specific national priorities and core government functions.
- Moving the co-ordination for adaptation into powerful central bodies, such as the Office of the President or Prime Minister, or the planning agencies.
- Including considerations of climate change risks in long-term policy visions, as well as in poverty reduction and sustainable development strategies.
- Making a sound economic case for investing in adaptation and ensuring adequate resource allocation (for example through a horizontal fund for adaptation) for the incorporation of adaptation considerations in policies, plans and programmes (Box 5.5).

Box 5.5. **Integrating climate change adaptation into national policies and development strategies**

Although to date there has been little integration of climate change adaptation at the national level, some countries have integrated climate change concerns into their national policies, such as development and poverty reduction strategies.

Several of the least-developed countries have recently created National Adaptation Programmes of Action (NAPAs). NAPAs focus on activities to address the urgent and immediate adaptation needs of the country. NAPAs are action-oriented, country-driven, flexible programmes based on national circumstances. They establish priorities for action and are therefore useful for development planners.

Bangladesh has created clear links between its NAPA and its Poverty Reduction Strategy Paper (PRSP) in order to mainstream adaptation to climate change. The PRSP recognises climate change as a cause of “grave concern” to the country, highlighting the challenges posed by sea-level rise. It analyses extensively the relationship between natural disasters, growth and poverty. Climate change is considered an important challenge for water resource management and environmental protection. The PRSP has 19 policy matrices for implementing the strategy, one of which focuses exclusively on comprehensive disaster management. One of its key targets is to “factor vulnerability impacts and adaptation to climate change into disaster management and risk reduction plans, programmes, policies and projects.” This, together with an acknowledgement of the NAPA as a national implementation programme, helps to ensure policy coherence for adaptation activities. The priority adaptation strategies identified in Bangladesh’s NAPA specifically complement the PRSP. In devising strategies to address climate change and raise awareness, the NAPA also refers to PRSP policy matrices on “comprehensive disaster management” and “environment and sustainable development.”

There are many international initiatives, such as the United Nations International Strategy for Disaster Reduction, that can support the design and implementation of national adaptation policies. These initiatives could be enhanced and strengthened so that developing countries can use them to integrate climate change adaptation into national policies.

While developing country partners must lead efforts to integrate climate change adaptation, international donors have a critical role to play in supporting such efforts. They can promote capacity building, for instance in monitoring climate and in assessing future climate change impacts and adaptation priorities at the national level. In this context, it is fundamental to raise awareness within donor agencies about the risks posed by climate change. Donors can also use high-level policy dialogue to raise the profile of adaptation with partner countries' senior officials in key ministries, such as finance and planning. In addition, donor agencies can provide financial support. For example, they could contribute to an adaptation fund managed by a central body such as a planning or finance ministry for funding the costs of integrating adaptation measures into their activities. International donors can also encourage action on adaptation through joint assistance strategies.[16] It is fundamental, however, that donors co-ordinate and harmonise their adaptation efforts at the country level.

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16. Joint assistance strategies are comprehensive frameworks for managing the development co-operation between the government and the various bilateral and multilateral donors which operate in a partner country.

CHAPTER 6. ENSURING FRAGILE STATES ARE NOT LEFT BEHIND

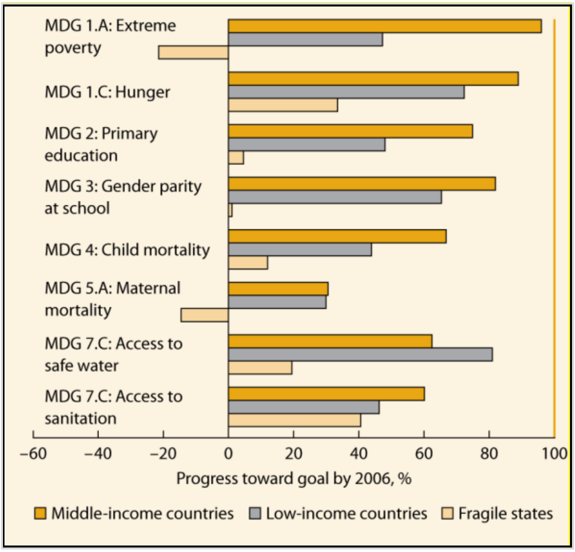
Achieving the Millennium Development Goals will depend on how successful we are at helping the world's most fragile states. This group of 48 countries represents the poorest of the poor, usually because of violent conflict and poor governance.

In 2007, the OECD endorsed ten Principles for Good International Engagement in Fragile States and Situations. In this chapter we report on progress and lessons learned from implementing these principles in Afghanistan, Central African Republic, Democratic Republic of Congo, Haiti, Sierra Leone and Timor-Leste. The views presented here come directly from the countries themselves and have much to offer those striving to engage more effectively in such environments.

The world's most fragile states raise fundamental challenges

Will we be able to eradicate poverty by 2015? While many countries are making progress towards achieving the Millennium Development Goals (MDGs), a third of all developing countries are falling behind. Figure 6.1 shows alarming trends in these fragile states, particularly regarding poverty, primary education and gender equality. These 48 countries, which range from Afghanistan to Zimbabwe, concentrate half of the world's children who die before their fifth birthday, one-third of all maternal deaths worldwide, and one-third of all people surviving on less than one dollar a day. In addition, these already vulnerable countries are currently suffering the consequences of a triple crisis: shocks linked to food and fuel prices, the global economic crisis, climate change and environmental degradation. [17]

Figure 6.1. **The slow, and sometimes negative, development progress of fragile states, 2006**



Source: International Monetary Fund and the World Bank (2008), *Global Monitoring Report 2008: MDGs and the Environment*, International Monetary Fund and the World Bank, Washington, DC.

17. The group of fragile states discussed here is determined based on a compilation of three lists: the bottom two quintiles of the World Bank's Country Policy and Institutional Assessment 2008; the Carleton University Country Indicators for Foreign Policy 2008 and the Brookings Index of State Weakness in the Developing World 2008. This group is identified for working purposes annually and does not constitute an official OECD list or definition.

These countries are often trapped in a vicious cycle of violent conflict, poverty or poor governance, which is holding back progress towards the MDGs. In these countries the state often lacks the capacity or legitimacy to support equitable development. With the right conditions, however, some of them – such as Burundi and Mozambique – have demonstrated a remarkable turn-around.

Without improving conditions in these fragile states we will simply fail to reach the MDGs by 2015. While 38% of official development assistance (ODA) goes to such countries, we can still improve the return on this investment (OECD, 2009). In 2007, recognising that fragile states require specific attention, OECD development ministers endorsed a set of *Principles for Good International Engagement in Fragile States and Situations* (OECD, 2007a). These included the following: take context as a starting point; do no harm; focus on statebuilding as the central objective; prioritise prevention; recognise the links between political, security and development objectives; promote non-discrimination; align with local priorities in different ways in different contexts; agree on practical co-ordination mechanisms; act fast but stay engaged; and avoid pockets of exclusion. At first glance these seem to be common sense, but each has important operational implications. Many of these have clear links to the aid effectiveness agenda (Chapter 1 and Annex A), and beyond aid have implications for security, peacebuilding and statebuilding. A body of good practice is already emerging from field experience in some countries, although in others current practice is still far from according with these principles.

This chapter explores the question “Where is the development community today in supporting fragile states?” At the Third High Level Forum on Aid Effectiveness, partner countries and donors decided to monitor their implementation over time through a multi-year survey.[18] In a baseline round in 2009, six fragile states – Afghanistan, Central African Republic (CAR), Democratic Republic of Congo (DRC), Haiti, Sierra Leone and Timor-Leste – held multi-stakeholder consultations aiming to discuss the quality of international engagement through the lens of each principle, and to agree common steps to improve development effectiveness.[19]

These consultations took place in a spirit of mutual accountability. They involved a president and two prime ministers; ministers from planning and finance to defence and justice; mayors from remote towns; members of parliament; NGOs from the capital and the districts; women and youth groups and private sector representatives. On the international front, diplomats, humanitarians, security and development actors from both bilateral and multilateral organisations participated.[20] This comprehensive approach is consistent with international efforts to increase policy coherence, which is critical to any success in fragile states.[21] Led by the host governments and facilitated by the DAC Secretariat, the six consultations yielded rich findings for both international actors and partner governments. Combined with expert studies and other evaluations, these multi-stakeholder findings can help improve our collective response to state fragility.

18. Accra Agenda for Action, 2008, paragraph 21 e.

19. Timor-Leste: 2-3 March 2009; Haiti: 20-21 May 2009; Democratic Republic of Congo: 3-4 June 2009; Afghanistan: 17-19 June 2009; Central African Republic 21-22 July 2009; Sierra Leone: 19 October 2009.

20. Each consultation was co-ordinated by a National Co-ordinator and International Focal Points. The latter were the United Nations Assistance Mission in Afghanistan and the UK (Afghanistan); France, the African Development Bank and the United Nations Development Program (CAR); The United Nations Mission in DRC (DRC); Canada (Haiti); the UK and the United Nations Integrated Peacebuilding Office in Sierra Leone (Sierra Leone); and the World Bank (Timor-Leste).

21. G8 Declaration (2009), *3C (Coherence, Coordination, Complementarity) Roadmap, 2009*, G8 Declaration, L’Aquila, 2009.

Following an assessment of the uniqueness of each fragile state, the next six sections explore some of the main development issues raised during the consultations: that it is imperative to prioritise and to do so jointly across policy communities; that options to improve aid effectiveness are available, even in difficult circumstances; that the record in capacity development is mixed, although capacity issues in fragile states are acute; that statebuilding requires a global approach that goes beyond capacity and ballots; and that there is a risk of overlooking trends in social exclusion and of shifting away from security concerns too soon.

Each fragile state is unique

As Tolstoy famously wrote in *Anna Karenina*, "All happy families are alike; every unhappy family is unhappy in its own way." Similarly, fragile states may resemble each other from afar, but they differ in their forms and degrees of fragility. First, a state can be fragile if its institutional capabilities are extremely low, or its resource base extremely thin (*e.g.* Burundi). In some countries (*e.g.* Somalia) the state is simply not present or only in the capital city. In other cases, the state apparatus may be strong but accountability to citizens is limited or non-existent (*e.g.* Myanmar). Second, changes over time can also contribute to fragility: *e.g.* changes in people's expectations and weak political processes to mediate between the state and citizens; issues of land ownership and demographic pressure, coupled with environment degradation. Third, countries that have emerged from conflict often remain fragile for some time: they have to turn around the heavy legacy of years of war and bad governance.

The six countries surveyed in this chapter represent a wide range of fragile states. In addition, situations from province to province can differ. However, most of these countries are considered to be post-conflict. Consultations in countries currently experiencing large-scale conflict, chronic crisis, or political impasse might lead to different findings. Such countries also warrant our attention. There, too, populations are under tremendous stress and can be hotbeds of instability with negative spillovers – be they the formation of rebel groups, drugs, weapons and human trafficking or the spread of diseases. Cases in point include piracy in the Gulf of Aden affecting global trade routes, and West Africa's role as a corridor for narco-trafficking.

"What's the priority when everything is a priority?"[22]

Fragile states pose special challenges by virtue of the sheer scale and range of their needs. Restoring security and basic services for ordinary people; delivering "dividends of peace", such as jobs and basic services, to prevent former rebels from going back to the bush; restoring roads and bridges as well as bonds between former enemies; and giving people a voice in the new society that may be emerging: everything is a priority.

These challenges are in sharp contrast to an often limited capacity to use international aid: depleted human capital, "lost generations" resulting from years of disrupted education and poor health services, dysfunctional institutions, poor or outdated policies and sometimes difficult access to areas beyond the three main cities. Reflecting on this, Timor-Leste Prime Minister Xanana Gusmão remarked: "Some two billion dollars has been spent in Timor-Leste over the last 10 years, but if you ask the people in the villages 'Where did they spend this money?', the reply is all too often 'Not in my village'" (Timor-Leste consultation).

In such contexts, there is a need for strict prioritisation:

22. All quotes are *verbatim* from the consultations themselves. This particular quote is from the CAR consultation, 21-22 July 2009, www.oecd.org/fsprinciples.

1. First, agree on a common vision for peace and identify the critical path from fragility to resilience. This path must contain clearly identified short, medium and long-term goals: what must be done in the first six and 24 months and what can wait? Agreeing such a roadmap between government and the international community, across policy communities, has become recognised good practice over the last decade (*e.g.* the Afghanistan Compact). Stakeholders in countries without a strictly prioritised and multi-year compact have called for one, for example Timor-Leste, where priorities are currently defined annually.

2. Next, international partners need to recognise the centrality of the national budget process: a mechanism to reconcile means and ends and therefore to prioritise. It is also an essential element of the social contract – the pact which is constantly being negotiated between citizens and their government. As all six consultations have highlighted, aid not reported in the national budget may blur domestic accountability relations and undermine planning (Table 6.1). This is backed up by research by the DAC International Network on Conflict and Fragility (INCAF) on how donors may do harm to statebuilding processes: "Keeping aid off budget weakens the development of public accountability and therefore state legitimacy" (Chapter 3 and OECD, 2010h, forthcoming).

Table 6.1. **Aid, tax and budget in the six countries**

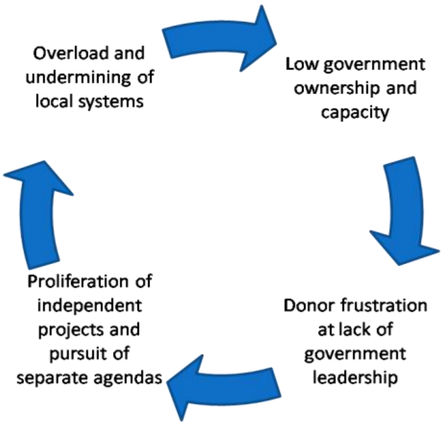
	Afghanistan	CAR	DRC	Haiti	Sierra Leone	Timor-Leste	Elements of reference
Aid (USD, 2008)	3.9bn	180m	1.2bn	701m	535m	278m	Total ODA in 2008 reached USD 119.8bn, of which 33.8bn (or 30%) benefited fragile states.
Population under one USD a day	53% (2003)	66.6% (2007)	59.2% (2006)	54% (2007)	57% (2007)	52.9% (2001)	26% of the world population survives on one USD a day or less (2005).
Aid per capita (USD, 2008)	155	41	19	73	91	260	Aid to sub-Saharan Africa averages USD 35.7 per capita.
Tax revenue to gross domestic product (GDP) (2009)	6.4%	7.7%	13.2%	9.4%	10.5%	109.7%	OECD countries collect on average 36.2% of their GDP in tax.
Aid on partner country national budget (2008)	69%	36%	58%	95%	54%	n.a.	The target (Paris Declaration Monitoring Survey indicator 3) is 85% in 2011.
Aid predictability (2008)	70%	45%	20%	67%	30%	n.a.	The target (Paris Declaration Monitoring Survey indicator 7) is 100% in 2011.

Sources: Heritage Foundation (2009), *2009 Index of Economic Freedom*, Heritage Foundation, Washington DC; OECD (2010), *Annual Report on Resource Flows to Fragile States*, OECD, Paris; OECD (2008), *Aggregate Aid Statistics*, OECD, Paris; OECD (2008), *2008 Survey on Monitoring the Paris Declaration*, OECD, Paris; United Nations Development Programme (2008), *The Human Development Report 2007/2008*, UNDP, New York; UNICEF (2006), *State of the World's Children*, UNICEF, New York; World Bank (2008), *World Development Indicators*, the World Bank, Washington DC.

The road towards improved aid effectiveness

If donors do not use country systems, the chances that these systems will one day improve are limited (Figure 6.2 and Chapter 3). This is one of the central tenets of the aid effectiveness agenda to which donors committed in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action (Annex A).

Figure 6.2. **How a vicious aid effectiveness circle can become a virtuous one: Sierra Leone**



Source: Adapted from Government of Sierra Leone (2009), *Aid Policy*, Government of Sierra Leone, Freetown.

While in the six countries surveyed all national and international stakeholders agreed that national ownership, alignment to national priorities and systems and donor harmonisation were all important goals, the six countries have applied the Paris Declaration to different degrees:

- In some countries, conditions – such as lack of leadership, stability or capacity of a government counterpart – were seen as challenges to the immediate and full implementation of the Paris Declaration. However, it was recognised that harmonisation can occur even in the absence of a strong government counterpart, and that there are creative options for alignment. Even if they do not channel funds through government systems, such options can help prepare the ground for future use of country systems (Phase I in Table 6.2). These include shadow alignment (aligning with government systems, such as the budget cycle or administrative districts to increase future compatibility of international assistance with national systems) and bottom-up approaches (aligning with local priorities expressed in consultations with state and/or non-state actors, such as local government authorities and/or civil society).

- In other countries, circumstances were thought to have matured sufficiently to allow closer alignment with national priorities and systems. As a country stabilises and human resources, policies and institutions are strengthened, in order to build accountable and effective states it is essential to improve alignment as conditions permit (Phases II and III in Table 6.2).

Table 6.2. **Aligning in different ways according to context**

	Phase I: Limited government capacity and/or legitimacy	**Phase II: Improved legitimacy but limited capacity**	**Phase III: Improved legitimacy and capacity**
Context	Because of limited legitimacy and/or capacity, donors cannot rely on partner governments to "take the lead to co-ordinate aid at all levels" (Paris Declaration). There might be a trade-off between (i) delivering short-term results to save lives and stabilise a volatile situation and (ii) building national capacity to get the job done.	There might be improved legitimacy and accountability, but donors are still limited by weak national capacity. Only a few sectors have government leadership and an agreed sector strategy.	Government has a cross-sectoral, prioritised and actionable development strategy and some capacity in key central and line ministries.
Possible donor	**Shadow alignment and bottom-up**	**Partial alignment**	**Full alignment**

response	**approaches** Donors have to rely on shadow alignment, bottom-up approaches and direct service delivery. A division of labour by sector is necessary and possible, even in the absence of strong government leadership.	Donors can align better in some sectors, although in others they may have to continue resorting to projects managed by parallel project implementation units (PIUs). Good practice is for parallel PIUs to include a capacity development component.	With capacity development efforts, the Paris Declaration principles can be implemented fully.

Sources: Consultations; OECD DAC Secretariat.

Capacity development: a poor scorecard

In all consultations, international capacity development efforts were judged by both national and international stakeholders to often be piecemeal and to sometimes undermine the state. Table 6.3 summarises this diagnosis of current capacity development efforts, as well as the approaches fragile states would like to see adopted.

Table 6.3**. Current and desired approaches to capacity development, as expressed by stakeholders in the six fragile states**

Current	Desired
A short-term, discrete project approach	A medium/long-term programme approach with an evaluation of impact on capacity Capacity development objectives built into all programming
A donor-driven approach, often a patchwork of approaches influenced by different administrative cultures and ideas	A multi-donor effort based on a shared assessment of capacity needs
Emphasis on hard (technical) skills, rather than soft skills (management, leadership, civic education) or basic skills (literacy, numeracy)	"A better understanding of the day-to-day reality in government offices" (OECD, 2010i) and a more balanced investment across hard, soft and basic skills
Large salary differentials and distortions in local wages	Co-ordination amongst donors for a common salary grid with less discrepancy between nationals and internationals (to balance with the need to limit in-country "brain drain")
Technical assistants in executive rather than advisory positions, thus blurring accountability	Capacity development built into the terms of reference of all technical advisers, who should have skills in training or facilitation in addition to technical skills
Direct service delivery and limited use of government systems	Use of government systems, with a capacity development component, if need be using ring-fenced arrangements at first

Source: Consultations.

While these findings may not be specific to fragile states, it is important to remember that capacity in most fragile states is particularly limited. At DRC's independence, there were just 16 Congolese university graduates and the picture for vocational training was equally bleak (Stengers, 2007). Only one in two adults in Timor-Leste is literate (United Nations, 2009), while 83% of Haitians with higher education live outside Haiti (World Bank, 2005).

Beyond ballots: sources of state legitimacy

While statebuilding is a central challenge in all six cases, the overall diagnosis on how to strengthen state capacity and legitimacy varies in each country. In Timor-Leste some felt that "Our main challenge is statebuilding and the main challenge in statebuilding is capacity development", and "State institutions don't have enough capacity to respond to social needs". Others have emphasised social and political issues.

In Haiti and CAR, stakeholders recognised that “fragility stems from our chronically weak social contract” (Haiti consultation).

While free and fair elections are one source of state legitimacy, a state will only build legitimacy over time if it has mechanisms for participation and accountability, delivers the key services expected of it and earns “moral authority” among its citizens.[23] The six countries felt that while the international community’s heavy investment in supporting elections was essential,[24] it is equally important to improve governance beyond elections – particularly local governance, given that outside the main cities the state is often “a phantom state”.[25] In addition, the investment in elections is seen to be at odds with an equally massive recourse to direct service delivery rather than investment in national capacity to deliver. This undermines the visibility of the state by denying it any role in delivering services such as water or health care, whilst enhancing the visibility of NGOs and contractors.

Risks of social exclusion

In the immediate aftermath of conflict it may often make sense to first focus attention on the capital city: “When Dili is fine, Timor-Leste is fine” (OECD, 2010g). However, there is increasing concern about under-investment in secondary cities, certain regions and specific social groups; at the same time stabilisation in most of the six countries could free up resources and make access easier (security, infrastructure, human capacity):

- Participants from the Central African Republic hinterland say they simply feel “abandoned”, with one-fifth of ODA targeted towards the provinces – a familiar post-conflict pattern. In Haiti, there is consensus that “it is the [rural] majority that is excluded”.

- There are strong concerns about some regions being “aid orphans”, such as the provinces of Bandundu, Equateur and Kasai oriental in DRC; and the districts of Ghor, Daikundi, Bamyan, Sar-e-Pol and Badakhshan in Afghanistan.

- Gender equality was raised in all consultations (which all included women), particularly access to education in Afghanistan and the scourge of gender-based violence in DRC. In most countries, jobless “angry young men” converging towards cities were deemed to represent “a time bomb” which must be defused. In DRC and Timor-Leste, more than half the population is under 18 years old but young people are largely absent from priority programming.

Participants in the consultations generally felt it was government’s responsibility to allocate resources fairly, both geographically and across social groups. Increased transparency of aid allocations, however, would help in tackling exclusion.

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23. DRC consultation, 3-4 June 2009, www.oecd.org/fsprinciples. The OECD (2010i, forthcoming) highlights that in any state diverse sources of legitimacy co-exist and interact.

24. The international community contributed more than USD 432 million to support the 2006 elections in DRC (Source: United Nations, www.un.org/Depts/dpko/missions/monuc/elec.pdf).The overall cost of Afghanistan’s 2009 and 2010 presidential, parliamentary, provincial and district council elections, borne by both government and donors, is estimated at USD 300m (Source: UK Foreign and Commonwealth Office).

25. CAR Country Report, www.oecd.org/fsprinciples. This expression was also used in a 2007 report by the International Crisis Group: *Central African Republic: Anatomy of a Phantom State* (Africa Report No. 136, ICG, Brussels). In Afghanistan, “almost 40 per cent of Afghanistan is either permanently or temporarily inaccessible to governmental and non-governmental aid” (UN Security Council, S/2008/782, *Report of the Security Council Mission to Afghanistan*, 21 to 28 November 2008).

"Don't forget about security"

Private sector development and economic growth were judged to be essential to consolidate peace in all six countries: "When asked about national priorities, donors will almost systematically mention 'the fight against terrorism', 'internal security', 'counternarcotics', while Afghans identify employment and the economic situation as their first concern" (OECD, 2010b). Even the UN Force Commander in one of these countries recognises that "security does not fill bellies nor generate jobs".

At the same time, all the consultations warned of the dangers of shifting away from security concerns prematurely. Maintaining a credible rapid response was a consistent theme. In Timor-Leste, the International Stabilisation Force could help ensure peaceful elections in 2012 if its mandate were extended. In Haiti, successful efforts at curbing crime in Port-au-Prince need to be consolidated by reform of the justice sector: one without the other is like "walking with one leg shorter than the other" (OECD, 2010e). In DRC, a sustained approach to security system reform (Box 6.1) and early planning for a hand-back of security functions from the UN mission to the state are required. In Sierra Leone, "the external threat is bigger than the internal threat", but could easily translate into trouble at home: fighting the drug trafficking affecting all of West Africa and managing possible spillovers from the Guinea crisis were seen as priority areas.

Box 6.1. **Security system reform: what have we learnt?**

Recent work by the DAC has focused on the positive role that the integrated reform of a country's security system can play in stabilising fragile, conflict-prone or conflict-affected states. The traditional concept of security is being redefined to include not only state stability and the security of nations but also the safety and wellbeing of their people. The recognition that development and security are inextricably linked is enabling security in partner countries to be viewed as a public policy and governance issue, inviting greater public scrutiny of security policy. A democratically run, accountable and efficient security system helps reduce the risk of conflict, thus creating an enabling environment for development. The DAC's 2005 *Policy Guidance on Security System Reform* covers three interrelated challenges facing all states: (i) developing a clear institutional framework for the provision of security that integrates security and development policy and includes all relevant actors; (ii) strengthening the governance of the security institutions; and (iii) building capable and professional security forces that are accountable to civil authorities.

Security system reform has now become a central component of efforts to overcome fragility and conflict in a number of countries, from Sierra Leone to the Solomon Islands. The challenge for donors remains how to ensure that they support reform processes that are sustainable; underpin poverty reduction through enhanced service delivery; and help develop effective and accountable systems of security and justice in partner countries. These principles are laid out in the *OECD DAC Handbook on Security System Reform: Supporting Security and Justice* (OECD, 2007b). Between 2007 and 2009 the handbook was disseminated broadly in donor headquarters and in partner countries. Consultations with government, civil society and donors in Burundi, the Central African Republic, Guinea Bissau and Bolivia highlighted a number of lessons:

1. SSR is a key priority for donors working in post-conflict and fragile situations. It is no longer on the margins of the donor agenda.
2. Today almost all donor agencies recognise that security and development together are required for sustainable development.
3. Aid agencies alone cannot reform the security sector successfully. A whole-of-government approach is required, and donors need to put the necessary mechanisms in place.
4. Effective SSR donor co-ordination can be difficult when donors compete over who should play the co-ordination role.
5. SSR is first and foremost a political process that requires careful political analysis and judgement by donors, respect and appreciation of local ownership, and local political will for reform.
6. Security issues go to the heart of state sovereignty; donors need to be sensitive and ensure a process that enables alignment to local processes. Donors also need to question the importance of their own visibility in the process: do donor logos on flags, billboards and TV advertisements benefit partner-led reform?

7. Donors should undertake exhaustive SSR assessment missions before designing SSR programmes.
8. Specialised and well-trained donor staff are vital for successful SSR.

A compass for navigating fast-moving waters

To conclude, fragile states are rapidly changing environments in which several fronts need to be tackled simultaneously. This requires partnerships across actors with different agendas and different ways of working (relief, diplomacy, security, development *etc.*). The complexity of such partnerships requires a shared analysis of the critical path and some common goals. These are not a given and always the result of negotiation. It also requires a clear picture of the strengths of each policy community to allow for a division of labour that is flexible enough to respond to rapidly changing circumstances.[26]

In all six countries, the DAC *Principles for Good International Engagement in Fragile States* were felt to raise essential questions, and to take a holistic approach ranging from aid effectiveness to statebuilding, inclusion, security and resource allocation (issues for which practical guidance and/or monitoring is available: see Bibliography below). In other words, they are a useful compass when "everything is a priority".

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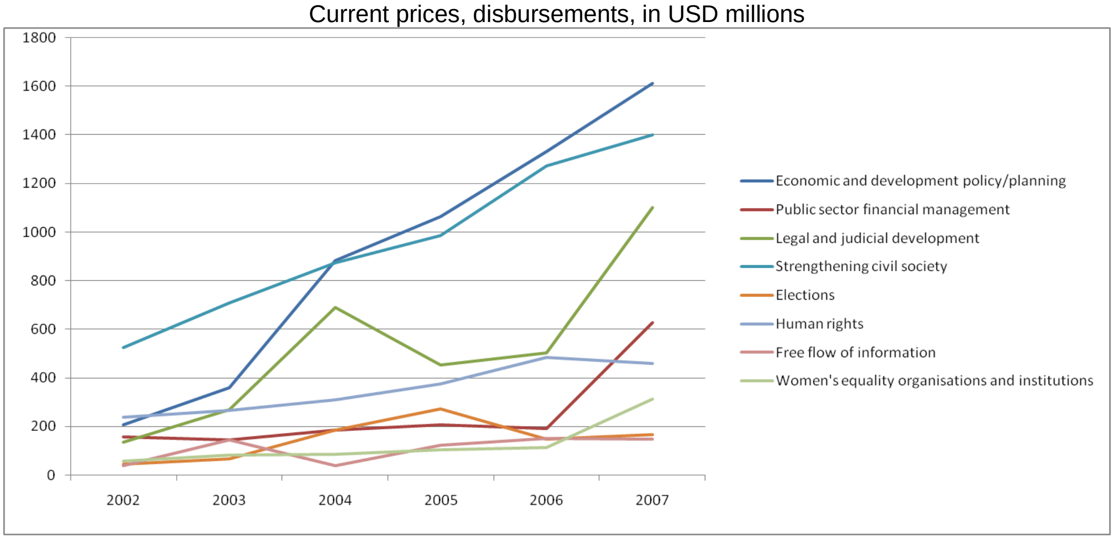
CHAPTER 7. COLLECTIVE ACTION TO FIGHT CORRUPTION

The prevailing world economic crisis will only increase the level of scrutiny over the use of public funds. This chapter explores how the development community is making increased efforts to tackle corruption, whilst maintaining its commitment to the aid effectiveness agenda. The chapter draws on knowledge and lessons from the field, and research by GOVNET (the Development Assistance Committee's Network on Governance) to show how donors are increasingly working together in partner countries to understand and deal with corruption. Donor spending on a variety of initiatives aimed at strengthening governance is steadily increasing. In addition, international agreements like the UN Convention against Corruption (UNCAC) are helping to support coherent donor approaches. The chapter concludes by listing some further actions needed in today's crisis environment to respond better to public concerns about corruption in the overall delivery of international aid.

Figure 7.1. **DAC donor spending on strengthening governance, 2002-2007**

Current prices, disbursements, in USD millions



Source: OECD DAC, international development statistics.

Corruption: a threat to development

"The greatest threat to effective aid is the prevalence of corruption in environments where aid operates." (Carlsson, 2009).

1. There is a growing public perception that aid money is squandered by corrupt governments. Combined with the global economic crisis increasing the level of scrutiny over the use of public funds, domestic economic hardship appears to be resulting in a greater focus on aid budgets. This increases the likelihood that incidents of corruption will lead to calls to cut aid. As an example, 52% of respondents to a UK survey believe that corruption in poor countries makes it pointless donating money to reduce poverty (DFID, 2009). OECD governments have a responsibility to help prevent and address corruption. Today there is a growing understanding of what makes donor countries part of the problem – and of how they can be part of the solution.

2. Donors have developed approaches to the delivery of aid that aim to balance corruption concerns with broader aid effectiveness priorities and poverty reduction goals. The Paris Declaration on Aid Effectiveness (Annex A) sets out a clear, practical plan to help improve the quality and positive impact of development assistance through efforts to combat corruption. It commits donors to increasing their support to developing countries' anti-corruption efforts, aligning with country-led initiatives and promoting local ownership of anti-corruption reforms. Calls for greater policy coherence are also gaining ground; for example, policies to recover misappropriated development funds are supported by complementary policies which address banking secrecy. The specific focus of donor anti-corruption efforts has been on programmes to strengthen mechanisms associated with those areas where corruption is most likely to occur, for example in procurement and financial management systems. Donor spending on strengthening governance (including public sector financial management) has been increasing since 2002 (Figure 7.1). Additionally, international agreements like the UN Convention against Corruption (UNCAC) and the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Anti-Bribery Convention) will help support coherent donor approaches.

Until 2003, donors were making poor headway in their fight against corruption (OECD, 2003). The main constraints were limited capacity, competing priorities and piecemeal approaches to fighting corruption. The DAC took action by publishing the *Policy Paper and Principles for Donor Action in Anti-Corruption* (OECD, 2006). This paper proposed actions for a more effective and co-ordinated fight against corruption, such as working jointly with other donors to establish a clear and common understanding of country-level corruption trends and the governance context in which corruption occurs; developing principles for common OECD DAC responses to corruption; integrating national action on corruption with international/"supply side" action on issues such as bribery, money laundering and asset recovery; and applying lessons learned in supporting the implementation of the UNCAC.

The DAC's GOVNET[27] (Network on Governance) has followed up on these proposals by producing specific recommendations on how donors can improve processes for assessing governance and how they can better tackle corruption through greater co-ordination, based on knowledge and lessons learned from the field (OECD, 2009a and b). In this chapter we highlight some of the main findings and recommendations.[28]

A shared understanding of governance

> "We must take a serious view of the fact that for decades we have paid aid worth billions to countries where corruption has increased rather than decreased." (Carlsson, 2009)

Corruption is the result, at least in part, of poor governance. To tackle corruption we need to understand how public sector governance works in a country – both the formal and informal uses of power. Good governance is not just about government; it is also about political parties, parliament, the judiciary, the media, civil society and the more informal agents of accountability often relied upon in developing countries. It is about how citizens, leaders and public institutions relate to each other in order to make things happen (DFID, 2006).

Donors need to conduct joint analysis of governance in a partner country to ensure that their responses are informed by a common understanding of the governance challenges impacting on corruption (OECD, 2006). The analysis is most effective when partner governments show leadership and ownership of measures to improve governance and reduce corruption (Box 7.1); this can also provide an opportunity for donors to enhance joint responses. The analysis should, as a necessary first step, explore the political drivers and policy priorities of partner country governments that impact on their level of commitment to tackle corruption.

Why should this be a joint donor exercise? GOVNET found that there is frequent duplication and overlap among assessment tools used by donors and other stakeholders in the field: "There are multiple definitions of governance and a multiplicity of assessment tools… [revealing] the existence of 45 general methodologies, many of which overlap" (OECD, 2009a).[29] This inevitably increases transaction costs for both donors and partner countries. There are very few instances of genuinely coherent and co-ordinated governance assessments at the national level (Box 7.1). While it may not be possible to agree a commonly

27. The DAC's work in the area of governance is carried out through its Network on Governance (GOVNET), an international forum that brings together practitioners from development co-operation agencies and experts from partner countries.

28. A full outline of the studies' findings and recommendations can be found on the GOVNET website: www.oecd.org/dac/governance/govassessment.

29. A governance assessment sourcebook (OECD, 2009c) has been developed which intends to help practitioners to navigate the universe of donor tools and methodologies in use. It is available on the GOVNET website (www.oecd.org/dac/governance/govassessment).

accepted definition of governance, there is scope for further agreement on identified principles around what good governance represents.

Box 7.1. **A shared understanding of governance: examples from Africa**

One of the few examples of an effectively co-ordinated governance assessment comes from Rwanda. Significantly, the driving force behind this more co-ordinated effort came directly from the Head of State. The President of Rwanda initiated a successful joint governance assessment (JGA) in 2006 to foster a collaborative and inclusive process among stakeholders from government, civil society, the media and opposition parties, with donors and the multilateral agencies working effectively together in a supporting role. The Government of Rwanda notes that the JGA:

> …intends to establish a common understanding of governance progress, problems and priorities, and a framework for assessing progress over the coming years on the basis of agreed indicators and benchmarks. The guiding principle has been to provide a basis for joint ownership and constructive discussion in order to improve the quality and usefulness of dialogue around issues of good governance. (Ministry of Local Government, 2008)

In Cameroon, the Change Habits-Oppose Corruption (CHOC) Project – a partnership involving numerous donors[1] – was set up to explore country-level partnerships for good governance. This promising platform provides a coherent assessment framework through which significant progress can be made. Under GOVNET's leadership and following an invitation from the Government of Cameroon, a multi-donor mission conducted a rapid assessment of corruption in Cameroon and proposed the next steps to support the country in its fight against corruption.

1. Jointly managed by the government and the United Nations Development Program (UNDP).

GOVNET research has found that there is little interest in developing one single common assessment tool for all to use. However, co-ordination can be improved by matching different tools to specific purposes, mixing long and short-term interventions and feeding lessons from individual processes into new initiatives. Similarly, donors should identify and draw lessons from existing best practices from their own experiences to inform further programming on anti-corruption. Efforts should build on existing frameworks for donor and government co-ordination and should also draw directly on partner country-led assessment processes to inform programming and dialogue at the country level.

Corruption must be dealt with jointly

> "The joint responses approach is a key tool in the effort to ensure that governments actually walk the talk." (Participant at a donor workshop on improving the collective response to corruption)

How have donors been dealing with corruption? In Afghanistan, Indonesia and Mozambique,[30] depending on the situation and the context, donors took various short-term, localised action in response to incidents of corruption, such as suspending aid temporarily, conducting audits and investigations, holding bilateral political dialogues and trying to recover funds. Donors have generally tried to remain engaged so that longer-term development objectives (and reputations) are unharmed and so that aid remains predictable, in line with the aid effectiveness agenda.[31]

30. These observations are based on in-depth, retrospective case studies conducted by GOVNET. This network also facilitated further country-level dialogue in Tanzania, Honduras, Cameroon, Sierra Leone, Zambia and Peru. A similar dialogue was recently initiated in Uganda.

31. Commitments to enhance the predictability of aid seem, through this analysis, to have taken precedence over commitments to improve co-ordination and harmonisation.

When situations become unstable, donor concern tends to focus on stabilisation, maintaining security and ensuring the provision of basic services. In these contexts, donors continue to pursue longer-term approaches to strengthening accountability and improving transparency.

It has been shown however, that hesitation and mixed messages can leave the drivers of corruption intact. Effective and co-ordinated dialogue mechanisms can help to avoid undermining the credibility of the donor community and strengthening the impact of their collective effort. Unless there will be major consequences, there is a risk that partner governments will take no action at all where they receive mixed messages from donors. In the same fashion, partner governments may have separate dialogue mechanisms with different donors, or emphasise different strategic priorities with each donor government. In these cases, governments may take advantage of less demanding and critical development partners in a "divide and conquer" strategy.

In Uganda, donors are piloting a "graduated response to corruption" based on the DAC policy principles on anti-corruption. This includes efforts to co-ordinate donor reactions to corruption in Uganda including the proposed use of a "rolling core script"[32] with agreed wording, to ensure donors all strike the right balance of issues in political dialogue in responding to incidents of corruption. The script would take into account both past and present incidents of corruption to ensure co-ordinated and consistent messages.

While donor policies on governance and corruption have tended to converge in recent years, differences in practice, particularly between headquarters and the field, are another constraint to effective joint responses to corruption. Here, the trade-off is often between technical priorities identified at the country level and more political considerations prioritised in donor capitals. In Tanzania, for example, while co-ordination among donors on the ground is enabling them to implement a clear and unified response to incidents of corruption, they would like stronger and more co-ordinated support from their headquarters.[33] It has been recognised that this is at odds with the commitments and principles around ownership and alignment as elaborated in the Paris Declaration and the Accra Agenda for Action and that further efforts to resolve this trade-off are needed.

Financial *versus* stability trade-offs have also been identified (OECD, 2009b). This is especially the case in fragile states, where there are a number of competing agendas (peace settlement and security, humanitarian support, public institution building and social and economic development (Chapter 6). Lack of co-ordination and agreement on priorities and/or sequencing of anti-corruption initiatives can have a significant impact on donors' ability to effectively address corruption in these states. In Afghanistan, for example, early efforts were focused on stabilisation and security. These priorities made it difficult for donors to raise corruption publicly or in political dialogue. Donors were later forced to pay more attention to corruption (especially the drug economy) as it became so virulent and entrenched that it began to threaten peace and development. This case underlines the need to ensure that there is a deeper understanding of the nexus between the drivers of conflict, corruption and state legitimacy. Donors need to be equipped with the right tools to enable them to quickly identify the destabilising forms of corruption that need to be dealt with urgently. GOVNET, together with the Utstein Anti-Corruption Resource Centre, is conducting further research to analyse the unique challenge of fighting corruption in fragile states. This research will enable donors to better sequence integrity approaches into the state-building agenda, as well as identify the risks and unintended consequences of anti-corruption and integrity programming.

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32. At a workshop on building a strategic development partner response to corruption in Uganda, Kampala, 15-16 September 2009.

33. These views were expressed through a pilot survey on donor responses to corruption conducted in 2007 by the donor agencies in-country, on behalf of GOVNET. The pilot survey was co-ordinated by the UK Department for International Development (DFID).

One way of improving governance and reducing corruption that is gaining in favour involves strengthening the accountability of political elites through both domestic and internationalised accountability processes (such as compliance with the UN Convention Against Corruption). Partner governments' accountability to their citizens is important. To promote this type of accountability, however, special care must be taken to ensure that co-ordination of donor responses does not reinforce partner governments' accountability to donors rather than to their own citizens, particularly in aid-dependent countries.

The way forward: tackling corruption at a time of crisis

> "…it may not be feasible for donors to continue to respond to corruption in the same way as they have in the past if they are required to demonstrate greater effectiveness in the short term in tackling it." (OECD, 2009b)

The prevailing world financial crisis will only increase the level of scrutiny over the use of public funds. GOVNET's research and analysis over the past ten years occurred in a benign aid environment where great emphasis was placed on aid effectiveness, scaling up of aid and developing and adhering to the principles of the Paris Declaration. In the current global economic crisis, donors' priorities are likely to shift towards good financial management and more immediate action against corruption. With greater public scrutiny of aid budgets, any increase in corruption could lead to calls to cut aid. It is, therefore, fundamental to ensure that the risks of corruption associated with development assistance are minimised so that high-profile incidents of corruption do not undermine public support for development.

In this context, the traditional donor response – of remaining engaged despite evidence of corruption and deteriorating governance – may become less effective in maintaining public support for development. Donors may need to respond better to public concerns about corruption in the overall delivery of international aid. This will require better communication of the anti-corruption measures supported, closer monitoring of corruption trends and the impact of anti-corruption measures, more effective ways of ensuring that partner governments are held to account for their use of public funds (including enforcement when corruption cases occur), and improved management of risk in the use of donor funds without undermining aid effectiveness.

In the framework of GOVNET, donors should continue their efforts to understand the full spectrum of issues related to both the demand and supply sides of corruption, the extent to which aid may present opportunities that encourage corruption, as well as international drivers of corruption, in order to promote more co-ordinated and coherent action at the country level.

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CHAPTER 8. EFFORTS AND POLICIES OF THE BILATERAL DONORS

This chapter summarises key progress made by the 23 members of the Development Assistance Committee (DAC) towards meeting their aid effectiveness commitments in 2009, plus some of the challenges arising. It shows how donors are significantly scaling up their core aid programmes. In 2008, total net official development assistance (ODA) from members of the DAC rose by 11.7% in real terms to USD 121.5 billion, the highest dollar figure ever recorded. Donors' forward spending plans suggest there will be an 11% increase in programmed aid between 2008 and 2010, including larger expenditures by some multilateral agencies. However, the current outlook suggests that about USD 21 billion (in 2008 prices) must still be added if donors are to meet their current 2010 commitments. The chapter also contains more detailed reviews of five countries (Austria, Ireland, Italy, Sweden and Switzerland) which underwent DAC peer reviews in 2009, plus a summary of mid-term reviews of five other countries.

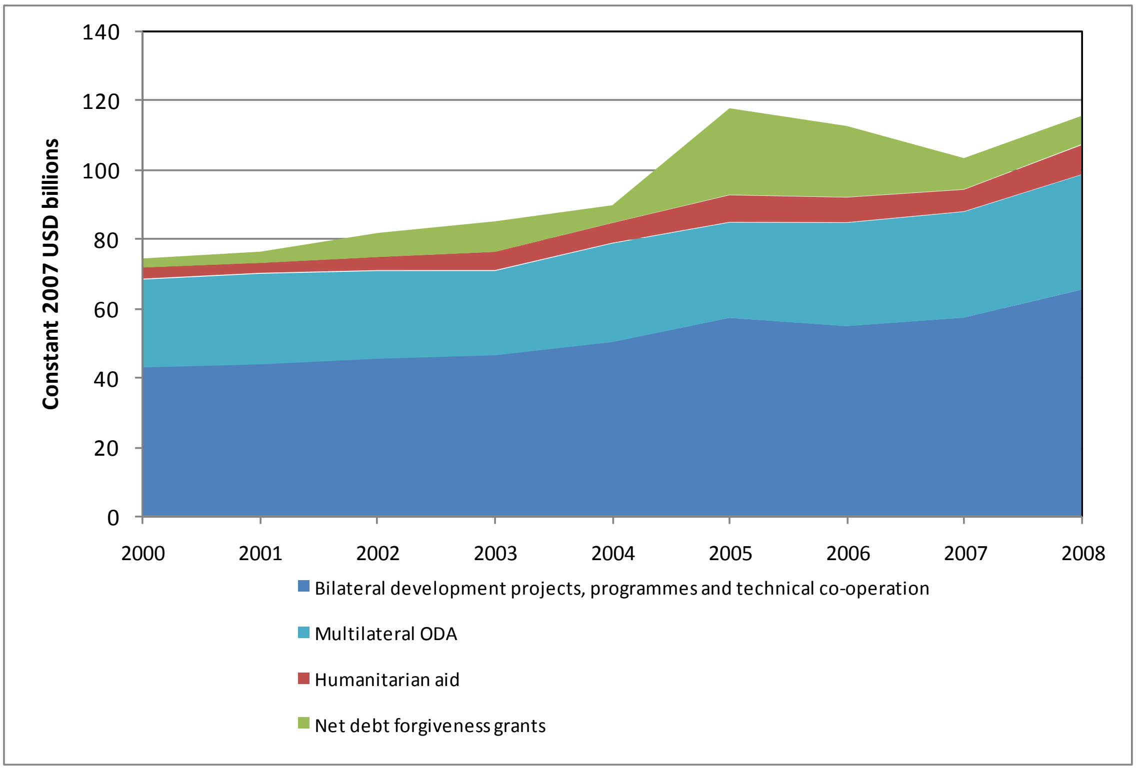
DAC members' aid performance in 2008

This chapter outlines key progress made in 2009 by the 23 members of the OECD's Development Assistance Committee (DAC) towards meeting their aid effectiveness commitments. This first section summarises the performance of DAC donors in 2008 and explores whether they are on track to meet their aid commitments. The second section provides individual notes on each of the DAC's member countries, analysing what steps they have been taking to fulfil their aid effectiveness commitments and the challenges still to be overcome. The third section reviews the main achievements and challenges of other OECD donors, while the fourth section describes the role of non-OECD providers of development assistance.

In 2008, total net official development assistance (ODA) from members of the DAC rose by 11.7% in real terms to USD 121.5 billion. This is the highest dollar figure ever recorded and represents 0.31% of members' combined gross national income.

Although the volume of bilateral development projects and programmes has been rising in recent years, between 2007 and 2008 it rose substantially (by 14.1% in real terms), indicating that donors are significantly scaling up their core aid programmes (Figure 8.1).

Figure 8.1. **Components of DAC donors' net ODA, 2000-2008**



Donor performance

The largest donors in 2008 by volume were the United States, Germany, the United Kingdom, France and Japan (in descending order). Five countries exceeded the United Nations' target of allocating 0.7% of their gross national income to ODA: Denmark, Luxembourg, the Netherlands, Norway and Sweden (Table 8.1).

In 2008, net ODA from the United States was USD 26.8 billion, representing an increase of 20.5% in real terms. Its ratio of ODA to gross national income (GNI) rose from 0.16% in 2007 to 0.19% in 2008. The United States' net ODA allocations increased to practically all regions, particularly sub-Saharan Africa (+43.5% in real terms, to USD 6.7 billion). Net ODA also increased substantially to the group of least developed countries (+43.2% in real terms, to USD 7 billion). Humanitarian aid also rose significantly (+43.1% in real terms, to USD 4.4 billion) due mainly to increased relief food aid.

Japan's net ODA reached USD 9.6 billion, an increase of 10.7% in real terms over 2007. Its net ODA/GNI ratio rose from 0.17% in 2007 to 0.19% in 2008. The increase is mainly due to a rise in contributions to international financial institutions and reverses the downward trend in Japan's ODA since 2000 (excluding peaks in 2005 and 2006 due to high levels of debt relief).

The combined net ODA of the 15 EU members of the DAC rose by 9.9% in real terms to USD 71 billion, representing 58% of all DAC ODA. As a share of GNI, net ODA from DAC-EU members rose to 0.43%. Significant increases in real terms were recorded by Greece, Portugal, Spain and the United Kingdom.

In real terms, net ODA rose in 14 DAC-EU countries as follows:

- Belgium (+13.7%), due to an increase in bilateral aid as well as contributions to multilateral organisations.
- Denmark (+0.4%), practically unchanged.
- Finland (+9.2%), due to the general scaling up of its aid.
- France (+2.4%), which increased its contributions to European institutions (including the European Commission [EC] and the European Development Fund) and bilateral lending.
- Germany (+6.3%), due to an increase in bilateral co-operation and larger contributions to the EC.
- Greece (+28.8%), due to an increase in contributions to the EC and International Development Association (IDA).
- Ireland (+6.7%), reflecting a general scaling up of its aid in order to reach the UN target of 0.7% by 2012.
- Italy (+11.8%) due to increased debt relief.
- Luxembourg (+3.3%), reflecting an increase in bilateral aid.
- The Netherlands (+4.8%), which increased its bilateral aid.
- Portugal (+ 22.4%), due to an increase in bilateral aid, notably to Africa.
- Spain (+22.6%), reflecting increased bilateral aid, especially to Africa.
- Sweden (+3.9%), which despite budgeting for an ODA/GNI ratio of 1% of GNI, fell short this year, partly because expected debt relief did not materialise.
- The United Kingdom (+25.0%), reflecting a general scaling up of its aid.

Net ODA fell in Austria (-12.4%), due to a lower level of debt relief grants than in 2007.

Net ODA by the European Commission rose by 17.5% in real terms to USD 14.8 billion, mainly due to an increase in technical co-operation activities and humanitarian aid, as well as better reporting on its loan programme.

Net ODA from other DAC countries changed between 2007 and 2008 as follows:

- Australia (+6.2%), reflecting an overall scaling up of its aid.
- Canada (+13.6%), due to an overall scaling up of its aid and increased contributions to the World Bank.
- New Zealand (+11.5%), reflecting an increase in bilateral ODA.
- Norway (-2.5%).
- Switzerland (+7.6%), which increased its bilateral aid.

On a gross basis (*i.e.* without any deductions for loan repayments), ODA reached USD 135.8 billion in 2008, an increase of 10.7% in real terms. The largest donors, based on their gross ODA, were the United States (USD 27.8 billion), Japan (USD 17.5 billion), Germany (USD 16 billion), France (USD 12.5 billion) and the United Kingdom (USD 12 billion).

What are the expected aid levels for 2010?

Following the Monterrey Financing for Development Conference in 2002, donors made specific commitments to increase their aid. When quantified by the OECD Secretariat, the pledges implied lifting aid from USD 80 billion in 2004 to USD 130 billion in 2010 (at constant 2004 prices), representing 0.36% of estimated GNI in 2010. This estimate was referred to at the Gleneagles G8 Summit and detailed pledges by G8 countries were recorded in the summit outcome document. These were reaffirmed at the UN Millennium +5 Summit, when EU countries adopted a common commitment. However, reduced growth in 2008 and the economic contraction in 2009 have lowered the dollar value of these commitments to about USD 124 billion (in constant 2004 dollars), or USD 44 billion over the 2004 level as compared to the original estimated increase of USD 50 billion.

While most countries have maintained their commitments for 2010, others, including some large donors, have reduced or postponed the pledges they made for 2010. On the basis of current 2010 budget proposals:

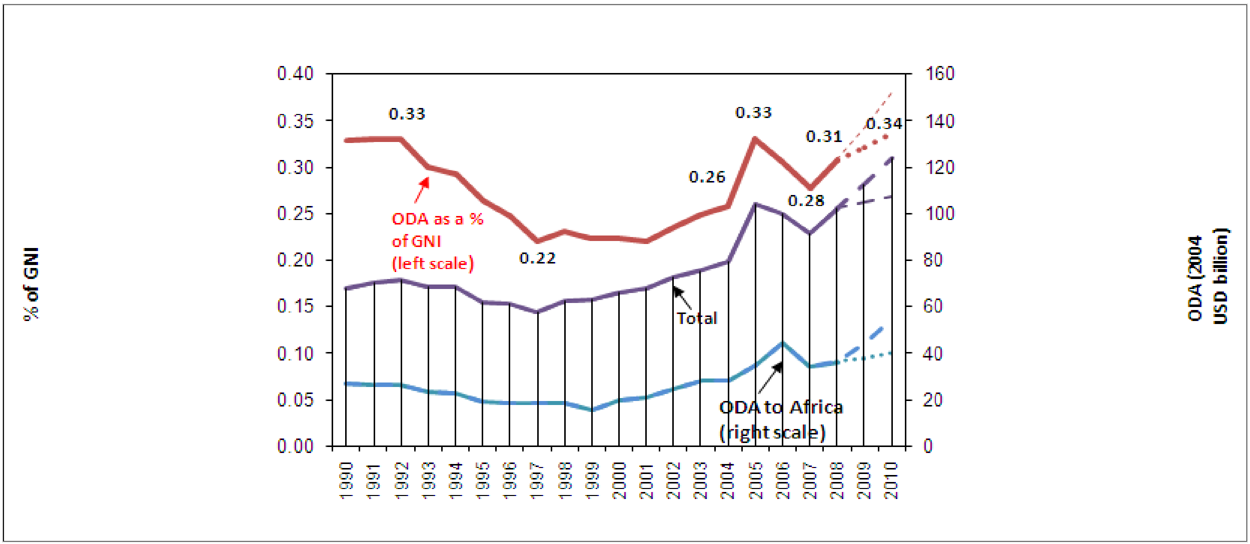
- The overall expected ODA level for 2010 is estimated at USD 107 billion (expressed in 2004 dollars), an increase of USD 27 billion over the 2004 baseline, with the ODA/GNI ratio rising from 0.26% to an estimated 0.34%.

- The shortfall of USD 17 billion (in 2004 dollars) compared to the growth-adjusted 2005 political commitments impacts particularly on Africa (see Figure 8.2).

- Expressed in 2008 prices, ODA is estimated at USD 128 billion in 2010, representing an increase of nearly USD 7 billion over 2008 (see Table 8.1).

Yet despite various shortfalls against commitments, ODA increased by nearly 30% in real terms between 2004 and 2008 and is expected to rise by about 35% in real terms between 2004 and 2010. ODA as a percent of GNI rose from 0.26% in 2004 to 0.31% in 2008 and is expected to rise further to 0.34% in 2010 (see Figure 8.2). The increase between 2004 and 2008 is the largest ever increase in ODA over such a time period even if we do not consider the enormous debt relief effort that boosted the aid numbers in the earlier years of the period. The figures for this same period include a large rise in ODA, in real terms, to Afghanistan (91%) and Iraq (84%); the combined volume increase for Afghanistan and Iraq was USD 5.6 billion (in 2004 prices). Aid to sub-Saharan Africa rose by 24% in real terms and aid to Africa as a whole by 22%; excluding debt relief, aid rose by 41% and 37% to these regions respectively. Notwithstanding some donors' fulfilling their aid pledges to sub-Saharan Africa, overall aid to Africa has not kept pace with the ambitious Gleneagles pledge of a USD 25 billion increase. The estimated overall increase for Africa between 2004 and 2010 is USD 12 billion (in 2004 prices).

Figure 8.2. **DAC members' net ODA 1990–2008 and DAC Secretariat simulations of net ODA 2009-2010**



Notes:
------- dashed line indicates the growth-adjusted trajectory envisaged at Gleneagles
…… dotted line indicates estimates based on reported intentions or current 2010 budget plans made by DAC members
…… dotted line for Africa indicates a Secretariat estimate

Table 8.1. **OECD-DAC Secretariat simulation of DAC members' net ODA volumes in 2008 and 2010**

In constant 2008 USD million

The data below are not forecasts, but Secretariat projections based on reported intentions or current 2010 budget plans made by member countries of the OECD's Development Assistance Committee (DAC). These have been confirmed by the 2009 DAC Survey on donors' forward spending plans. The key figures from such announcements are shown as "Assumptions". To calculate net ODA and ODA/GNI ratios requires projections for GNI for 2010. For 2009 and 2010, the projections of real growth are taken from the *OECD Economic Outlook No. 85* (June 2009) Annex Table 1 or reflect more recent GNI estimates provided by members themselves. While calculations have been discussed at technical level with national authorities, the DAC Secretariat is responsible for the methodology and the final published results.

	2008			2010			
			Assumptions (ODA/GNI ratios)			Real change in ODA compared with 2008	
Country	Net ODA (2008 USDm)	ODA/GNI		Net ODA (2008 USDm)	ODA/GNI	(2008 USDm)	Per cent
Austria [1]	1 714	0.43%	0.37% in 2010	1 487	0.37%	- 226	-13%
Belgium	2 386	0.48%	0.7% in 2010	3 331	0.70%	946	40%
Denmark [2]	2 803	0.82%	0.83% in 2010	2 945	0.83%	142	5%
Finland	1 166	0.44%	0.55% in 2010	1 393	0.55%	227	19%
France [3]	10 908	0.39%	0.46% in 2010	12 667	0.46%	1 759	16%
Germany [4]	13 981	0.38%	0.4% in 2010	13 741	0.40%	- 240	-2%
Greece [5]	703	0.21%	0.21% in 2010	693	0.21%	- 10	-1%
Ireland	1 328	0.59%	0.51% in 2010 and 0.7% in 2012	1 020	0.51%	- 308	-23%
Italy [6]	4 861	0.22%	0.19% in 2010	4 029	0.19%	- 832	-17%
Luxembourg	415	0.97%	1% in 2009 and following years	410	1.00%	- 5	-1%
Netherlands	6 993	0.80%	Minimum 0.8%	6 652	0.80%	- 341	-5%
Portugal	620	0.27%	0.34% in 2010	742	0.34%	121	20%
Spain	6 867	0.45%	0.51% in 2010 and 0.7% in 2012	7 439	0.51%	572	8%
Sweden [7]	4 732	0.98%	1%	4 706	1.03%	- 26	-1%
United Kingdom [8]	11 500	0.43%	0.56% in 2010-11 and 0.7% in 2013	14 280	0.56%	2 780	24%
DAC EU members, total	**70 974**	**0.43%**		**75 533**	**0.48%**	**4 559**	**6%**
Australia [9]	2 954	0.32%	See footnote 9	3 374	0.36%	420	14%
Canada [10]	4 785	0.32%	See footnote 10	4 835	0.33%	50	1%
Japan [11]	9 579	0.19%	See footnote 11	9 579	0.20%	0	0%
New Zealand [12]	348	0.30%	See footnote 12	380	0.34%	33	9%
Norway	3 963	0.88%	1% over 2006-09	4 494	1.00%	531	13%
Switzerland [13]	2 038	0.42%	See footnote 13	2 195	0.47%	157	8%
United States [14]	26 842	0.19%	See footnote 14	27 647	0.20%	805	3%
DAC members, total	**121 483**	**0.31%**		**128 038**	**0.34%**	**6 554**	**5%**

[1] In its programme of December 2008, the Austrian Government reiterates the commitment to meet the 0.51% target at a later stage. The figures shown are taken from the current Three-Year-Programme on Austrian Development Policy.

[2] Over the coming years, the Danish government will strive to increase ODA as a percent of GNI from the current level of 0.8%.

[3] According to the assumptions in the draft finance bill for 2010, France expects the ODA/GNI ratio in 2010 will be between 0.44%-0.48% (based on an estimated 2010 GNI of 1 958 billion Euros). The actual amount will depend on the timetable of debt forgiveness for countries reaching the decision point under the HIPC Initiative. Based on France's official forecast, the Secretariat estimates an ODA/GNI ratio of 0.46% in 2010.

[4] The ODA/GNI ratio of 0.4% in 2010 is purely a Secretariat estimate. Final 2010 aid allocations are yet to be determined.

[5] The ODA/GNI ratio of 0.21% shown for 2010 is purely a Secretariat estimate. Accurate figures regarding the ODA budget for 2010 are not yet available since the Government Budget is annually discussed and approved in Parliament in late December.

[6] The figures are estimated on the basis of the current legislation. The Budget Law for 2010-2012 could be amended until its final approval. Other measures to increase ODA could be taken also in the context of the study on Italian gradual realignment, currently under way. Italy's current draft budget plans estimate an ODA volume of 2.79 billion Euros in 2010, representing an ODA/GNI ratio of 0.19% according to the Secretariat's GNI projections.

[7] Sweden's expected net ODA for 2010, based on current budget plans, is USD 4706 million. This represented an ODA/GNI ratio of 1% based on the GNI prognosis available at the time decided upon. The Secretariat estimates an ODA/GNI ratio of 1.03% in 2010 based on current GNI projections.

[8] This Secretariat simulation of 2010 ODA applies its previous estimate of the ODA/GNI ratio in 2010 (0.56%) to its current projections of UK GNI in 2010, expressed at 2008 prices and exchange rates.

[9] Australia expects to continue increasing its ODA. Australia has announced it intends to reach an ODA/GNI target of 0.5% by 2015-16 and in 2009 the Australian Government announced interim targets of 0.34% in 2009-10, 0.35% in 2010-11, 0.37% in 2011-12 and 0.40% in 2012-13. The figure here is discounted for inflation and represents an ODA/GNI ratio of 0.36% according to the Secretariat's GNI projections.

[10] Canada intends to double its 2001 International Assistance Envelope (IAE) level by 2010 in nominal terms. The Canadian authorities estimate ODA (composed in large part from the IAE) will be 5.1 billion Canadian dollars in 2010. The ODA figure shown here is adjusted for inflation and converted to USD at the 2008 exchange rate.

[11] Japan intends to increase its ODA by USD 10 billion in aggregate over the five years 2005-2009 compared to 2004. However, Japan is not currently in a position to estimate its 2009 or 2010 ODA. The Secretariat has estimated the 2010 figure as the same as the 2008 level. No adjustment is made for inflation.

[12] New Zealand has announced an intermediate target of NZD 600 million for 2012-13. The Secretariat estimates an ODA/GNI ratio of 0.34% in 2010.

[13] The Swiss Parliament proposed to the Government in December 2008 to increase ODA to 0.5% of GNI by 2015. The provision of additional resources to meet this objective still has to be examined. Based on the actual financial plan and the most recent economic prospective data, the ODA/GNI ratio of 0.47% will be reached in 2010.

[14] The United States does not issue or approve forecasts on projected ODA. The amount shown here is purely a Secretariat estimate. It is based on 2004 ODA plus USD 5 billion nominal per annum to cover the Gleneagles G8 commitments on increased aid to sub-Saharan Africa, Millennium Challenge Account, and initiatives on HIV/AIDS, malaria and humanitarian aid.

Notes on DAC members

The information that follows in this section was provided by the countries themselves in answer to two questions put to them by the DAC:

1. What reforms/changes in the institutional system or way of working is your country currently implementing to enable it to meet the Accra Agenda for Action's commitments?

2. What are the biggest challenges you face in implementing this agenda, whether on the political side (*e.g.* convincing parliament and/or the public, balancing visibility with country ownership) or technical side (*e.g*. adjusting the mix of staff skills, bringing decision-making closer to the field)?

The section starts with a summary chart showing data for all the DAC countries in total. Notes on DAC members are then presented in alphabetical order, and include country charts of the key ODA data for each member country. In the country charts, the data on net ODA (top left-hand corner) refer to 2008; other data are averages for 2007/08 unless otherwise indicated. Five text boxes provide more detailed information on each member that underwent a DAC peer review in 2009 (Box 8.1). The section ends with a summary of the findings of five mid-term reviews – of Canada, Denmark, Finland, the Netherlands and Spain – also carried out in 2009.

Box 8.1. **The peer review process**

The DAC requires all of its 23 members to evaluate each other's development programmes through a unique system of peer reviews. The reviews monitor individual members' policies and efforts in the area of development co-operation. Each member is critically examined approximately once every four years and five or six programmes are examined annually. The peer review is prepared by a team consisting of representatives of the DAC Secretariat working with officials from two DAC member countries who are designated as "examiners". The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat representatives and the examiners visit the capital city to interview officials, parliamentarians, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the member concerned. Field visits assess how members are implementing the major DAC policies, principles and concerns. They also review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination. The Secretariat then prepares a draft report on the member's development co-operation which is the basis for a DAC review meeting at the OECD. At this meeting senior officials from the member country under review respond to questions from committee members.

Australia

In 2008, Australia's net ODA was USD 2.95 billion, representing a 6.2% increase in real terms over 2007. This increase reflects an overall scaling up of Australia's aid. ODA as a percent of GNI remained stable at 0.32%.

Reform for implementing the aid effectiveness agenda

A 2009 policy statement on Australia's international development assistance recognises the importance of aid effectiveness in making genuine improvements to people's lives. In August 2009, participants of the Pacific Island Forum, chaired by Australia, endorsed the Cairns Compact on Strengthening Development Coordination in the Pacific. The compact aims to accelerate progress on the Millennium Development Goals by improving co-ordination among all development partners in the Pacific. Australia has now signed up to eight Pacific Partnerships for Development to increase mutual accountability for results and promote partner-led development. Where government systems are strong and accountability processes are in place, Australia, in collaboration with other donors, has made good progress in aligning and harmonising its programmes with partner countries' development objectives. For example, in Viet Nam in 2009 Australia channelled around 50% of its bilateral aid through programme-based approaches (using Viet Nam's own management systems). The Australian Agency for International Development is developing an Operational Policy and Management Framework for an effective and scaled-up aid programme in line with the Accra Agenda for Action (AAA).

Challenges in implementing the aid effectiveness agenda

- **Working in fragile states**. A large proportion of Australia's aid goes to fragile or small island states, where weak state capacity is a major obstacle to progress. Australia is developing an understanding of the strengths and limitations of partner countries striving to overcome fragility and conflict and adapting the way its aid programme is delivered as the starting point for responsive and effective aid delivery. Australia is also applying the *DAC Principles for Good International Engagement in Fragile States and Situations* (OECD, 2007) when developing and reviewing relevant country strategies and partnerships, reporting annual performance and designing and reviewing development programmes.

Austria

In 2008, Austria's net ODA fell by 12.4% in real terms from 2007, to USD 1.71 billion. The fall is explained by the fact that the level of debt relief grants was higher in 2007 than in 2008. ODA as a percent of GNI fell from 0.50% in 2007 to 0.43% in 2008.

Reform for implementing the aid effectiveness agenda

Austrian development co-operation (ADC) has been challenged by the AAA and the DAC 2009 peer review (Box 8.2) to set the right priorities for its Aid Effectiveness Action Plan up to 2011 and beyond. This forthcoming action plan will adapt the mix of aid instruments to capacities in partner countries, make better use of local systems and encourage more joint approaches with other donors. For example, besides participating in Uganda's Joint Assistance Strategy, ADC successfully increased the use of country systems and contributed to their strengthening in that country. Budget support is likely to become a preferred financing instrument for Austria in the long run so long as conditions in partner countries allow. ADC will concentrate on its comparative advantage as a small donor. Austria promotes country ownership: one of the guiding principles of its programmable aid.

Stronger focus is being placed on development results and results reporting. Country and regional strategies are being adapted to include and demonstrate impacts in the country. Austria also participates in and supports the international multi-stakeholder process to promote civil society development effectiveness so as to deepen its engagement with civil society organisations.

Challenges in implementing the aid effectiveness agenda

- Financial constraints will remain a major challenge for the ADC, with the aid budget being "frozen" over the coming years. This will hamper the scaling up of aid available to programmes in partner countries and the further devolution of competences to the field.
- Greater support from the public will need to be secured by concentrating on development results and increasing public awareness. This support will be needed to reach the 0.7% GNI/ODA goal.

Box 8.2. **DAC peer review of Austria, 29 April 2009**

Examiners: Luxembourg and Norway

Austria's ODA was 0.42% of its GNI in 2008, placing it 11th amongst DAC donors. The DAC commended Austria for focusing its development co-operation on the world's poorest people. Austria plans to substantially increase its aid for humanitarian action, priority partner countries and UN agencies. It has established the Austrian Development Agency (ADA), the fruit of an organisational reform begun in 2004. A new five-year budgetary cycle provides a good foundation for making Austria's aid system more coherent and its aid more predictable. Austria also participates in and supports the international multi-stakeholder process to promote civil society development effectiveness and to deepen its engagement with civil society organisations.

Challenges and recommendations

- Increasing ODA volumes without resorting to debt relief. Debt relief made up 50% of Austria's ODA between 2005 and 2007 and more than 40% in 2008, which is higher than any other DAC member. As debt relief declines, Austria must sharply increase its aid to meet its commitment to reach the EU target of 0.7% of GNI to development assistance by 2015. Despite the financial crisis, Austria must reach its interim target of 0.51% in 2010. Austria's net ODA fell by 14% to USD1.7 billion from 2007 to 2008, due to a lower level of debt relief grants provided in 2008.
- Developing a plan containing annual targets for achieving aid commitments. This is necessary to give credibility to Austria's aid promises and to make aid volumes more predictable for partner countries and other development partners.
- Enhancing the effectiveness of aid by increasing the share of aid that can be programmed by partner countries.
- Deepening commitment to policy coherence for development. Austria needs a medium-term development

policy, endorsed by the government, which commits *all* ministries to reducing poverty, increasing peace and security, and preserving the environment. It also needs clearly-prioritised and time-bound action agendas; to clarify mandates and responsibilities for policy coherence for development; and to build a system for analysis, monitoring and reporting which includes perspectives and experiences from the field.

- Austria should not rely on debt relief as a significant component for meeting its ODA commitments. The fragmentation of overall ODA and the aid programme managed by ADA should be reduced. Staffing and technical expertise in the Ministry of Foreign Affairs (MFA) needs to be strengthened for it to act as the national co-ordinator for aid and development policy. The MFA should use *ex ante* aid allocations by all ministries to help achieve greater coherence in the aid policy, and build the transparency and predictability of total ODA.

- Placing managing for impact at the centre of planning, implementation, disbursement reporting, monitoring and evaluation and staff performance objectives. Country programmes should have specific results frameworks, which should be aligned with partner countries' own objectives.

- Increasing the focus on public and political awareness of global development challenges.

Belgium

In 2008, Belgium's net ODA was USD 2.39 billion, an increase of 13.7% in real terms from 2007. This was mainly due to the overall scaling up of its aid. ODA as a percent of GNI rose from 0.43% in 2007 to 0.48% in 2008.

Reform for implementing the aid effectiveness agenda

Belgium is to make the assessment of country systems compulsory (as recommended by a country-level review of the programming process for Indicative Cooperation Programmes – ICPs), and country systems will be the preferred *modus operandi*. If country systems fail to meet required standards, Belgium will take measures to improve them. It is developing a manual to guide this new focus on country systems. Up to 50% of allocations can now be channelled through budget support; general budget support is to be provided *via* the EC or World Bank. Cross-cutting issues will be integrated into priority sectors at all stages of the ICP cycle.

Fragmentation and unpredictable aid will be avoided through a strategy that limits interventions to two sectors (this applies now to over half of the bilateral programmes). It also provides for long-term engagement – at least 12 years. To enhance predictability, four-year ICPs and frontloading (allocating ODA funds several years ahead) are now the rule. Since 2008 Belgium has been using a results-based planning matrix to align its programmes with the development goals of partner countries. The Directorate-General for Development Co-operation (DGDC) has created a network to strengthen results-based management in staff training, country programming and co-operation with NGOs and multilateral organisations. DGDC have consulted with and agreed how Belgian civil society organisations will apply the principles of the Paris Declaration and the AAA.

Challenges in implementing the aid effectiveness agenda

- Working in fragile states. A large share of Belgium's partners consists of fragile states. This makes implementing the AAA particularly challenging. Parliament and the public are reluctant to systematically use country systems (in particular budget support) in these contexts. Belgium therefore actively contributes to monitoring the *Principles for Good International Engagement in Fragile States and Situations* and has established an internal network on fragility.
- Collaborating with civil society. Other challenges include: (i) translating the agreement with the Belgian civil society organisations (CSOs) on applying the Paris principles into changes in programming and financing practices; and (ii) involving CSOs in policy work.

Canada

In 2008, Canada’s net ODA was USD 4.79 billion, an increase of 13.6% in real terms from 2007. This increase is supported by: the continued commitment to double the international assistance envelope by 2010-11; increased payments to the World Bank in support of Canada's doubling aid to Africa commitment; and substantial bilateral debt relief in 2008 (whereas negligible amounts were recorded in 2007). Canada is on-track to deliver its portion of the global scaling up of aid commitments. ODA as a proportion of GNI rose from 0.29% in 2007 to 0.32% in 2008.

Reform for implementing the aid effectiveness agenda

Canada's aid effectiveness agenda provides the basis for Canada to fulfill key commitments under the Paris Declaration and the Accra Agenda for Action. It is aimed at increasing (i) the focus, with bilateral programming concentrating on 20 countries and on five thematic priorities (increasing food security, stimulating sustainable economic growth, securing the future of children and youth, promoting democracy and security and stability). The Canadian International Development Agency (CIDA)is focusing on the first three of these; (ii) efficiency (for example, Canada is untying 100% of its aid, effective since April 2008 for all food aid and by 2013 for the remainder); and (iii) accountability (with, for example, CIDA performance measurement frameworks, staff performance contracts and aid effectiveness as a guiding principle in evaluating proposals). Canada will also continue to pursue efforts with its multilateral, private sector and civil society partners to enhance aid effectiveness.

Challenges in implementing the aid effectiveness agenda

- Improving communication to the Canadian public to enhance accountability and secure continuous support for international assistance programming. CIDA is implementing a communications strategy to clarify the rationale and benefits of the government's policy measures – particularly CIDA's 20 countries of focus and its priority themes.
- Ensuring careful monitoring, adjustment, training and support in the shift of responsibilities from CIDA headquarters to the field. Enhancing the field presence has meant creating a knowledgeable field workforce and off-setting the financial costs. The government has developed strategies to address these challenges and ultimately increase the impact of Canadian international assistance.

Denmark

In 2008, Denmark's net ODA was USD 2.8 billion, an increase of 0.4% in real terms from 2007. ODA as a proportion of GNI rose from 0.81% in 2007 to 0.82% in 2008.

Reform for implementing the aid effectiveness agenda

Denmark is currently revising its development co-operation policy to bring it in line with the principles of the Paris Declaration and the Accra Agenda for Action (AAA). It is also working to improve awareness and knowledge of Danish development co-operation. Denmark has been ensuring that its aid management framework and technical guidelines for development assistance comply fully with the AAA. Denmark has a highly decentralised aid administration which helps foster partner country ownership and support partnerships at the country level. To maximise the use of country systems, Denmark has made sector budget support the main channel for its development assistance. Programme preparation must strive to maximise use of country systems; when programmes are not well aligned the reasons must be clearly stated. Where the use of country systems is not feasible, additional safeguards and measures are established in ways that strengthen rather than undermine country systems and procedures. Danish bilateral aid will make use of country systems as the first option, will conduct more thorough assessments of country systems' use and increase the emphasis on national ownership, alignment and harmonisation.

Challenges in implementing the aid effectiveness agenda

- Ensuring fully owned, partner-led processes in dividing labour and other mechanisms for harmonising aid.
- Maximising use of country systems based on jointly-agreed and transparent assessments of capacity, procedures and risks.
- Developing mechanisms for mutual accountability.

European Commission

In 2008, the EC's net ODA was USD 14.76 billion, an increase of 17.5% in real terms from 2007.

Reform for implementing the aid effectiveness agenda

The European Commission (EC) has now established an overall strategy for implementing the Accra Agenda for Action focusing on use of country systems, division of labour, untying aid, conditionality, predictability and transparency. Two aid effectiveness networks have been established to promote the Accra agenda within headquarters and in EC delegations in 46 countries. The delegations have been provided with guidance on implementing aid effectiveness, including using country systems via aid modalities other than budget support. The EC has raised awareness of aid effectiveness across its services and is developing training in aid effectiveness.

The EC began devolving development co-operation to some 104 EC Delegations worldwide in 2000. This reform process has considerably improved aid delivery. EC development assistance has been significantly simplified by reducing the number of financial instruments for external assistance from 35 to 10. External assistance is also more accountable, via the European Parliament's scrutiny of EC instruments. There is now also greater flexibility in the types of actions, beneficiaries and financing.

The EC has created an internal information system to monitor progress annually on effective aid across all country offices, including the use of country systems *versus* parallel implementation units. The EC is also promoting a common approach to the AAA among Member States via a proposed operational framework initially concentrating on division of labour, use of country systems and technical co-operation. The EU has also asked the African, Caribbean and Pacific states to include clear references to aid effectiveness in the revised Cotonou agreement.

Challenges in implementing the aid effectiveness agenda

- It is difficult to make major changes to the existing long-term financial framework (valid until 2013). However, regular evaluations and reviews ensure that aid is matched to partner countries' needs and capacities.
- Cumbersome regulations/procedures can undermine the use of country systems and joint working. For example, before delegating funding for implementation by another donor or partner country, the EC must audit their financial systems. Making procedures more flexible will require an EU Council decision.
- Aid effectiveness is often perceived as an "add-on" – separate from daily routines. It can even be seen as an additional burden. Changing the organisational culture and promoting incentives for effectiveness remain challenging.

Finland

In 2008, Finland's net ODA was USD 1.17 billion, an increase of 9.2% in real terms over 2007. The increase was due to Finland's general scaling up of its aid. ODA as a proportion of GNI rose from 0.39% in 2007 to 0.44% in 2008.

Reform for implementing the aid effectiveness agenda

In 2009 Finland completed an analysis of its section of the DAC *2008 Survey on Monitoring the Paris Declaration* (OECD, 2008a). This is currently being reviewed by the Foreign Ministry's inter-departmental working group on aid effectiveness, who will make recommendations for implementing more effective and co-ordinated aid. Finland has established new workshops to allow country teams and aid effectiveness advisors to seek practical solutions for applying the Paris and Accra principles to projects and programmes. The goal is to strengthen the link between policy and aid effectiveness implementation. Finland is reviewing its guidelines for programme design and implementation, and its templates and terms of references for project planning and evaluation. It will emphasise the aid effectiveness commitments throughout the programme cycle. Finland also intensified its staff training during 2009 to ensure that staff are aware of aid effectiveness principles and have the necessary tools to apply them in their work. Finally, pilot agreements to delegate more responsibility for development co-operation to the embassies will begin in 2010.

Challenges in implementing the aid effectiveness agenda

- An increasing administrative burden for Foreign Ministry staff from the use of joint procedures for planning, evaluation and reporting.
- The need for guidance on deciding when to use country systems, and a common approach among donors for assessing country systems and sharing assessments.
- Overall, partner country ownership is a crucial component in implementing the aid effectiveness agenda. For instance, successfully reorganising donors to achieve enhanced division of labour at country level would, in many cases, require stronger leadership from partner governments.

France

In 2008, France's net ODA was USD 10.91 billion, representing an increase of 2.4% in real terms from 2007. Its ODA as a proportion of GNI rose from 0.38% in 2007 to 0.39% in 2008.

Reform for implementing the aid effectiveness agenda

On 5 June 2009, the Inter-ministerial Committee on International Co-operation and Development (CICID) issued a series of recommendations on implementing French Co-operation's international aid effectiveness commitments. For example, it will improve the sectoral and geographical concentration of its aid; the latter by distinguishing between four groups of countries on the basis of types of partnerships and methods of intervention. It will also pursue a better division of labour through delegated co-operation arrangements with France's EU partners. It also recommends that France join the International Aid Transparency Initiative (IATI). And finally, the French Action Plan for Aid Effectiveness will be updated to reflect the Accra commitments and those at the European level (adoption in May 2007 of the EU Code of Conduct on the Division of Labour among donors). A series of three regional conferences in 2009 will help to clarify the priorities for action to improve aid effectiveness by drawing on field experience (in Africa and Asia).The Multiannual Programming Act, adopted in 2008 and covering 2009-2011, includes provisions for improving the medium-term predictability of France's initiatives.

Challenges in implementing the aid effectiveness agenda

- Ensuring that development activities are accountable to parliament and the public. The CICID has decided to prepare indicators and an annual monitoring table to measure more effectively the resources and impacts of French aid. France participates in measuring the performance of multilateral organisations, which represents 41% of French net ODA in 2008. It also participates in the MOPAN (Multilateral Organisation Performance Assessment Network). France is also preparing a public communication plan and designing initiatives to promote greater involvement by civil society. Finally, it plans to formalise a capacity-building strategy.

Germany

In 2008, Germany's net ODA was USD 13.98 billion, an increase of 6.3% in real terms from 2007. The increase was mainly due to a rise in Germany's bilateral co-operation and larger contributions to the EC. ODA as a proportion of GNI rose from 0.37% in 2007 to 0.38% in 2008.

Reform for implementing the aid effectiveness agenda

Germany's reform agenda, originally adopted by the Federal Ministry for Economic Co-operation and Development (BMZ) in 2005, was updated in March 2009 by an action plan to implement the Accra Agenda for Action. This will ensure that German co-operation makes more systematic use of partner country structures and procedures in areas such as public financial management, procurement, and monitoring and evaluation. Germany will ease partner countries' policy planning by delivering timely information on the scope and form of its development co-operation. Germany is one of the signatories of the International Aid Transparency Initiative launched at the Accra High Level Forum, and emphasises national and mutual accountability mechanisms.

German development co-operation will support reforms for peace-building and state-building jointly with other donors, within the scope of existing strategies. It will intensify its dialogue with non-traditional donors on implementing the AAA. More triangular and South-South co-operation will broaden the range of promising approaches for sustainable development. The German reform process is supported by incentives at all levels of the development co-operation system and through regular monitoring of the action plan. Germany will also continue to help move forward the complementarity and division of labour agenda promoted in the AAA.

Challenges in implementing the aid effectiveness agenda

- Promoting a uniform response to the AAA across other government ministries and aid implementing agencies is a particular challenge for BMZ. The action plan to implement the AAA outlines a number of approaches to enhance understanding of the aid effectiveness agenda among these different actors and to assure their full involvement in implementing it.

Greece

In 2008, Greece's net ODA was USD 703 million, representing an increase of 28.8% in real terms from 2007. The increase was due in part to a rise in contributions to the World Bank IDA. ODA as a proportion of GNI rose from 0.16% in 2007 to 0.21% in 2008.

Reform for implementing the aid effectiveness agenda

Greece is taking steps in all aspects of its policy to implement the Accra Agenda for Action. Its 100% grant-based policy allows no conditionality to be attached to disbursements, ensures anticorruption measures are effective, and emphasises that all programmes must be consistent with the internationally-agreed commitments on gender equality, respect for human rights and environmental sustainability. Furthermore, in order to promote country ownership, all programmes – including capacity development programmes – are demand-driven. Greece has extended coverage of the *2001 DAC Recommendations on Untying Aid to non LDC HIPCs* (OECD, 2008b) and is considering increasing the coverage further. Country systems are being used, for example in Sri Lanka's Programme of Reconstruction and the Hellenic Plan for the Economic Reconstruction of the Balkans. Greece has increased the opportunities for partnerships with other bilateral and multilateral donors, always applying the alignment principle. Since 2008 Greece has increased by 50% aid reaching sub-Saharan Africa and countries in fragile situations. In order to ensure transparency, Greece provides a comprehensive annual report to parliament and the DAC, ensuring the provision of data in a correct and timely manner.

Challenges in implementing the aid effectiveness agenda

- Ensuring greater involvement by diplomatic missions in development co-operation despite Greece's centralised development co-operation system.
- Identifying the remaining obstacles to an expansion of the use of country systems. Greece plans to do this by giving priority to procurement and auditing and taking other appropriate measures to overcome these obstacles.

Ireland

In 2008, Ireland's net ODA was USD 1.33 billion, an increase of 6.7% in real terms from 2007. ODA as a proportion of GNI rose from 0.55% in 2007 to 0.59% in 2008.

Reform for implementing the aid effectiveness agenda

The recently approved *Management Review of Irish Aid* includes recommendations for strengthening institutional capacity for effective delivery, accountability and oversight. This will help Irish Aid implement the Accra Agenda for Action (AAA). Ireland's plan for implementing the AAA includes concrete actions for every section of the organisation. A new training strategy focuses on the skills needed to operate effectively in the new aid environment. Ireland's results-based country strategy paper guidelines and mid-term review methodology are fully aligned with the effectiveness commitments. Funding appraisals now require partners to plan, implement and review their interventions in line with the AAA. Ireland has signed up to the International Aid Transparency Initiative and is working with other donors, partner countries and civil society to improve the quality and timeliness of information on development assistance.

Challenges in implementing the aid effectiveness agenda

- Simplifying the aid effectiveness language and communicating clearly how this new way of working will lead to a sustainable improvement in the lives of the poor. Communicating joint results and Ireland's contribution to progress on the MDGs also requires further attention. Embedding a communications focus within country strategies, linked to results, could provide incentives to implement the AAA.
- Ensuring the aid effectiveness agenda includes multilateral engagement and support to civil society. This will be addressed by Ireland's Accra Implementation Plan. Implementing the Accra commitments in fragile states is a particular challenge.
- Ensuring that commitments made on the division of labour at country level are backed by appropriate human resource policies is central to operating in a post-Accra world.

Box 8.3. **DAC peer review of Ireland, 24 March 2009**

Examiners: Italy and New Zealand

Positive progress in implementing the aid effectiveness agenda

Ireland's ODA grew impressively between 2003 and 2008. Ireland spent USD 1.3 billion net ODA in 2008, a 90% increase over 2003 in real terms. Ireland's aid grew from 0.39% of gross national income (GNI) in 2003 to 0.58% in 2008 during a period of exceptional national economic growth. In 2007, the country ranked 6th among the DAC members in terms of ODA as a share of GNI. In 2009, however, as a result of the global economic crisis, the government reduced Ireland's budget for overseas development by EUR 95 million (an estimated USD 141 million).

Ireland has also been a champion in making aid more effective and commitment to poverty reduction is the overarching goal of Irish aid. The programme concentrates on a limited number of very poor African countries. Ireland is balancing efforts to meet the best international development standards while dealing with the impact of the global economic crisis. Ireland is a predictable and flexible donor, and its attention to local priorities is appreciated by the developing country partners with whom it works. Its approach to Irish NGOs and multilateral partners is strategic and targeted. It provides humanitarian assistance in accordance with internationally agreed principles. Irish Aid, which is fully integrated into the Department of Foreign Affairs, is a strong, cutting edge development co-operation programme.

Public engagement with the aid programme is strong in Ireland. Irish Aid maintains a high level of public support by combining activities to increase awareness of global development issues with activities to promote its own work. The DAC also commended Irish Aid for its comprehensive development education strategy backed by a dedicated budget.

Challenges and recommendations

- Continue working towards meeting its 0.7% ODA/GNI target in 2012.

- Monitor carefully the long-term impact on the aid programme of Irish Aid's move out of Dublin.
- Adopt a strategic approach for communicating development results to maintain the high level of public support.
- Translate political commitment to policy coherence for development into an integrated policy framework that draws consensus from the highest levels of government and from parliament. Institutionalise reporting to parliament on policy coherence for development, and create institutional capacity to analyse policies for their impact on developing countries to facilitate this process. Ensure that the Inter-Departmental Committee on Development has sufficient political backing and institutional support to effectively address any inconsistencies and potential policy conflicts between government departments that might adversely affect developing countries.
- Ireland is a leading player in implementing the aid effectiveness principles. Irish Aid should engage peers, civil society and partner country governments in implementing the Accra Agenda for Action and continue working collectively at country level to strengthen partner countries' monitoring and results frameworks.

Italy

In 2008, Italy's net ODA was USD 4.86 billion, an increase of 11.8% in real terms from 2007. The increase was mainly due to greater debt relief. ODA as a proportion of GNI rose from 0.19% in 2007 to 0.22% in 2008.

Reform for implementing the aid effectiveness agenda

Italy is strongly committed to implementing the Paris Declaration and the Accra Agenda for Action. It has approved an Aid Effectiveness Action Plan (AEAP) following consultation with CSOs. This contains 12 priority actions, including identifying priority countries, simplifying procedures, untying aid and strengthening communication and evaluation capacities. Working groups have been established to implement the plan and will monitor progress at headquarters and at country level using specific markers.

Three-year country planning exercises are underway and will incorporate the basic criteria of aid effectiveness. These address aid flows; strengthening alignment; determining sector priorities based on shared donors' analysis and fostering consultation with civil society; use of country systems and common arrangements; and identifying ways and means to support local public financial management and statistical systems. They also provide important inputs for implementing the EU *Code of Conduct on the Division of Labour*, on which Italy will soon be audited by the European Commission.

Challenges in implementing the aid effectiveness agenda

- A new policy instrument approved at a high political level would get commitment from all the relevant administrations involved in development co-operation and ensure coherence of national development activities. A reflection exercise on this is currently underway within the Italian Ministry of Foreign Affairs.
- Increasing the capacity of human resources will help to implement the AEAP. Greater decentralisation is needed, especially of decision-making processes.
- Updating the rigid and constraining law on which Italian co-operation is based will ensure a more modern and flexible aid programme.

Box 8.4. **DAC peer review of Italy, 24 November 2009**

Examiners: France and Greece

In 2008 Italy's ODA/GNI ratio was 0.22%, only 19th amongst the 23 DAC members and 8th in terms of aid volume.

The Development Assistance Committee (DAC) of the OECD noted that Italian Co-operation is facing major challenges. The first is an urgent need to reform official development co-operation, but no political consensus on how to proceed. The second is that Italy will fail to meet its international commitment to increase official development assistance (ODA) to 0.51% of its gross national income by 2010, and is unlikely to meet the 0.7% target by 2015.

The DAC called upon Italy to demonstrate the strong political leadership needed to reform and fund a reliable and results oriented aid programme.

Despite the challenges remaining, the DAC noted some improvement in Italian aid management since 2008. It welcomed Italy's intention to focus on 35 priority countries, the greater authority given to Italy's embassies and technical offices to deliver and to contribute to formulating programmes and deliver aid and the Steering Committee on Development Co-operation's high level policy direction.

The DAC agreed that Italy still needs a strategy for its development co-operation that is shared by all stakeholders. It also needs to ensure that all relevant government departments and regional and local authorities work towards common objectives. The DAC recommended that Italy build systems to promote coherence between development co-operation and other policies; reform human resource management for the core cadre of development experts; and regularly undertake monitoring and independent evaluation. In addition, the limited political debate and public awareness about Italian Co-operation show there is an urgent need for the Italian authorities, together with civil society, to build popular support for development and public pressure for reforming Italian Co-operation.

Other main findings from the peer review included:

- Italy should approve new legislation on development co-operation as a matter of priority.
- To rebuild credibility of its intentions to meet its aid commitments, Italy should outline, in a binding manner, how and by when it will reach these targets.
- The Italian Ministry of Foreign Affairs and Ministry of Economy and Finance should develop a joint strategy for multilateral assistance, outlining clearly the objectives of Italian aid especially for priority multilateral organisations – and consider concentrating its multilateral contributions further.
- Italy can make aid management improvements by preparing and publishing multi-annual country programmes, establishing formal, results-oriented and transparent mechanisms for allocating resources to country programmes and training staff in results-based management.
- Italy should ensure it has the necessary human and financial resources to implement the Action Plan on Aid Effectiveness and to promote behaviour change across Italian Co-operation so that aid is delivered according to the new guidelines prepared under the plan.

Japan

In 2008, Japan's net ODA was USD 9.58 billion, an increase of 10.7% in real terms from 2007. The increase was mainly due to a rise in contributions to international financial institutions. ODA as a proportion of GNI rose from 0.17% in 2007 to 0.19% in 2008.

Reform for implementing the aid effectiveness agenda

As a nucleus for policy planning and overall policy co-ordination of Japan's ODA, the Ministry of Foreign Affairs was restructured in July 2009 in order to further strengthen its policy planning function and country-based approach. The establishment of a new Japan International Cooperation Agency (JICA) in 2008 allows effective and swift management of co-operation programmes as a whole. In April 2009, the target disbursements for each region were announced for the first time and rolling plans have been published for each country, starting in summer 2009.

Various measures to strengthen the functioning of field missions include dispatching "co-ordinators for economic co-operation" to embassies in Africa, building capacity of country-based ODA Task Forces and staff members, and enhancing headquarters' support for embassies and JICA country offices. Japan values service delivery by line ministries of partner countries, as well as their role in policy planning and financial management. Essential for achieving self-reliance, capacity development is incorporated into every aspect of Japan's co-operation, enhanced by the development of a *Capacity Assessment Handbook*, and *Technical Cooperation Guidelines* which integrate a capacity development perspective; as well as staff training at JICA. Since 2009, Japan, with other donors, has been helping to reinforce developing countries' efforts to achieve effective development through the Capacity Development for Development Effectiveness Programme in the Asia and Pacific region.

Challenges in implementing the aid effectiveness agenda

- Obtaining strong public support for development co-operation is a challenge for Japan. This is increasingly important at a time when the Japanese people are facing economic difficulties following the world-wide financial and economic crisis. Japan recognises that continuous efforts in the domain of development effectiveness and public relations, such as development education, are key in obtaining public support.

Luxembourg

In 2008, Luxembourg's net ODA was USD 415 million, an increase of 3.3% in real terms from 2007. ODA as a proportion of GNI rose from 0.92% in 2007 to 0.97% in 2008.

Reform for implementing the aid effectiveness agenda

In 2009 Luxembourg prepared work plans for 2010 for each of its decentralised regional offices following a participatory effort involving Luxembourg's Co-operation and Lux-Development. Together they continue to focus on efforts to achieve the Paris and Accra objectives (such as reducing parallel implementation units, and using public financial management and procurement systems). They also focus on improving co-ordination and complementarity between the Foreign Affairs Ministry's decentralised offices and Lux-Development and provide for other measures adapted to the context of the different missions and to the needs of partner countries. The Chamber of Deputies and the Interministerial Committee on Development Co-operation are also regularly informed of progress towards aid effectiveness and development policy coherence.

Luxembourg has begun to implement the recommendations of the 2008 DAC peer review. For example, ten sectoral strategies were developed in 2009 and will be discussed with partner countries and civil society, bearing in mind aid effectiveness objectives in each case. Luxembourg started to carry out joint co-operation activities with other donors in 2009.

Challenges in implementing the aid effectiveness agenda

- Ensuring that partner countries are involved in implementing the national plan for the implementation of the Paris Declaration and the Accra Agenda for Action, and that Luxembourg respects its commitments under the EU Code of Conduct on Complementarity and the Division of Labour in Development Policy.
- Moving from the former project approach to a programme approach. This raises technical challenges, in particular in reducing parallel implementation units, providing in-career training for staff and developing capacity in partner countries.

Netherlands

In 2008, the Netherland's net ODA was USD 6.99 billion, an increase of 4.8% in real terms from 2007. ODA as a proportion of GNI fell from 0.81% in 2007 to 0.80% in 2008.

Reform for implementing the aid effectiveness agenda

The Netherlands is committed to meeting all its Paris and Accra promises, especially using country systems, predictability, (mutual) accountability and transparency, results orientation, division of labour and aid effectiveness in fragile situations. The Netherlands' Action Plan for Paris and Accra (NAPA) shifts the country into a higher gear: a major component involves a stocktaking and priority-setting exercise with embassies in 30 partner countries. This will have an impact on work at country level and will inform headquarters of the most immediate and effective actions to be taken based on concrete experience from the field.

Challenges to implementing the aid effectiveness agenda

- Meeting the ambitious agreements donors made in Accra and Paris will be difficult without additional efforts, according to a progress report prepared for the Accra Conference. The Netherlands' budget for development co-operation is set at 0.8% of GNI. This means that the financial crisis poses a major problem for aid flows. Also, the domestic call for zero tolerance of corruption or democracy violations may conflict with the commitment to predictability.
- Getting clearance from headquarters on division of labour among field offices can be difficult for all donors – probably due to corporate policy priorities. The risk is that some important donors, including the Netherlands, will withdraw from some sectors, thereby reducing the number of progressive donors involved before ensuring good sector coverage.
- Encouraging an interest in ownership by partner governments and leaders can be difficult in a number of partner countries, where the Paris/Accra agenda seems to be largely a donor concern.

New Zealand

In 2008, New Zealand's net ODA was USD 348 million, an increase of 11.5% in real terms from 2007. The increase was mostly due to a rise in bilateral aid. ODA as a proportion of GNI rose from 0.27% in 2007 to 0.30% in 2008.

Reform for implementing the aid effectiveness agenda

The New Zealand Agency for International Development (NZAID) has a new mandate and policy framework (as of April 2009). These reinforce its commitment to providing effective aid by advancing both the Paris Declaration and the Accra Agenda for Action. A special focus is on improving aid effectiveness in the Pacific region. New Zealand has endorsed the Cairns Compact on Strengthening Development Coordination in the Pacific, whose key objective is to co-ordinate development better to make real progress against the MDGs. Principles include drawing on international best practice as outlined in the Paris Declaration and AAA. In taking forward the Cairns Compact, development partners will be able to draw on the insights offered by earlier aid effectiveness workshops hosted by the Pacific Islands Forum Secretariat, for which New Zealand provided substantive support. Development partners are encouraged to provide the Forum Secretariat, based in Suva, with an annual report on their efforts to implement the compact, including reducing aid fragmentation, easing the burden of aid administration, and improving aid effectiveness.

NZAID is now focusing on improving internal systems to better track progress towards the targets agreed at Accra: improving electronic management systems to support decentralised staff in partner countries; strengthening management for, and better measurement of, development results; and helping to simplify the international aid architecture.

Challenges in implementing the aid effectiveness agenda

- A strong focus on the Pacific region poses a number of special challenges in taking forward the AAA. With fewer donors present, and with many small island developing country partnerships to cover, NZAID and other donors have to manage a wide range of small projects and programmes, spread over a comparatively large number of small or micro states.

Norway

In 2008, Norway's net ODA fell by 2.5% in real terms from 2007 levels to USD 3.96 billion. ODA as a proportion of GNI fell from 0.95% in 2007 to 0.88% in 2008.

Reform for implementing the aid effectiveness agenda

Norway implements the aid effectiveness agenda through dialogue with partner countries and, increasingly, interaction with multilateral partners and global funds. The main actors in Norway's development assistance system – the Ministry of Foreign Affairs (MFA), the Norwegian Agency for Development Co-operation (NORAD) and the embassies in Norway's partner countries – are committed to actively exploring ways of meeting the AAA commitments. Institutional reforms initiated in 2004 have now been consolidated, and the embassies play a particularly important role in implementing effective aid. The MFA recently distributed a strategy note calling for strengthened follow up on the AAA by all actors.

In February 2009 the MFA submitted a new development white paper to parliament entitled *Climate, Conflict and Capital*. The policy seeks to reduce aid fragmentation by improving the complementarily of donor's efforts, and to focus on Norway's comparative advantages. All embassies responsible for development co-operation are streamlining their project portfolios, guided by a project within the MFA. This project started in 2008 with a review of the portfolios of the five largest embassies in Africa. In 2009 this has been followed up through guidance missions to embassies in Hanoi, Kabul and Luanda. At the global level, Norway is implementing new initiatives in strategic areas such as climate change, forestry (initiatives to reduce emissions by reducing tropical deforestation – REDD) and oil-for-development. Global funds receive an increasing share of Norwegian development assistance.

Challenges in implementing the aid effectiveness agenda

- Maintaining a coherent response within a decentralised development co-operation structure is a particular challenge for Norway.

Portugal

In 2008, Portugal's net ODA was USD 620 million, an increase of 22.4% in real terms from 2007. The increase was mainly due to a rise in bilateral aid, notably to Africa. ODA as a proportion of GNI rose from 0.22% in 2007 to 0.27% in 2008.

Reform for implementing the aid effectiveness agenda

Portugal is making greater use of partner countries' public financial management systems, including in national procurement procedures. It avoids parallel implementation units. Since some of Portugal's partners are fragile states, where certain conditions cannot be met, Portugal channels aid towards institutional capacity building. Portuguese co-operation programmes with individual partner governments run over a three to four-year period so they can be aligned with partner governments' poverty reduction strategies, or similar frameworks. Portugal will plan these programmes in advance to allow partner governments to integrate aid flows into their budget cycle. Work is underway to make these plans as exhaustive as possible, which means capturing all aid flows. This "aid on budget" process (Chapter 3) has already begun in Mozambique and Timor-Leste. Portugal also records disbursements by country on a regular basis in order to provide detailed and timely information to partner government aid recording systems. Following the endorsement of the AAA, Portugal has already updated its Aid Effectiveness Plan.

Challenges in implementing the aid effectiveness agenda

- Ensuring co-ordination and complementarity among line ministries, universities, NGOs, the private sector and the development co-operation agency.
- Engaging public opinion on these issues.
- Conducting division of labour exercises, either in country or across countries, as well as shifting from project support to new approaches, such as general budget support, in countries with fragile institutions.
- Reinforcing the technical staff in Portuguese field delegations, not only in number, but also in capacity, through training on aid effectiveness issues, for example.

Spain

In 2008, Spain's net ODA was USD 6.87 billion, an increase of 22.6% in real terms from 2007. The increase was due to a rise in bilateral aid, notably to Africa. ODA as a proportion of GNI rose from 0.37% in 2007 to 0.45% in 2008.

Reform for implementing the aid effectiveness agenda

The *Third Spanish Cooperation Master Plan* for 2009-2012 emphasises the aid effectiveness principles. The Spanish International Cooperation Law is currently being revised from an aid effectiveness perspective to facilitate the implementation of the AAA commitments. The reform of the Spanish Implementing Agency (AECID) will enable it to deliver more effective aid. Planning and programming methods are being revised and updated and Spain's approach to development results with its partner countries is being redefined.

Spain's Country Strategy Papers will be developed into results-based co-operation frameworks for every partner country. These frameworks set the basis for a rolling three-to-five-year forward expenditure and implementation plan. They will be aligned with the national budget cycle to allow for initiatives led by the partner country, more extensive use of country systems, predictability and mutual accountability. The methodology for multilateral aid is also being revised in order to comply with the AAA.

Challenges in implementing the aid effectiveness agenda

Applying the Paris Declaration principles and fulfilling the AAA will require a deep change in the co-operation system's way of working. Spain considers that the main challenges to be addressed are the following:

- Legal and administrative restrictions, and excessively centralised decision-making processes.
- A communication gap between headquarters and field offices, and inertia.
- Lack of appropriate training and skills in aid effectiveness (*e.g.* policy dialogue, partnerships for development approach, managing for development results) and an inadequate staff incentive system to implement the agenda.
- The need to include all Spanish development actors under a common framework to work towards development results.

Sweden

In 2008, Sweden's net ODA was USD 4.73 billion, an increase of 3.9% in real terms from 2007. ODA as a proportion of GNI rose from 0.93% in 2007 to 0.98% in 2008.

Reform for implementing the aid effectiveness agenda

The Swedish International Development Co-operation Agency (Sida), and the Ministry of Foreign Affairs (MFA) launched a joint action plan for aid effectiveness in July 2009. The plan encompasses seven objectives for effective Swedish development co-operation, with special attention given to the use of country and organisational systems, programme-based approaches and results orientation. The action plan also specifies how Sweden can strengthen co-operation on aid effectiveness in global fora as well as in relation to multilateral organisations. Baseline data will be collected for Sweden's 33 priority countries and specific objectives on aid effectiveness will be set. During this process, the main obstacles for moving forward and country-specific measures will be identified in order to accelerate progress. The action plan will be followed up in semestral meetings between Sida and the MFA.

The MFA is reformulating guidelines on co-operation strategies, including the implementation of the aid effectiveness principles in different contexts and aid modalities. Sida is updating its systems for ensuring that staff choose programme based approaches and use country systems as a first option.

Challenges in implementing the aid effectiveness agenda

- The extent of change required, combined with lack of practical experience in applying aid effectiveness principles, makes the process slow despite clear political commitment. Implementing the aid effectiveness agenda requires a change of mindset, for the practitioner as well as among the public. Change takes time and requires information, additional incentives, and a complete change of rules and regulations. In this sense, the challenge is to facilitate a broad understanding of what the aid effectiveness agenda implies and to introduce suitable systems and procedures at an institutional level.

Box 8.5. **DAC peer review of Sweden, 9 June 2009**

Examiners: Japan and the United States

Positive progress in implementing the aid effectiveness agenda

Sweden spent USD 4.73 billion on ODA in 2008. This amounted to 0.98% of its gross national income and made Sweden the most generous of all DAC donor countries by that measure, and the tenth largest in volume terms. In 2009 Sweden budgeted to spend a full 1% of its GNI on development co-operation. The DAC applauded this commitment in a time of global recession. It also noted, however, that because Sweden's ODA budget is linked to its GNI it may shrink in 2009/10 and Sweden would need to manage any budget cuts carefully.

The DAC highlighted that Sweden's 2009 EU presidency offered an important opportunity to shore up support within the international community for development co-operation. In particular, the international community looked to Sweden to take the lead in following up on the report of the Commission on Climate Change and Development.

The DAC recognised that Sweden has initiated important reforms to bolster the quality of its bilateral aid. These include efforts to make its development efforts more supportive of partner country priorities, to increase strategic focus, to co-ordinate better with other donors and to manage for development results.

Multilateral agencies see Sweden as a reliable and engaged donor and, as recommended in the last peer review, Sweden has now developed a multilateral strategy. The committee commended this and encouraged Sweden to use it to increase the strategic focus of its engagement with multilateral organisations. Partnerships with civil society organisations are also robust, particularly within Sweden, where they play an important role in public communication and interest, and form a central pillar of Swedish development co-operation. The DAC also welcomed Sweden's efforts to start to reduce the "forest of policies" identified in the last peer review.

Although Sweden is ahead of many other donors with its strong legislative basis for policy coherence for development, it has found coherence difficult to implement in practice. To address this, the government developed a more promising practical approach in 2008. Finally, Sweden has played a strong leadership role in the good humanitarian donorship initiative and in providing humanitarian funding on time and on the basis of need.

Challenges and recommendations

- Swedish development co-operation is finding it a challenge to manage so many change processes simultaneously. The direction, pace and rationale for the reforms must be communicated effectively to staff and stakeholders to obtain buy-in and avoid misunderstandings.
- There is a need for independent scrutiny to monitor and evaluate cross-government coherence for development.
- As Sweden reduces the number of countries in which it works, it should keep its focus on reducing poverty, in line with its Policy for Global Development and its commitment to the Millennium Development Goals.
- The DAC strongly welcomed Sweden's new emphasis on development results. It acknowledged that it takes time to embed a culture of results-based management and emphasised the importance of practical staff training and support.
- In line with the Paris Declaration, the DAC encouraged Sweden to increase the proportion of its technical co-operation which is co-ordinated and aligned with partner country strategies.
- Sweden should consolidate its position as a good humanitarian donor by updating its humanitarian policy, by better integrating cross-cutting policies and priorities and by finalising its plan for allocating its funding appropriately for learning in the humanitarian sector.

Switzerland

In 2008, Switzerland's net ODA was USD 2.04 billion, an increase of 7.6% in real terms from 2007. The increase was mainly due to a rise in bilateral aid. ODA as a proportion of GNI rose from 0.38% in 2007 to 0.42% in 2008.

Reform for implementing the aid effectiveness agenda

Switzerland defined its priorities for implementing the AAA commitments in a policy statement adopted in 2009. They include democratic ownership, the use of country systems, aid predictability and programme-based approaches. Predictability and transparency of aid flows will be enhanced by improving processes and instruments. To this effect, Switzerland has joined the International Aid Transparency Initiative. Switzerland has launched a country-by-country stocktaking exercise of its use of country systems. This will help to systematise their use where they are sufficiently robust. To enhance programme-based approaches, Switzerland plans to review its experience and provide policy guidance and training to country offices, including on their definition, objectives and conditions. Switzerland intends to further devolve management responsibilities to country offices to increase country-specific implementation of the AAA.

Challenges in implementing the aid effectiveness agenda

- Switzerland has had a tradition of promoting capacity development and multi-stakeholder approaches locally, providing a strong *in situ* presence and support through field staff. However, a key challenge includes a more systematic use of instruments such as general budget support and programme-based approaches. Issues of attribution *versus* contribution, visibility and specificity of Swiss ODA have also been raised among the public, government and parliament.
- A second challenge lies in defining a suitable approach for applying some of the aid effectiveness principles, such as use of country systems in situations where recipient governments do not follow minimal standards of accountability and transparency. Switzerland intends to promote processes that lead from fragility and illegitimacy to good governance, democratic ownership and citizenship.

Box 8.6. **DAC peer review of Switzerland, 14 October 2009**

Examiners: Belgium and the Netherlands

Positive progress in implementing the aid effectiveness agenda

Switzerland spent USD 2.02 billion of official development assistance in 2008, an increase of more than 6% over the previous year. This amount represents 0.42% of its gross national income (GNI), meaning that Switzerland has already surpassed its Monterrey commitment to contribute 0.4% of its GNI to ODA by 2010. The peer review recommended that Switzerland adopt a 0.5% target for its aid – as is being considered by the Federal Council on the request of parliament – and that it keeps in mind the 0.7% UN target.

Switzerland has a long tradition of international assistance. Its humanitarian aid is recognised for its holistic approach, solidly grounded in international humanitarian law and supported by rapid, flexible, co-ordinated and well-targeted action. Its engagement with multilateral partners also provides lessons in good practice: Switzerland is considered an exemplary donor by the multilateral organisations because much of its multilateral funding is paid as core contributions and multi-year grants. Switzerland also contributes to international thinking on governance and development in fragile situations. It puts a strong emphasis on the world's poorest countries (65% of its bilateral ODA). Nevertheless, Swiss aid is currently dispersed among too many countries and sectors, although it is now striving to strengthen its geographic and sector focus. In doing so, Switzerland is encouraged to consider the international division of labour called for in Accra and to identify its most effective niche.

Some 80% of Swiss aid is managed jointly by the ministries of economic and foreign affairs. The peer review welcomed the steps Switzerland has taken to reinforce its strategic approach to development co-operation. A unified vision, supported by strong co-ordination between the two ministries will be essential to ensure cohesion of the aid programme despite the institutional split. Current institutional reforms will delegate more authority to the field offices, thereby making development co-operation more effective.

Switzerland has made progress in ensuring better coherence of non-aid policies with its development goals. It has brought areas such as trade, taxation and the restitution of stolen assets into line with its development commitments. However, it must build on these isolated examples and institutionalise coherence across all policies. The review proposed that Switzerland identify or establish a mechanism with the capacity to arbitrate conflicting policies.

Challenges and recommendations

- Re-emphasise poverty reduction, including equity and sustainability, as the overarching goal of Swiss development co-operation. Focusing on well-defined thematic areas would also be an advantage. Switzerland must also strengthen efforts to communicate the impacts of aid to maintain strong public and political support.

- Create transparent criteria for engaging in partnerships, clear links between financial allocations and performance, and standard guidance for country offices for interacting with NGOs. Switzerland must develop a more strategic, transparent and standardised approach to NGOs, research institutions and other partners in headquarters and in the field.

- Do more to set standards, monitor outcomes and assess the impact of its development co-operation. A challenge stemming from the recent reorganisation is maintaining appropriate thematic expertise in Switzerland's agency for development co-operation. The new thematic networks require clearly defined objectives and enough weight and resources to compensate for the loss of thematic sections.

- Switzerland faces challenges in implementing some of the aid effectiveness agenda, particularly in fragile states. Switzerland should develop and implement consistent plans for the Swiss Agency for Development and Co-operation (SDC) and the State Secretariat for Economic Affairs (SECO) to implement the Accra Agenda for Action, with clear indicators and targets to guide country offices.

United Kingdom

In 2008, the United Kingdom's net ODA was USD 11.5 billion, an increase of 25.0% in real terms from 2007. The increase reflects a general scaling up of aid by the United Kingdom. ODA as a proportion of GNI rose from 0.35% in 2007 to 0.43% in 2008.

Reform for implementing the aid effectiveness agenda

The UK Department for International Development (DFID) is committed to meeting the Accra Agenda for Action objectives and has already met 7 of the 10 relevant Paris Declaration targets. DFID's 2009 White Paper underscores the UK's political commitment to aid effectiveness. DFID has a duty towards the UK Parliament and the public more broadly to ensure public funds are spent in the most effective way. DFID recently published an action plan to ensure its Paris and Accra commitments are met. It identifies three areas of priority: (i) improving the predictability of aid, to enable partner governments to plan better; (ii) improving the transparency of aid and ensuring all government-to-government aid is shown on partner country budgets; and (iii) increasing mutual accountability at country level. The action plan specifies steps needed at corporate or regional/country office level to address these three areas and other AAA commitments. For example, DFID is working with 16 other donors to improve the transparency of aid through the International Aid Transparency Initiative launched at the Accra High Level Forum. In August DFID also launched a searchable database to make information on the projects it funds more easily available.

Challenges in implementing the aid effectiveness agenda

- Maintaining a continued effort to demonstrate that DFID's AAA commitments are delivering the best results possible for poor women and men. This will be crucial for sustaining support for the development agenda in the UK.
- Tackling technical bottlenecks affecting how aid effectiveness commitments are implemented. For example, DFID is improving its reporting on aid effectiveness commitments and has incorporated targets on aid effectiveness into its corporate performance management framework. More needs to be done to raise awareness of these targets amongst staff.

United States

In 2008, the United States' net ODA was USD 26.84 billion, an increase of 20.5% in real terms from 2007. The increase reflects a rise of US aid to all developing countries, particularly to sub-Saharan Africa and the group of least developed countries. ODA as a proportion of GNI rose from 0.16% in 2007 to 0.19% in 2008.

Reform for implementing the aid effectiveness agenda

2009 has seen accelerated positive change in the United States on aid and development effectiveness. The Obama Administration has taken steps to improve the coherence of US policy and practice in development assistance by forming the International Development and Humanitarian Assistance Inter-Agency Policy Committee (IPC) and directing the National Security Council and Council of Economic Advisors to propose a government-wide development policy and strategy. The Department of State has stated a preference for partnerships and multilateral approaches in development and diplomacy. The US Congress has introduced several legislative proposals for aid reform to increase transparency and accountability and improve coherence. The United States Agency for International Development (USAID) is developing guidance on predictability, untying, use of country systems and use of project implementation units. The Millennium Challenge Corporation (MCC) has published working papers on country ownership and results.

The US has strong foundations in transparency and domestic accountability. All US Assistance Agreements, and the standard conditions, are available to the public. In most cases, they are published on the Internet, with limited exceptions. In the case of the MCC, partner countries which implement MCC programmes provide annual disbursement request projections on a quarterly basis. The MCC provides quarterly disbursement and project status reports on its website.

Challenges in implementing the aid effectiveness agenda

- Aligning US ODA with developing country strategies can sometimes be difficult given that both the Administration and Congress direct specific uses for ODA.
- Using partner country financial management and procurement systems is discouraged by stringent US domestic accountability requirements.
- Untying aid is challenging: slightly under one-third of US assistance was still tied in 2007.

Mid-term review summaries

Mid-term reviews have been conducted at the request of DAC members on a voluntary basis since 2003. They are being piloted until the end of 2009, at which point the DAC will decide whether they should become a more regular process. As part of this pilot, **Canada, Denmark, Finland, the Netherlands and Spain** volunteered to have a mid-term review in 2009 (Box 8.7). These reviews proved useful for tracking changes, results and impact; for bringing momentum to members' efforts to implement the recommendations; and for sharing experiences with other DAC members more often than every four to five years.

Box 8.7. **Mid-term reviews**

The purpose of these mid-term reviews is to focus on the implementation of the DAC recommendations; they also offer opportunities to discuss the international and national developments since the last peer review and their impact on the aid programme. One major issue has been the global economic crisis and its severe impact on developing countries. The reviewed members have made commendable efforts to maintain their aid budgets despite pressure to reduce public spending. They set a good example for other donors to stick to their ODA commitments. **Spain, Denmark** and **Finland** plan to at least maintain the nominal level of their ODA volume in 2010; the **Netherlands**' objective is to maintain its 0.8% ODA/GNI ratio; and **Canada** is on course to double its overall ODA by 2011 from 2001/02 levels. The economic crisis also calls for new efforts and approaches to help mitigate its impacts. The higher priority given to private sector-driven growth by **Denmark** and the **Netherlands** is welcome.

Overall, these reviews revealed a dynamic desire to adjust policies to the new international challenges, to make reforms and to look for innovation in each specific context. On the policy side, **Finland** and the **Netherlands** developed their new development policy priorities in 2007; **Canada's** parliament passed the *Official Development Assistance Accountability Act* in 2008; **Spain's** parliament adopted its *Third Master Plan* (2009-2012) which reaches beyond the Ministry of Foreign Affairs, and **Denmark** is starting to prepare a new overarching strategy for its development co-operation which should be made public in mid-2010. In terms of reforms, the **Netherlands** launched a modernisation agenda for Dutch development co-operation in November 2008, **Denmark** restructured its Ministry for Foreign Affairs (MFA) in early 2009, and **Spain** is currently considering a reform of its financial instruments to adapt to the needs of modern development co-operation. Encouraging more integrated approaches – in particular implementing whole-of-government approaches in fragile states and increasing the effectiveness of aid – is a key new initiative of the five reviewed members. The reviews also illustrate how global public goods, especially security, climate change and energy, are being increasingly integrated into development co-operation policies and programmes.

All the members reviewed are progressing well with most of the DAC recommendations. They have a wealth of good practice and lessons to share with other donors. These include:

- **Canada's** whole of government approaches in fragile states.
- **Denmark's** evaluation of the Ministry of Foreign Affairs' decentralisation exercise and the creation of an internal ombudsman to facilitate dialogue with local staff.
- **Finland**'s reinforced approach to policy coherence for development, including a new requirement that all ministries report to parliament on their development activities, rather than only the MFA.
- The **Netherlands'** streamlining of priority countries and sectors; and strong dialogue with new and non-traditional players in development co-operation to broaden the support base.
- **Spain's** new multilateral strategy with a focus on four agencies, core funding, the use of existing performance assessment frameworks and – for the first time – a report to parliament on Spain's multilateral aid.

Members also want to exchange experiences. For instance, the **Netherlands** is eager to co-operate with other donors on methods to systematically monitor and track the impact of policy coherence for development. And **Finland** would be keen to learn from other donors who have experience in bringing a stronger economic focus into development co-operation.

Division of labour is high on the development co-operation agenda of the reviewed members. They are looking for further geographic and sector concentration. **Spain** intends to make geographic division of labour a key issue during its EU presidency in 2010. Some member states have achieved good results by reducing the number of priority countries. Yet, implementing sector concentration in the field remains challenging for some of them. Other challenges faced by all the reviewed members to a certain extent include maintaining high public and political support for aid, with calls for reinforced efforts to communicate results; and maintaining the right staff skills mix and capacity levels despite

cuts in full-time employees as part of general civil service cutbacks.

Notes on other OECD donors

Czech Republic

In 2008, Czech net ODA amounted to USD 249 million, an increase of 16.3% in real terms from 2007. The ODA/GNI ratio rose from 0.11% in 2007 to 0.12% in 2008.

The increase in Czech ODA is primarily due to a steadily growing Czech contribution to the EU's development budget and to post-conflict reconstruction in Afghanistan. All assistance is provided as grants.

The Czech Republic implements bilateral aid programmes in eight priority countries (Angola, Bosnia and Herzegovina, Moldova, Mongolia, Serbia, Viet Nam, Yemen and Zambia) and seeks to focus attention on crisis situations such as in Georgia and the Palestinian Administered Areas.

The transformation of the Czech ODA institutional set-up continued in 2008, with the establishment of the Czech Development Agency. In June 2009 a draft law on international development co-operation and humanitarian aid was approved by cabinet ministers and submitted to the Czech Parliament. Furthermore, the Ministry of Foreign Affairs has started preparing a new Czech ODA strategy for 2011-2015.

Hungary

Hungary's net ODA was USD 107 million in 2008, a decrease of 6.7% in real terms from 2007. However, the ODA/GNI ratio remained stable at 0.08%. The slight decrease in ODA was due to the absence of debt forgiveness operations in 2008.

In 2008, Hungary focused its bilateral assistance (14% of total ODA), on the Western Balkans and Commonwealth of Independent States (CIS) countries. Its partners included Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia, the Kyrgyz Republic, Moldova, Montenegro, Serbia and Ukraine. Hungary also provided assistance to Cambodia, the Palestinian Administered Areas, Viet Nam and Yemen and continued its assistance to Afghanistan and Iraq.

In light of its perceived comparative advantage in political and economic transformation, Hungary focuses its aid on these sectors. Other priority sectors for Hungary include agriculture, water management and education. It also offers broad co-operation in the domains of public health and migration.

A draft law which includes the principles of the Paris Declaration and the Accra Agenda for Action is being prepared. This will enable long-term political commitment for international development.

Iceland

In 2008, Iceland's net ODA remained stable at USD 48 million. This represented 0.47% of GNI, compared with 0.27% in 2007. The unprecedented rise in ODA as a percentage of GNI is principally attributed to the depreciation of the Icelandic krona against the US dollar, and the drop in GNI as a result of the economic crisis. Bilateral aid was USD 36.06 million in 2008, while the remaining 25% of Iceland's total ODA was comprised of multilateral contributions.

Despite the current economic situation, development co-operation remains a key pillar of Icelandic foreign policy and the government is committed to achieving the MDGs and other internationally-agreed development goals.

On 1 October 2008, a new act came into force which provides the framework for Iceland's international ODA, providing comprehensive legislation for all aspects of Iceland's development co-operation.

The Icelandic International Development Agency, an autonomous agency attached to the Ministry of Foreign Affairs, disbursed approximately 45% of Iceland's ODA in 2008. It operates in six countries: Malawi, Mozambique, Namibia, Nicaragua, Sri Lanka and Uganda.

The Iceland Crisis Response Unit of the Ministry for Foreign Affairs provides support to peace building missions. In 2008, its main focus was on Afghanistan, Bosnia, Lebanon, Liberia, the Palestinian Administered Areas and Sudan.

Korea

In 2008, Korean ODA rose to USD 802 million, a 32.9% increase in real terms from 2007. The ODA/GNI ratio also increased from 0.07% in 2007 to 0.09% in 2008.

Bilateral ODA rose from USD 491 million in 2007 to USD 539 million in 2008. Both grant and non-grant flows increased in volume, although the growth rate for non-grants was considerably higher (49%) than for grants (19%). Regarding multilateral aid, contributions to the Regional Development Banks more than doubled in 2008 over the previous year.

In 2008 52% of Korea's net bilateral ODA went to Asia. Africa's share in net bilateral aid has been increasing in recent years, from 3% in 2002 to 19% in 2008. In 2006 and 2007, Iraq was the largest recipient country of Korean ODA; however, its share of net bilateral ODA sharply fell from 15% in 2006 and 11% in 2007 to 2% in 2008. In 2008, ten countries received 43% of Korea's bilateral ODA, the largest recipients being Angola, Cambodia and Viet Nam.

The government of Korea continues to scale up its ODA volume; in 2008 it set a target of an ODA/GNI ratio of 0.15% by 2012 and 0.25% by 2015.[34]

Mexico

Mexico is currently not in a position to report its ODA data to the DAC. However, with the support of the DAC, the United Nations Development Programme, the Mexican Central Bank and the National Institute of Geography and Statistics, Mexico has recently established a National System of Information on International Co-operation for tracking aid flows. This initiative will allow public institutions to register aid activities on-line and will facilitate Mexico's ODA reporting to the DAC in the future.

Mexico's development assistance is directed mostly at Latin America and the Caribbean and takes the form of technical and scientific co-operation. In 2008, activities focused on Central American countries, notably the Dominican Republic, El Salvador, Guatemala, Haiti and Honduras. Education, agriculture, health and the environment were priority sectors for Mexican technical co-operation.

Poland

In 2008 Polish net ODA was USD 372 million, a decrease of 12.3% in real terms over 2007. The ODA/GNI ratio also fell from 0.10% in 2007 to 0.08% in 2008. Bilateral aid stood at USD 84 million, or 23% of Polish development aid.

As a member of the European Union, Poland channels the bulk of its aid through the EC development budget. This accounted for USD 274 million in 2008, nearly 95% of its multilateral aid.

Bilateral assistance included preferential credit disbursements to Angola, China and Montenegro; scholarship programmes, social and health care for refugees during the first 12 months of their residence in Poland; and humanitarian assistance. Polish assistance also included world-wide implementation of numerous infrastructure, training and advisory projects. Priority recipients of Polish aid were Afghanistan, Angola, Belarus, Georgia, Moldova, Palestinian Administered Areas, Tanzania and Ukraine.

The Polish strategy for development co-operation is in line with prevailing international trends and encourages close co-operation with the donor community, particularly the European Union and the OECD. Polish development assistance focuses on enhancing and promoting democracy and good governance, human rights, sustainable development and building civil society.

Slovak Republic

Net ODA from the Slovak Republic was USD 92 million in 2008. The ODA/GNI ratio rose from 0.09% in 2007 to 0.1% in 2008, while ODA volume increased by 14.4% in real terms. Forty-four percent

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34. The Republic of Korea acceded to membership of the DAC on 1 January 2010 making it the 24th member.

of Slovak aid was bilateral, while multilateral contributions accounted for 56% of total ODA flows, including a contribution of USD 47 million to the EC.

In April 2009, the government approved a new annual programme for 2009 which provided USD 11.1 million for new projects. This included USD 4 million for bilateral aid to programme countries (Afghanistan, Kenya, Serbia) and USD 4.8 million to priority countries: Albania, Bosnia and Herzegovina, Belarus, Ethiopia, Former Yugoslav Republic of Macedonia, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Sudan, Tajikistan, Ukraine, Uzbekistan, and Viet Nam.

Slovak ODA supports the MDGs by focusing on social infrastructure, including health care and education, sustainable economic development and environment, and developing democratic institutions.

Turkey

Turkish ODA flows amounted to USD 780 million in 2008, an increase of 15.7% in real terms from 2007. The proportion of ODA in Turkey's GNI also rose from 0.09% in 2007 to 0.11% in 2008.

In 2008, bilateral assistance rose by 21% to reach USD 736 million and accounted for over 94% of total ODA flows. The bulk of bilateral ODA was delivered in the form of project and programme aid and technical assistance, as well as in assistance to refugees coming to Turkey.

The main bilateral beneficiaries were Afghanistan (USD 142 million), Pakistan (USD 84.3 million), Kazakhstan (USD 61.6 million), Kyrgyz Republic (USD 53 million), Iraq (47.7million) and Azerbaijan (33.9 million). The bulk of Turkish multilateral aid went to the UN agencies.

The Turkish International Cooperation and Development Agency (TIKA) is the principal body responsible for the administration of Turkish aid. TIKA is an autonomous technical co-operation organisation under the Prime Ministry. It contributes to institutional development and the improvement of human resources in partner countries through technical co-operation in various fields, especially education, health, economic infrastructure and services.

Notes on non-OECD providers of development assistance

While the DAC brings together the major OECD aid donors, countries beyond the OECD's membership have long played an important role in development co-operation. In many cases, their recent development knowledge and experience as recipients of ODA have allowed them to develop unique and effective relationships with partner countries.

For the DAC, engaging with these providers of development assistance is of high and growing priority (Chapter 1). The DAC is convinced that global development challenges can only be addressed in partnership with all the important stakeholders. The DAC hopes to deepen mutual understanding of the evolving priorities of international development co-operation through regular and sustained dialogue, and to promote an exchange of good practice between all assistance providers (such as the Policy Dialogue on Development Co-operation held in Mexico City on 28-29 September 2009; see www.oecd.org/dac/mexicodialogue).

2008 also saw the establishment of a new Task Team on South-South Co-operation, a Southern-led platform hosted by the DAC's Working Party on Aid Effectiveness. The Task Team brings together partner countries, middle-income countries, donors, civil society, academia and regional and multilateral agencies. Together, these stakeholders are examining how the aid effectiveness principles may apply to and be enriched by South-South co-operation.

As the authoritative source on development co-operation statistics, the DAC is working to develop a picture of global aid flows that includes information on all providers of development assistance. The DAC hopes that all countries with significant development co-operation activities will begin contributing basic information in the near future. This will allow them to receive recognition for their important efforts and will foster more informed decision making among donors and partner countries alike. Several non-OECD countries already report their ODA statistics to the DAC (see Tables 25 and 33 of the Statistical Annex).

While ODA flows reported from non-OECD members were a small proportion of total ODA flows in 2008, these flows continue rising, and the financial and economic crisis did not have a major impact in 2008. According to some estimates, total South-South co-operation could surpass USD 15 billion by 2010.

Several Middle Eastern economies have been providing development assistance since the 1960s or 1970s and have sophisticated mechanisms for co-ordinating and harmonising their efforts, notably through the Arab Co-ordination Group. At the Joint Meeting of Arab Co-ordination Group Institutions and the DAC, held in Kuwait on 10 May 2009, participants emphasised their common values and shared goals for international development co-operation. They agreed to meet every two years for a high-level policy dialogue event and to organise a technical meeting to identify opportunities for practical collaboration in specific countries and sectors.

Kuwait, Saudi Arabia and the United Arab Emirates – three of the Gulf region's largest donors – report their ODA data to the DAC. Most of their aid is distributed bilaterally. Saudi Arabia has reported the most significant increase in aid, more than doubling its figure from USD 2 billion in 2007 to USD 5.6 billion in 2008. Most of this aid was disbursed in the form of grants and loans by the Saudi Fund for Development, and was directed at health infrastructure, roads and agriculture. In 2008 the Kuwait Fund for Arab Economic Development provided financial and technical assistance of USD 283 million in net ODA terms, up from USD 110 million in 2007. In recent years, its assistance has focused on transport, energy and agriculture. The United Arab Emirates reported a sharp decrease in total net ODA, from USD 429 million in 2007 to USD 88 million in 2008.

European Union members who are not members of the OECD have continued increasing their development aid budgets. Given their limited capacity to implement bilateral aid programmes, these countries channel most of their aid through multilateral organisations, notably the European Commission and the UN system. Romania, reporting for the first time, disbursed USD 123 million in 2008. Estonia (USD 22 million), Latvia (USD 22 million), Lithuania (USD 48 million) and Slovenia (USD 68 million) also reported their net ODA to the DAC. Despite the impact of the crisis on these countries' economies, these figures represent increases in ODA since 2007, when Estonia and Latvia each reported USD 16 million and Slovenia reported USD 54 million (Lithuania's net aid remained constant).

Other non-DAC donors reporting their ODA data to the DAC in 2008 include Thailand (USD 178 million, a major increase from USD 67 million in 2007), Israel (USD 138 million, up from USD 111 million in 2007), Chinese Taipei (USD 435 million, down from USD 514 million in 2007) and Liechtenstein (USD 23 million, up from USD 20 million in 2007). More than 90% of Thai ODA is provided as bilateral concessional loans, flowing mostly to its neighbours – Cambodia, Laos, Myanmar and Viet Nam. Chinese Taipei's development assistance is implemented primarily through the International Co-operation and Development Fund.

Although no other economies reported their aid flows to the DAC in 2008, several have increasingly important development co-operation programmes, including Brazil, China, India, Russia and South Africa.

The bulk of Brazil's development co-operation involves financial and technical co-operation and, according to estimates by Brazilian officials, amounted to USD 437 million in 2007, up from USD 365 million in 2006. More than 90% is delivered through multilateral channels. Financial co-operation falls under the joint responsibility of the ministries of planning and finance. Technical co-operation is co-ordinated through the Brazilian Agency for Co-operation (ABC), which has declared that USD 28 million was spent on technical co-operation in 2008. This financed 236 technical co-operation projects in 46 countries. African partner countries are attracting an increasing proportion of ABC-funded projects, which focus on health and agriculture, as well as education, e-government, environment, professional training, renewable energy and urban development.

China does not publish official data on development assistance, but some studies (*e.g.* by Chinese research institutions) have estimated China's aid budget at around USD 1.4 billion for 2007. These figures have not been confirmed by the Chinese government. At the UN High-Level Meeting on the Millennium Development Goals on 25 September 2008, Chinese Premier Wen Jiabao declared that China had provided USD 27.1 billion in development assistance since 1950, including USD 11.9 billion in the form of grants. Moreover, by June 2008, China had forgiven USD 3.2 billion of debt for 49 heavily indebted poor and least-developed countries in Asia and Africa. At the Fourth Ministerial Conference of the Forum on China-Africa Cooperation (FOCAC) in November 2009, Chinese Premier Wen Jiabao announced eight new measures to enhance China's co-operation with Africa in the areas of climate change, science and technology, agriculture, medical care and health, human resources development and education, cultural exchanges, trade preferences and financial capacity support. The latter includes USD 10 billion in concessional loans to African countries, a special loan of USD 1 billion for small and medium-sized businesses in Africa, and additional debt forgiveness.

According to the annual report of the Indian Ministry of External Affairs, the country's aid and loan programme amounted to USD 609.5 million in the 2008/9 fiscal year, up from USD 392.6 million in 2007/8. India's aid is primarily administered by the Department of Economic Affairs of the Ministry of Finance, which also oversees the lending programme of the Export Import Bank. Technical assistance is administered by the Technical and Economic Co-operation Division of the Ministry of External Affairs. India channels most of its development assistance budget to neighbouring countries, including Bhutan (which accounted for almost half of total assistance in 2008/9), Bangladesh, Nepal, Sri Lanka, Myanmar and the Maldives.

The Russian Federation estimated its annual ODA budget to be USD 210 million in 2007, continuing the steady increase from roughly USD 50 million in 2004. Much of this aid is provided through multilateral channels, including the World Bank and International Monetary Fund, the UN system, major global initiatives and special purpose funds. The country plans further increases and, in June 2007, the Concept of Russia's Participation in International Development Assistance gained presidential approval. At a conference on Russia's aid in May 2008, the Deputy Minister of Finance, Dmitry Pankin, indicated that further increases (to about USD 400-500 million) were planned. It remains unclear how the financial crisis will affect these plans. Russia has declared that it intends to begin reporting aid to the DAC once it has the necessary capacity to do so.

South Africa's development co-operation is on the rise and is channelled mainly through the African Renaissance and International Co-operation Fund. The fund has grown from under USD 7 million in 2003 to almost 40 million in 2008/09; total development assistance from South Africa has been estimated at USD 61 million for 2006/07, based on reports from the Department of Foreign Affairs. The African National Congress Policy Conference in 2007 confirmed that the focus of such assistance continues to be regional. It is estimated that around 70% of South African aid is channelled to countries in the Southern African Development Community.

In addition to their bilateral aid efforts, non-OECD member countries also use the multilateral system. Table 8.2 shows countries' contributions to selected multilateral organisations, including United Nations organisations, the World Bank and regional development banks.

Table 8.2. **Selected non-OECD member countries' contributions to multilateral organisations in 2008**

Reported in USD thousands

Agency	Argentina	Brazil	Chile	China	India	Indonesia	Kuwait	Mexico	Russia	Saudi Arabia	South Africa	United Arab Emirates	Venezuela
UNDP	595	550	679	3,817	4,553	411	570		774	4,000	1,564	324	488
UNICEF	10	3,012	77	1,290	2,800	100	200		1,000	2,500	25	13,938	
UNRWA		200	15	80	20	10	2,500	5		40	148	5,337	
WFP	100	1,441		9,576	17,130	2,000		50	15,000	503,753	315	50	750
UNHCR	30		100	652	10		2,000	102	2,000	112	146	54	5
UNFPA[1]	5		5	900	222	36	50		300	300	23		10
UNIFEM	10	25	2	30	20	100	20	60		100		50	
IFAD[2]		2,639		5,000		3,000	2,800	1,000		3,500		650	7,500
GFATM				2,000			1,000		78,405	6,000	146		
IADB[3]	10,859	10,859	2,982					6,980					
AfDB[4]				40,613			3,384				3,633		
AsDB[5]				7,500									
WB/IDA[6]		42,051					9,650	3,449	19,515	16,666	5,513		2,069
Total	**11,609**	**60,776**	**3,860**	**71,457**	**24,756**	**5,657**	**22,174**	**11,647**	**116,994**	**536,971**	**11,513**	**20,403**	**10,822**

[1] Figures represent payments made in 2007

[2] Figures represent cash payments or promissory note encashments received.

[3] IADB-8: Eighth General Increase in IADB's resources

[4] AfDB-11: Eleventh replenishment, average annual contribution.

[5] AsDB-9: Ninth replenishment, average annual contribution.

[6] IDA-14: Fourteenth replenishment, average annual contribution.

Source: Multilateral institutions' websites.

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