



# DEVELOPMENT CO-OPERATION REPORT 2006

SUMMARY - FEBRUARY 2007

*“One of the most important contributions of the DAC is to provide the interested and concerned public with clear and consistent information. Transparency is the mother of effectiveness. Aid is an investment in a better and safer world. Those who contribute and those who receive it can, and should, demand that it contributes to tangible results for poor people. I hope that the information and analysis in this Report will contribute to an improved debate about its effective use.”*

*- Richard Manning OECD DAC Chair*

This year's Development Co-operation Report by the OECD DAC Chair, Richard Manning, looks at overall aid volume and examines whether donors are on track to reach their goal of increasing aid to USD 130 billion globally and doubling aid to Africa by 2010.

The report looks at major trends which reveal where aid is going – which regions are getting the most, which the least; which sectors (health, education etc) attract aid; and what impact are debt relief and emergency aid continuing to have on total aid flows.

The report also offers ideas on how donors can do more to encourage greater domestic accountability for public expenditure (which includes aid) in developing countries.

It also reports on some key measures of development co-operation, including the progress countries are making - or not - in implementing the Paris Declaration on Aid Effectiveness, and looks at how increased Aid for Trade can have the best impact.

## Aid increasing, but debt relief dominates

Total official development assistance (ODA) from DAC member countries rose by 32% in 2005 to USD 106.8 billion - a record high.

This represents 0.33% of members' combined gross national income in 2005, up from 0.26% in 2004, and the highest ratio since 1992.

But the lion's share of the increase came from debt relief grants (particularly to Iraq and Nigeria), which more than tripled, and from humanitarian aid, which rose by 15.8%.

In 2005, the DAC published a widely-quoted 'simulation' showing that if all donors respected their commitments, aid would rise from just under USD 80 billion in 2004 to USD 130 billion in constant dollars by 2010.

To reach this goal, however, will require a very steep increase in the period 2008-10, argues DAC Chair Richard Manning. It'll mean increasing "Tax-payer funded aid programmes faster than almost all other forms of public expenditure."

Richard Manning predicts that in the meantime aid is likely to decline modestly in 2006 and 2007, as debt relief declines.

### Aid to sub-Saharan Africa stalls, but most aid goes to poor countries

Aid to sub-Saharan Africa has risen sharply, but if Nigeria, which received mostly debt relief in 2005, is excluded, aid to this region was almost unchanged in 2005. However, aid other than debt relief should increase in coming years as commitments to double aid to Africa take effect.

Looking ahead, Richard Manning predicts that we are likely to see the decline in aid to Europe and the Far East continue after 2005, as more countries in these regions progress with their development.

96% of all aid now goes to the poorer range of developing countries, revealing that aid is now being allocated more closely to where the poor live.

### Non-DAC donors increase aid too

While aid from OECD DAC members will continue to account for close to 90% of total ODA, Richard Manning points out that aid from non-DAC donors is also increasing.

Warren Buffet doubled the resources of the Gates Foundation overnight.

Aid from non-DAC countries has traditionally been about 5% of worldwide ODA, but is set to rise as non-DAC OECD members like Korea and Turkey, and countries outside the OECD and the EU increase their aid.

### New ways of giving aid

An interesting feature of the past year is that ideas for innovative forms of development assistance have moved on from the discussion phase to become reality.

The three main initiatives have all been in the area of health.

- The International Finance Facility for Immunisation.
- Pledges to introduce airline levies to fund aid for malaria, TB and HIV AIDS.
- An 'Advanced Market Commitment' to provide incentives to develop vaccines where market demand is low.

It is expected that the first two initiatives above will increase global aid receipts by up to USD 2 billion a year, or by some 2% of total aid.

### Aid Dependency

Has aid dependency reached levels that threaten developing countries' macroeconomic stability and competitiveness ('Dutch Disease') leaving them unhealthily dependent on aid?

In fact DAC statistics show that overall levels of aid dependency are low and stable, after a significant decline in the 1990s. Most of the countries with high levels of dependency are small islands or states affected by conflict. But some larger countries could see their level of dependency rise somewhat if aid rises in accordance with pledges.

### Monitoring the Paris Declaration on Aid Effectiveness

The OECD DAC has been monitoring the implementation of the Paris Declaration on Aid Effectiveness since it was agreed by over 100 donors, developing countries and multilateral organisations in 2005. This year's Development Co-operation Report releases some early findings from the first 2006 Baseline Survey on Monitoring the Paris Declaration.

It suggests that greater attention should be paid to managing the costs of delivering aid. But aid effectiveness goes beyond the reduction of transaction costs; it must also involve stronger and more accountable institutions at country level. The survey shows that more work needs to be done in this area.

31 countries took part in the survey.

## Promoting Domestic Accountability

Richard Manning identifies areas where donors could and should be doing more to promote greater accountability by the governments of poor countries to their citizens. He suggests:

- continued action to improve consultation with non-government actors in the formulation of poverty reduction strategies, and using communications to improve accountability.
- paying more attention to improving tax collection systems.

He points out that accountability of governments to their citizens tends to be strongest not when aid levels are high but when tax revenue is high.

Donors have a long track record of trying to 'enable the state to work better' by helping to build capacity. It is much more delicate for outsiders to become involved in the underpinnings of the social contract that sets the terms of the local political debate, but donors should consider more support for:

- representative government
- an independent judiciary
- independent media.

## Aid for Trade

Without support to strengthen trade capacity in developing countries, improved market access will have little impact on poverty reduction.

This report alerts readers to recent evaluations highlighting the poor value for money of 'Aid for Trade' programmes, and points out that the Paris Declaration on Aid Effectiveness is far from being systematically applied in these programmes. It offers suggestions for improvement including the importance of country ownership and results-based management.

In 2004, assistance to the Aid for Trade agenda included USD 2.5 billion for trade-related assistance, USD 12.9 billion to build infrastructure and USD 7.3 billion to promote productive capacities. In fact, since the conclusion of the Uruguay Round, the share of Aid for Trade has averaged around 24% of total ODA, excluding debt relief.

## Country Notes – Policies and Efforts of Bilateral Donors

Each year the Development Co-operation Report gathers together notes of the individual policies and efforts of bilateral donors. Key features in 2006 include the following:

- Poverty reduction continues to be a strong, if not central focus for most donors.
- Members remain committed to the Millennium Development Goals.
- Fighting corruption was a core objective of donors' governance agendas.
- Several donors enhanced their programmes supporting security sector reform.
- Much is still to be achieved in the area of policy coherence.
- More attention is being given to monitoring and evaluation, with a focus on results.
- Fuller details are given for five countries which were peer reviewed: Greece, the Netherlands, Portugal, the United Kingdom and the United States.

## Statistics

The statistical annex of the Development Co-operation report brings together the latest data on member's aid budgets with detailed tables, graphs and charts. Highlights are included here.

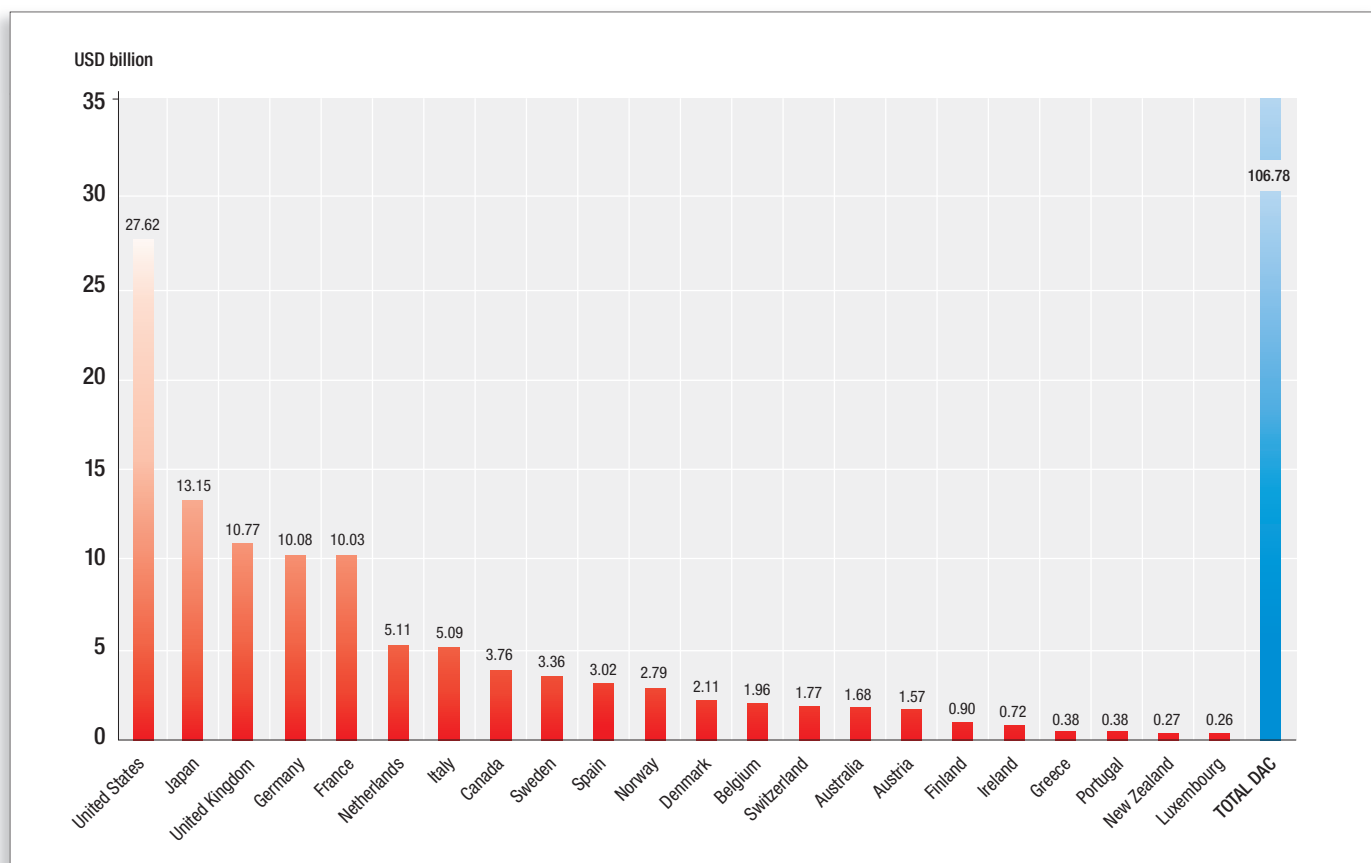
This statistical annex draws mainly on OECD databases compiled from information provided by OECD member governments, and uses indicators and methodology developed by the OECD Development Assistance Committee (DAC). The report incorporates data submitted up to 10 December 2006. All data refer to calendar years, unless otherwise stated, and reflect the DAC list of Aid Recipients as it was in 2005. (For a complete list of countries, please refer to: [www.oecd.org/dac/stats/daclist](http://www.oecd.org/dac/stats/daclist))

The full statistical annex and analysis is available on-line at: [www.sourceoecd.org/development](http://www.sourceoecd.org/development)

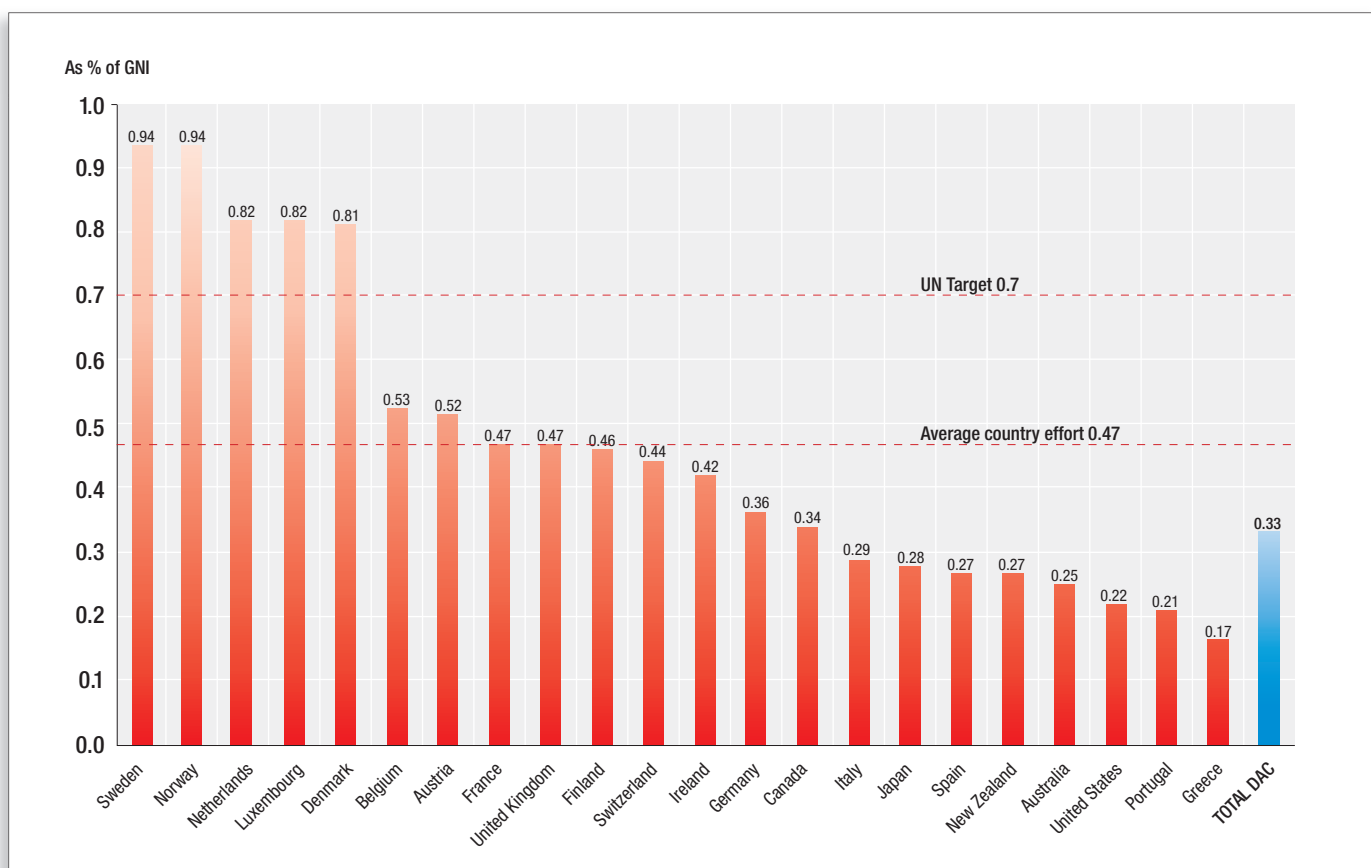
## Overview of Resource Flows

- OECD DAC country members – the world's major donors – increased their aid to a record high of USD 106.8 billion in 2005.
- Total official development assistance (ODA) from DAC members rose by 32% in real terms in 2005. This represents 0.33% of members' combined gross national income in 2005, up from 0.26% in 2004 and the highest ratio since 1992.
- But USD 22.7 billion of this total was for debt relief, mostly for Iraq and Nigeria.
- Excluding debt relief, emergency aid and imputed student costs, ODA has continued to rise in real terms each year since the Monterrey Financing for Development Conference in 2002, but at an increase of just over 5% per year.
- In 2005, the OECD DAC published a widely-quoted 'simulation' showing that if all donors respected their commitments, ODA (in 2004 dollars) from DAC members would rise from just under USD 80 billion in 2004 to USD 130 billion by 2010.
- Countries will need to increase aid by 11% in 2008-2010 to stay on target, which would mean increasing taxpayer-funded aid faster than almost all other forms of public expenditure in donor countries.
- Remittances are growing fast and globally now surpass ODA, but are focused on relatively few countries that provide the bulk of migrants working mainly in the Middle East and OECD countries.

In 2005 Aid increased to USD 106.8 billion up, from USD 79.5 billion in 2004



Net ODA in 2005 - amounts

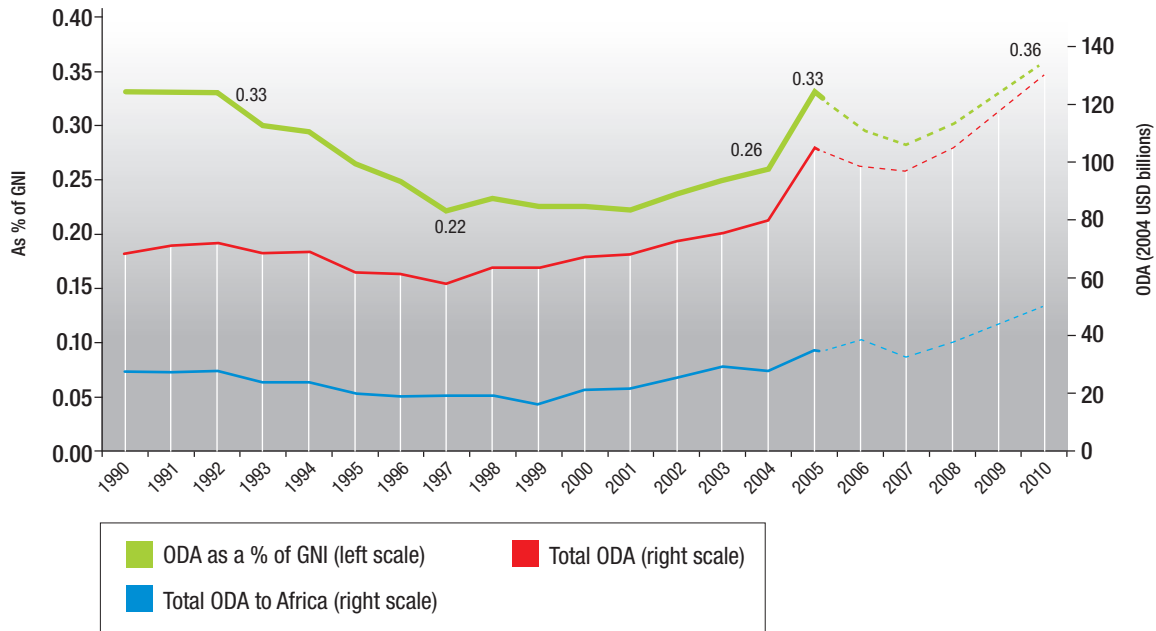


Net ODA in 2005 - as a percentage of GNI

## Aid Performance by DAC Members

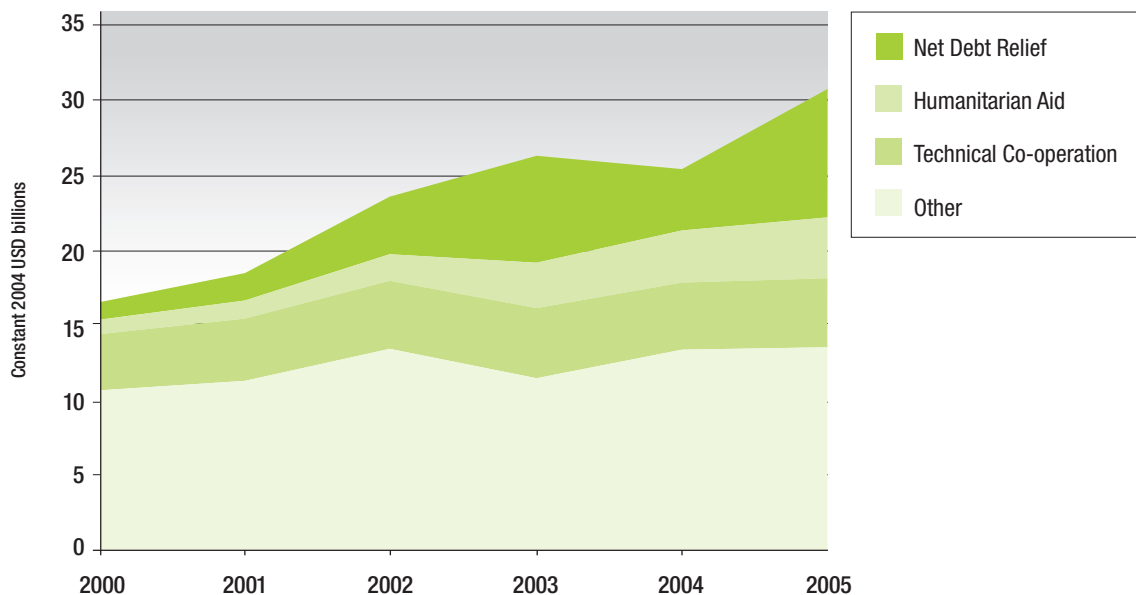
- Final data on aid flows in 2005 revealed that aid to the poorest countries in sub-Saharan Africa has stalled.
- Excluding debt forgiveness, which amounted to UDS 8.0 billion in 2005, notably for Nigeria, aid to sub-Saharan Africa increased by 4.2% in real terms to USD 24 billion.
- Debt relief and humanitarian aid account for all the increase to the region since 2002.
- Aid to least developed countries was boosted by aid to Afghanistan and the Sudan.
- The consistent rise in the volume of activities reported to the DAC as 'technical co-operation' (TC) continued, with a modest increase in 2005. DAC members are working to provide more detail about this USD 21 billion in the future.

### Aid is likely to decline in 2006 and 2007 as exceptional debt relief declines



DAC Members' net ODA 1990-2005 and DAC Secretariat simulations of net ODA to 2006 and 2010.

### Aid to Sub-Saharan Africa has stalled

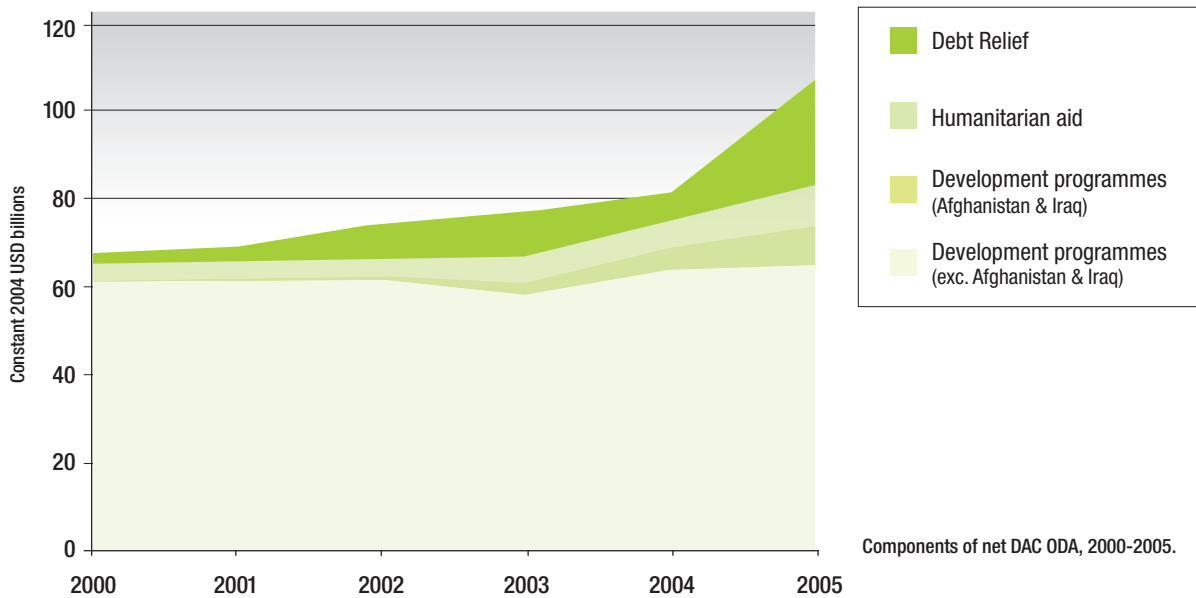


Components of total Net ODA to Sub-Saharan Africa, 2000-2005.

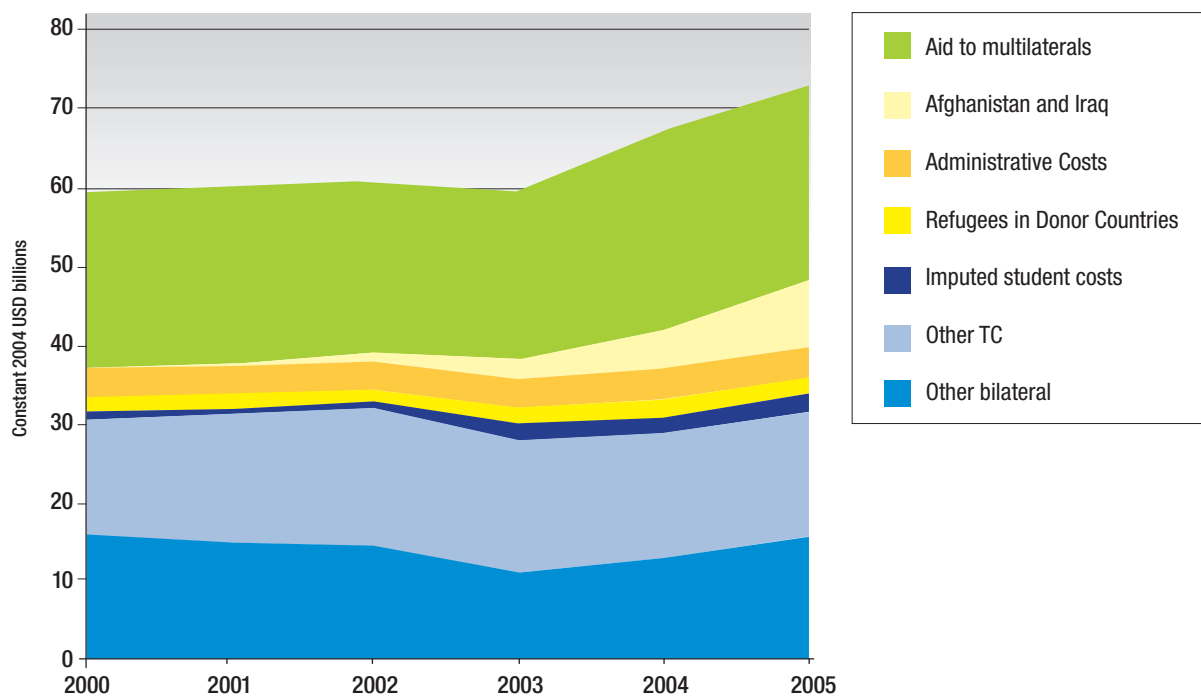
## Detailed Data on Financial Flows from DAC Countries

- Core development programmes rose by 8.6% between 2004 and 2005, but most of this increase was accounted for by only two countries, Afghanistan and Iraq.
- If these two countries are excluded, core development programmes increased by 2.9%.
- The lion's share of the aid increase in 2005 came from debt relief grants, which more than tripled, while humanitarian aid rose by 15.8%.
- General budget support – a new instrument in the past ten years – has become a significant form of resource transfer for a few well-performing aid-dependent poor countries, but account for only about 5% of global ODA.
- Underlying ODA available to the average developing country will however, continue to increase up to 2007 by an annual rate of at least 5%, as in the recent past.
- Since the conclusion of the Uruguay Round, the share of Aid for Trade has averaged around 24% of total ODA, excluding debt relief.

Most of the aid increase in 2005 came from debt relief grants



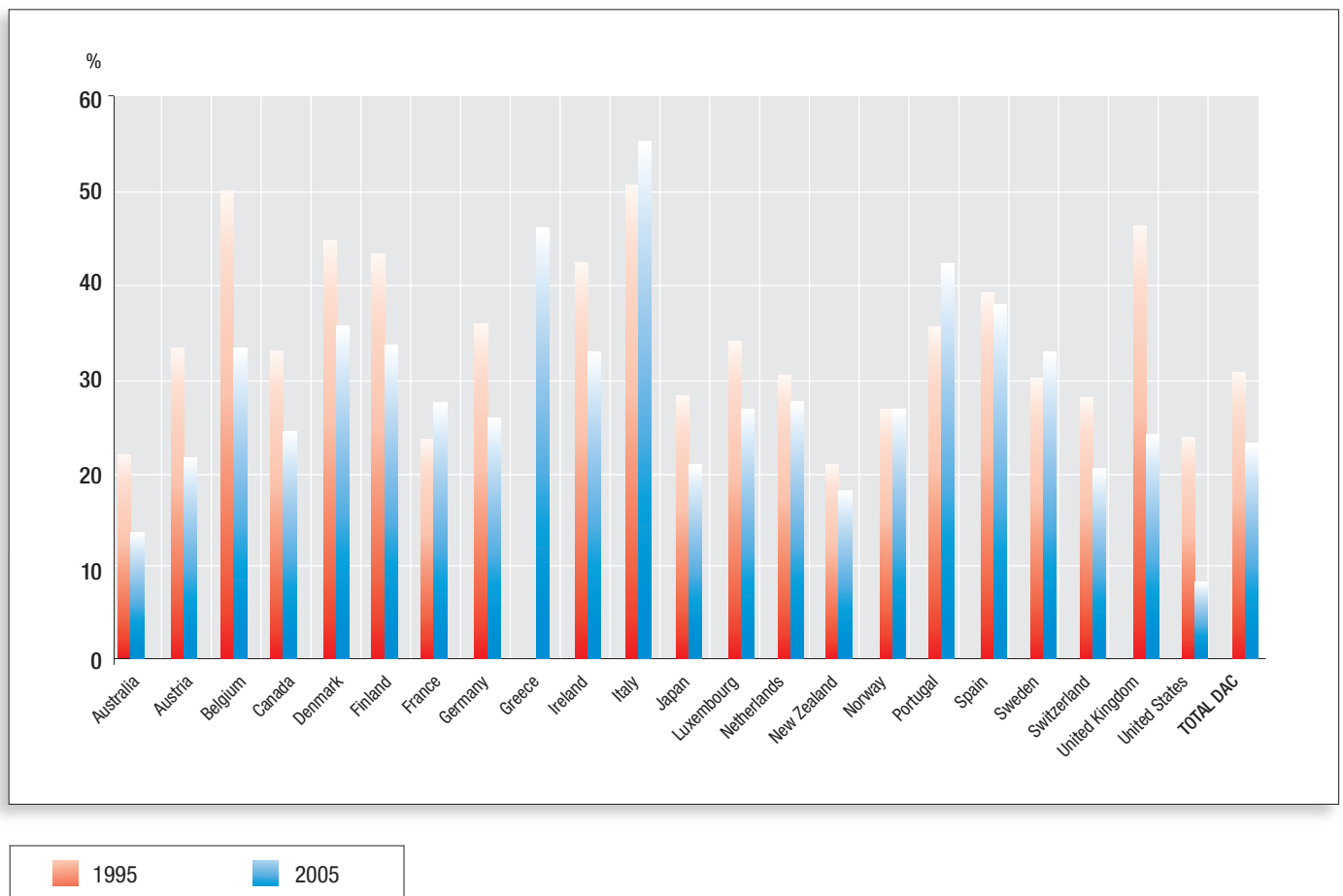
Components of DAC members' development programmes 2000-2005



## Multilateral Aid

- In 2005, DAC members allocate approximately 23% of their total ODA to multilateral organisations, with some countries giving as low as 8% and others as much as 55%, in part depending on the cycle of bank replenishments.
- The exceptional debt relief in 2005 pushed the bilateral share of DAC members' ODA to 76.9%, the highest level since 1973.
- Flows to the various agencies in the multilateral system have been rather consistent over a considerable period, while flows from the soft funds of the multilateral banks have grown at higher rates because of the recycling of reflows. This pattern is now experiencing a shake-up as grants take a larger share of multilateral aid and as multilateral debt relief reduces the reflows.
- The arrival of the more single-purpose multilateral funds, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, is slowing the decline in the multilateral share.
- Donors are in practice putting a larger share of their country funding through multilateral agencies for specific projects or programmes, which is shown as bilateral rather than multilateral aid in DAC statistics. This means that the multilateral agencies in fact disburse a higher share of total aid than the chart suggests.
- Among the various multilateral channels, the European Commission (a quasi-multilateral body) has become more significant as a channel of aid. Aid provided by the EC rose by 6% in 2005 to USD 9.4 billion, primarily due to improved disbursement capacity and substantial aid for tsunami hit countries.

### About 23% of aid goes to multilateral organisations

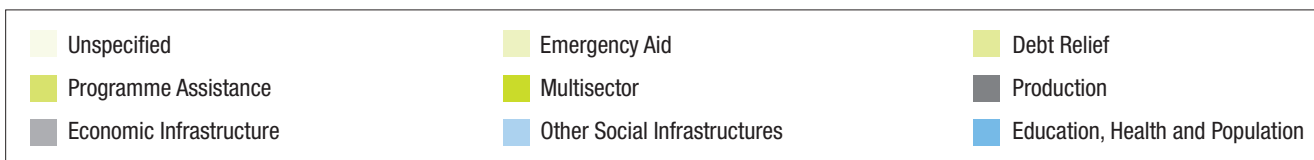
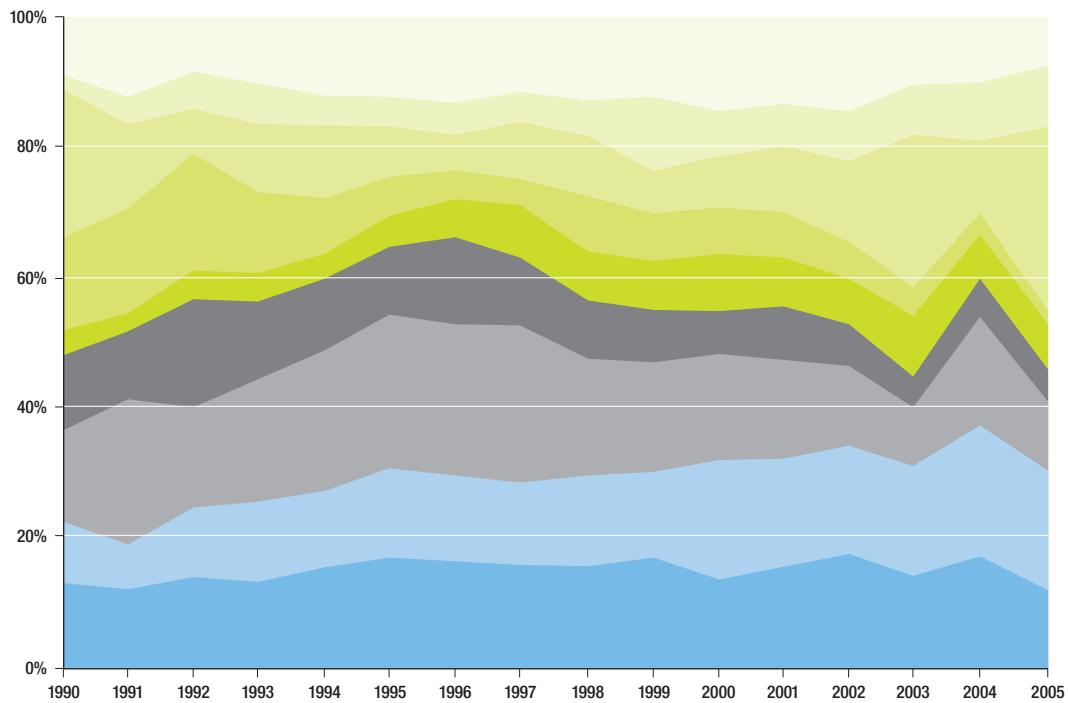


DAC members' ODA shares to multilateral agencies, 1995 and 2005.

## Sectoral Allocation of ODA

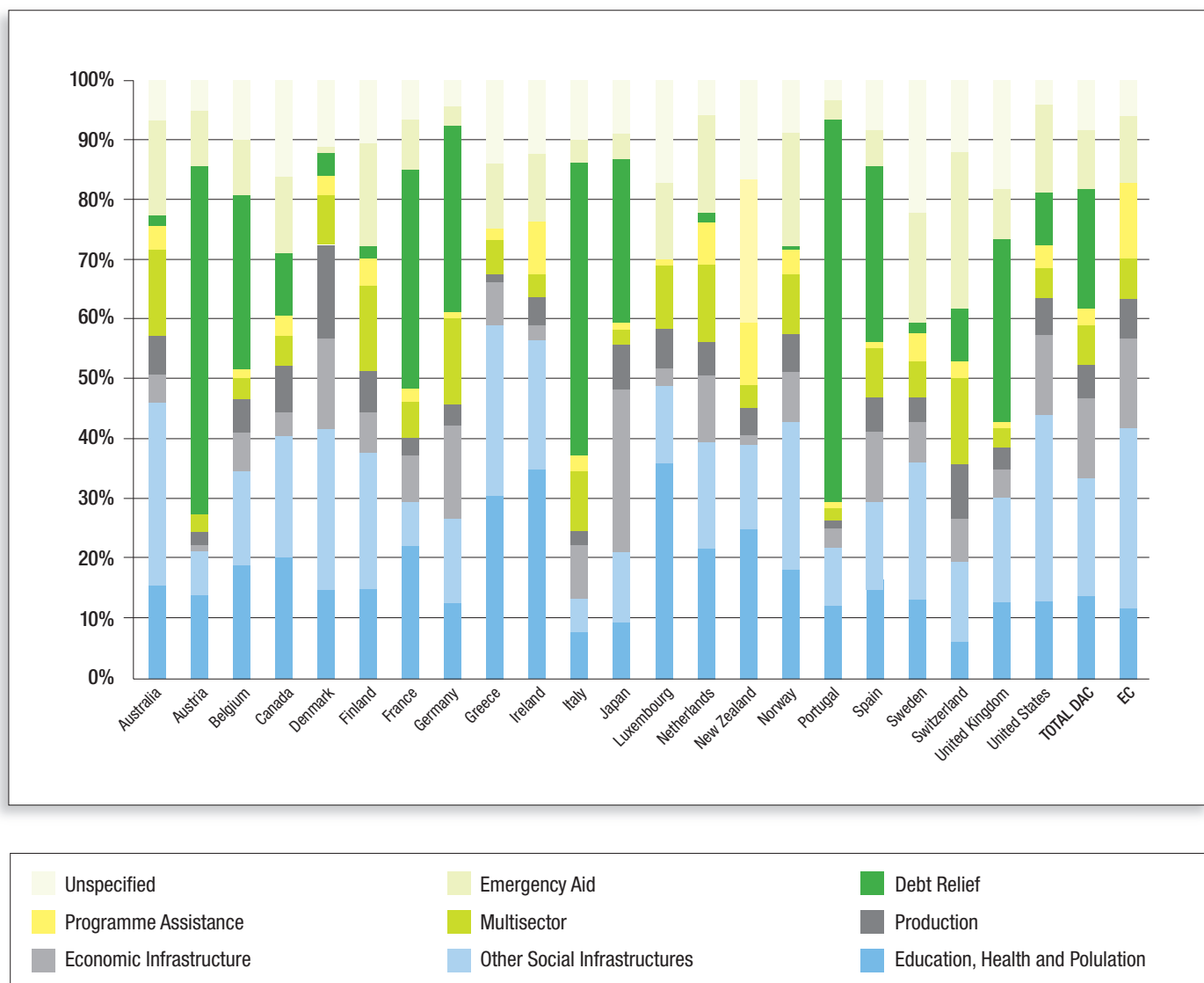
- *Over the last 15 years* education and health have received a steady 15% of aid. Infrastructure slumped from 19% in 1993 to 9% in 2003, recovering partially in 2004 (17%) and going down again in 2005 (11%). Aid to production, including agriculture, has halved since 1990 to only 6%.
- Despite much discussion of budget support, general programme assistance – of which it is a part – has fallen by two-thirds since 1990 to only 2.5% in 2005. Debt relief varies greatly from year to year, peaking at 28% in 2005. Emergency aid averaged 5% in the 1990s, but has averaged 9% since.
- *Taking a snapshot of 2004-05*, on average 41% of aid went to education, health, government, infrastructure and production. Debt relief accounted for 20% of aid, the highest single item in that two-year period. This is primarily because of debt relief to Iraq (USD 13.9 billion) and Nigeria (USD 5.5 billion).
- The OECD DAC expects that ODA from DAC members will decline modestly in 2006 and 2007, as exceptional debt relief declines.

Education and health, steady at 15%; aid to production, including agriculture has halved



ODA commitments by sector, percentage, evolution 1990-2005.

## A third of aid goes to the social sectors, ranging by donor from 20% to over 50%

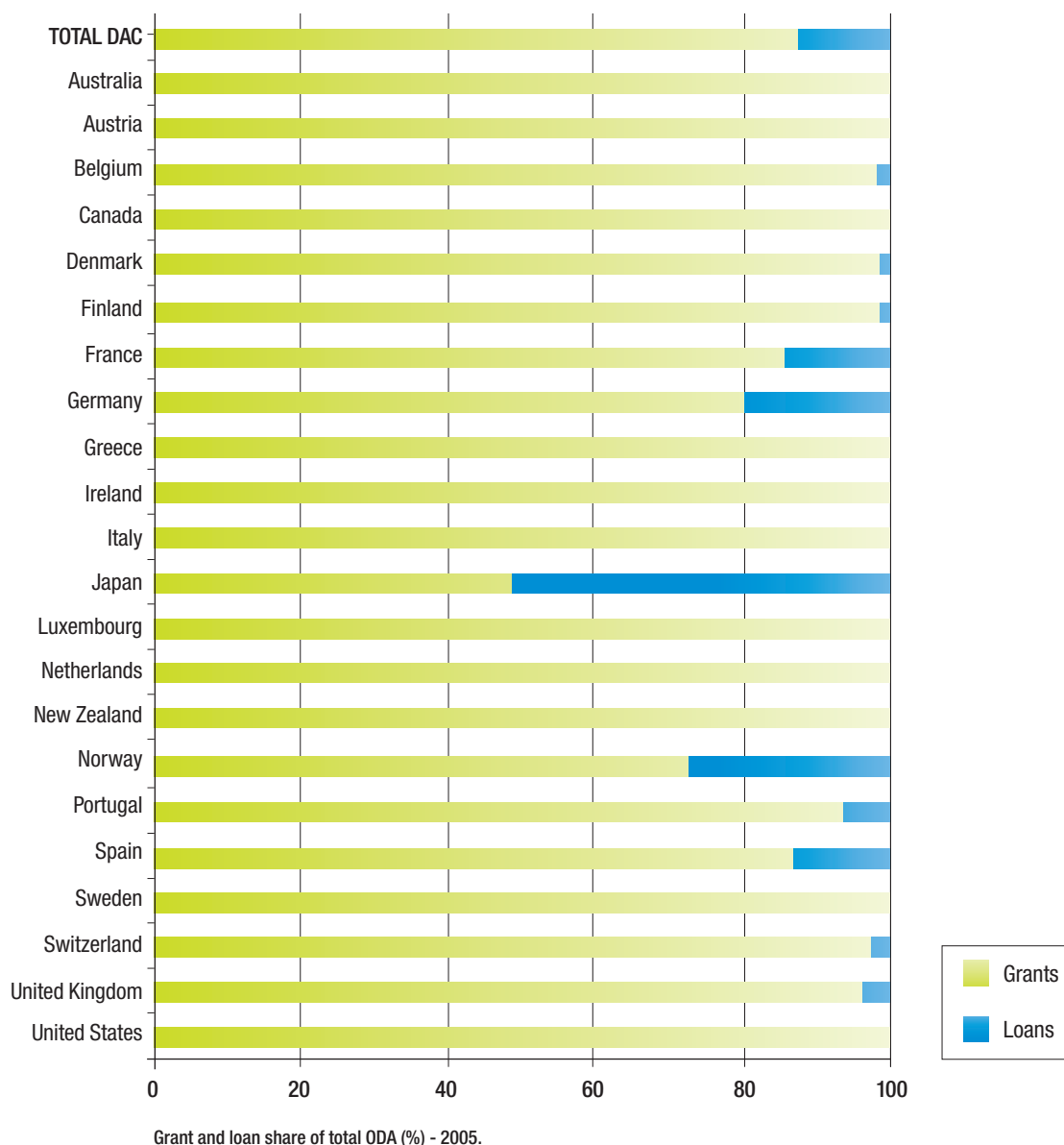


ODA commitments by sector, percentage, 2004-05 average.

### Terms and Conditions

- 50.9% of aid is reported as not tied to procurement in the donor country. But the tying status is unknown for some 44.5% of all aid. Most aid to the least developed countries is now untied by agreement and some donors have untied all their aid.
- Most donors now have grant-only programmes, though some larger donors continue to provide loans, notably for infrastructure projects.

## Most ODA is now in grant form, though loans are still provided, mainly for infrastructure projects



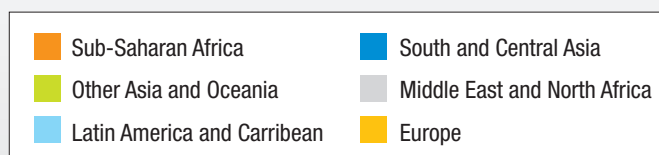
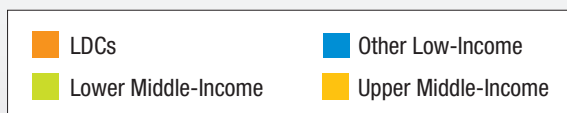
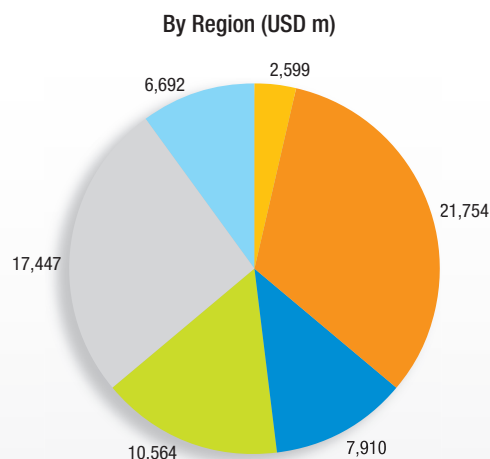
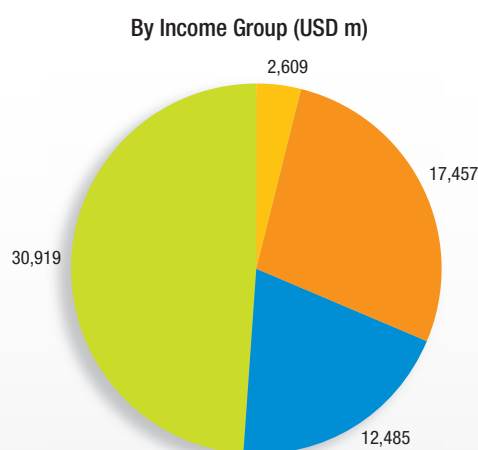
### Geographic Distribution of ODA

- 96% of all reported ODA now goes to the poorer range of developing countries (least developed, low income and lower middle income countries).
- Low income countries (under USD 825 GNI per capita in 2004) receive 47% of gross bilateral aid, less than might be expected given that they have a three quarters share of people living under a dollar a day.
- Middle income countries, which account for roughly 27% of people living on under a dollar a day, receive some 53%, nearly all to lower middle income countries (GNI per capita USD 826 to 3255).
- Small countries get far more aid per person than larger countries.
- Fragile states where governments cannot or will not deliver core functions, receive less aid per head than the normal poverty-plus-performance model would imply, but are home to one-third of the absolute poor caught in a vicious cycle of conflict, poor governance and poverty. Some fragile states are however among the most aided.
- Aid to Europe and the Far East declined in 2005 as more countries in these regions progress with their development.
- The top ten recipients of aid vary from year to year. Large countries feature regularly, but emergency, reconstruction and debt relief in Iraq have placed it top in the last 3 years. Donors are also responding to good performance, and therefore there have been rises in aid to Viet Nam, Tanzania, Uganda and Ghana, for example.

Net ODA	2004	2005	Change 2004/2005
Current (USD m)	79,410	106,777	34.5%
Constant (2004 USD m)	79,410	104,835	32.0%
ODA/GNI	0.26%	0.33%	
Bilateral Share	68%	77%	

Top 10 countries to receive aid in 2004-2005. Emergency and reconstruction in Iraq keeps it at the top		
1. Iraq	12,924	USD m
2. Nigeria	3,160	USD m
3. China	2,682	USD m
4. Afghanistan	1,946	USD m
5. Indonesia	1,867	USD m
6. India	1,785	USD m
7. Ghana	1,394	USD m
8. Egypt	1,319	USD m
9. Viet Nam	1,312	USD m
10. Sudan	1,163	USD m

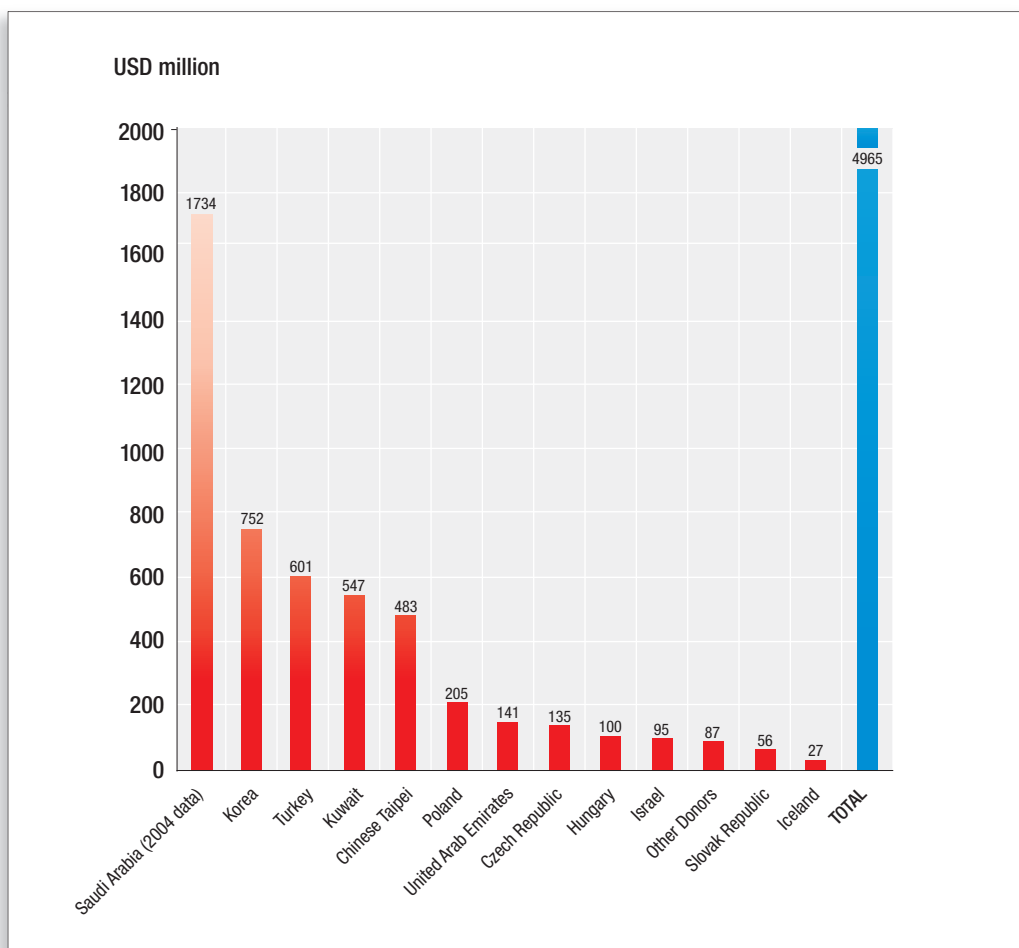
96% of all reported aid now goes to the poorer range of developing countries.  
Gross bilateral ODA by income group and by region, 2004-2005 average



### Aid by Non-DAC donors

- OECD DAC member countries continue to supply around 95% of total ODA, but that's likely to decline to about 90% over the period to 2015.
- In the recent past, aid from non-DAC countries has probably been about 5% of worldwide ODA. This figure is likely to rise over coming years as non-DAC EU and non-DAC OECD members, such as Korea and Turkey, increase their aid. Countries outside both the OECD and the EU are also set to increase their aid, notably China and India.
- 17 non-DAC donors reported a total of USD 3.2 billion net ODA in 2005, of which 1.9 billion was from other OECD members and USD 0.7 billion was from Arab countries
- As yet, there are no available data for most emerging donors in Asia, notably China and India.

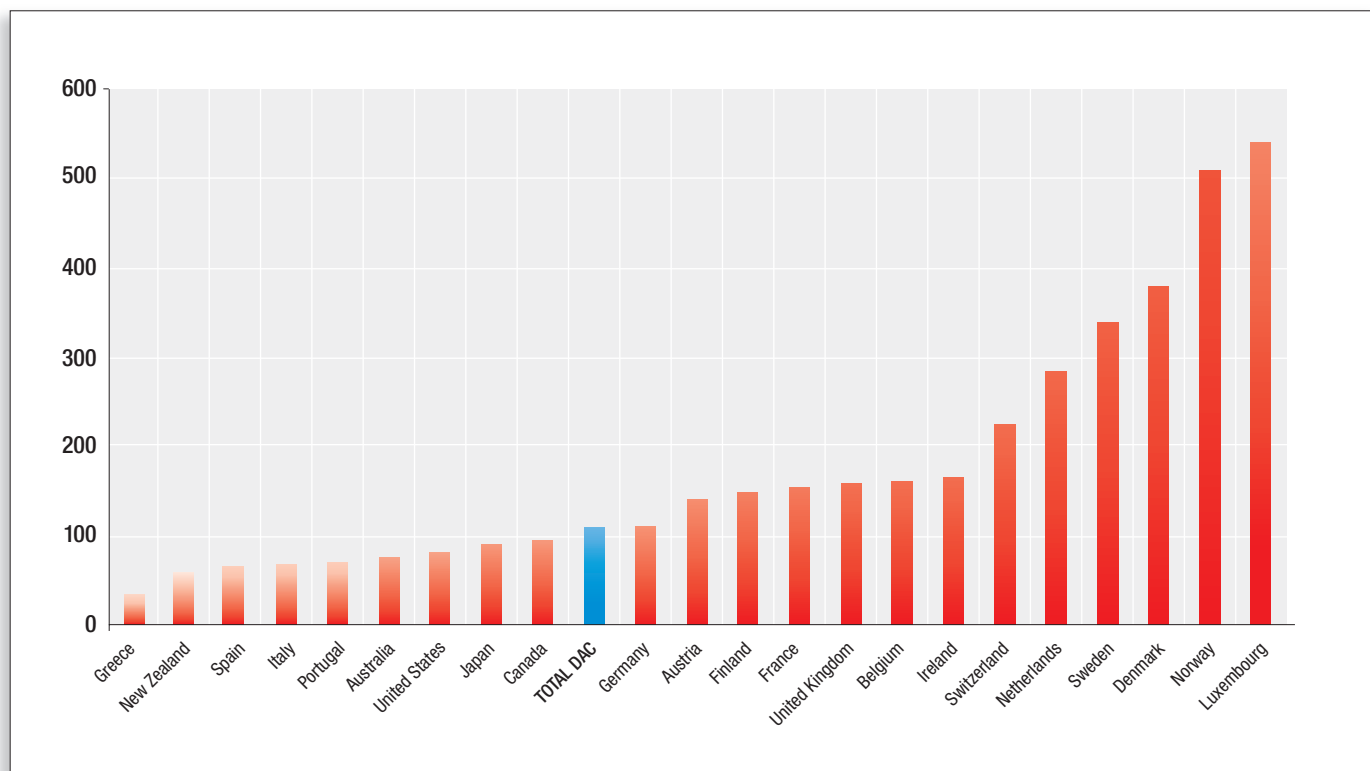
## ODA from Non-DAC donors.



## Key Reference indicators for DAC Countries

- The average OECD DAC citizen spends USD 105 on development assistance per year. This figure is increasing each year in line with aid increases. The five most generous countries (Denmark, Luxembourg, Netherlands, Norway and Sweden) give over USD 240 per capita per year. Four countries (Greece, Italy, New Zealand and Spain) give below USD 65 per capita per year.

The average OECD DAC Citizen spends USD 105 on development assistance per year

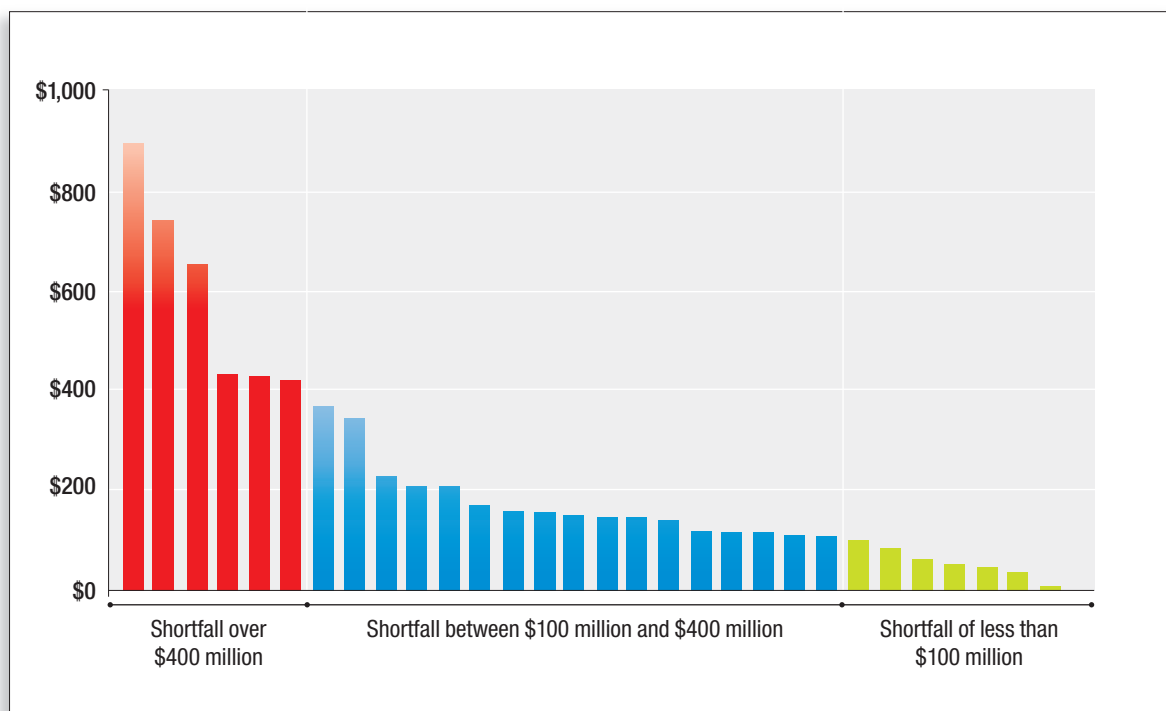


DAC Members' net ODA per capita, USD in 2004-2005.

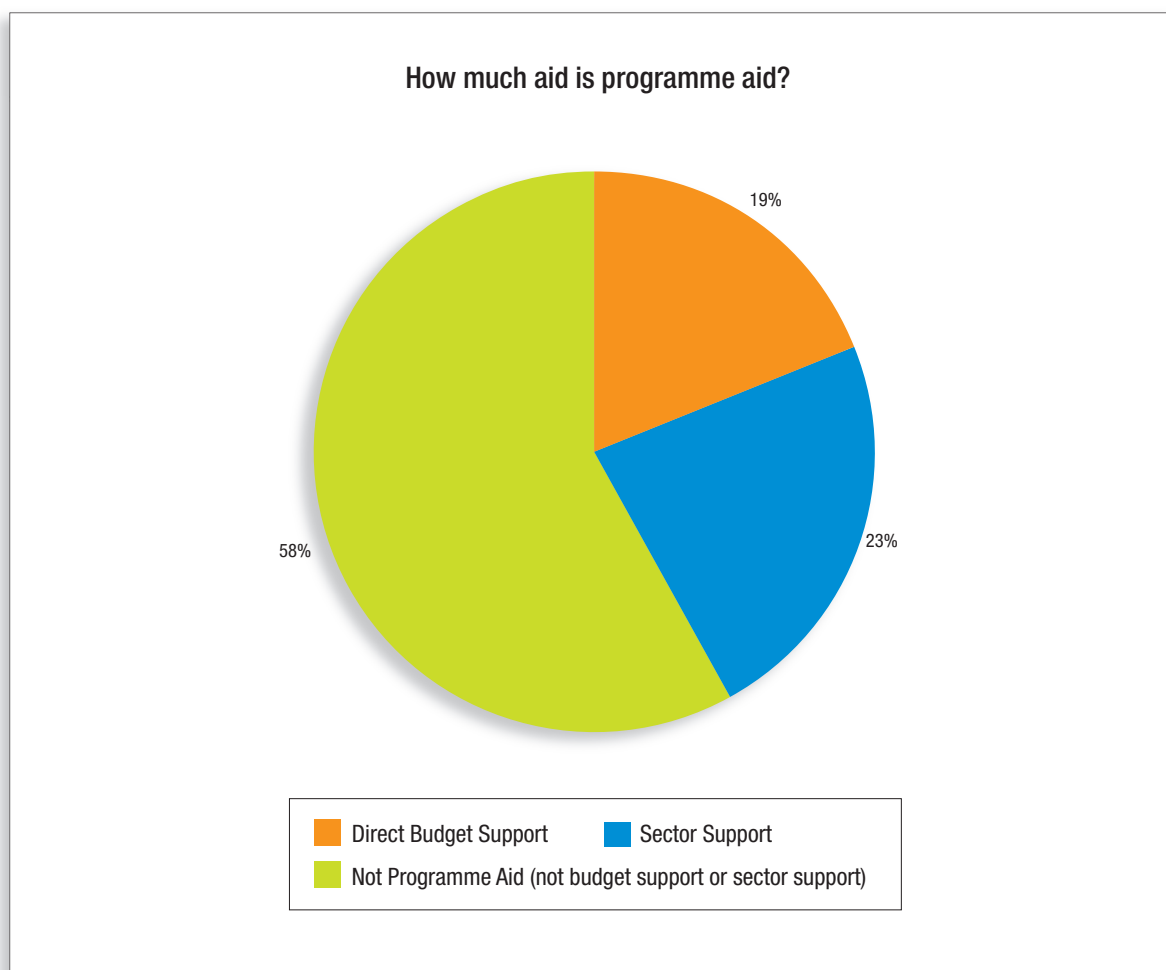
## Monitoring the Paris Declaration on Aid Effectiveness

- Early and tentative findings from the OECD DAC Baseline Survey on Monitoring the Paris Declaration suggest that positive actions to implement the strategy are being taken in 31 countries.
- Broad and substantial implementation is underway in 5-8 countries, and good but less extensive implementation in 10-15 others.
- There are substantial discrepancies between the funds disbursed by donors and the information recorded in the budgets of developing countries.
- More work needs to be done in developing stronger and more accountable institutions at country level.
- Evidence suggests that some processes recommended in the Paris Declaration like more co-ordinated multi-donor programmes, may require 15-20% more time and resources than traditional stand-alone projects, although the development results may be better.

Gap between what was scheduled for disbursement and what was actually disbursed in 2005.



Disbursement shortfall in millions of US dollars.



For further information about DAC, please email: [dac.contact@oecd.org](mailto:dac.contact@oecd.org)