

# 5

## OFFICIAL DEVELOPMENT ASSISTANCE



*Interest in Official Development Assistance has increased markedly over the last decade. This has been generated in large part by international attention towards the MDGs.*



Photo: Quocnguyen/UNDP, Viet Nam



## Introduction

Interest in Official Development Assistance (ODA) has increased markedly over the last decade. This has been generated in large part by international attention towards the MDGs. The United Nations Millennium Declaration explicitly recognized the role of ODA in the development process and committed industrialized countries to “grant more generous development assistance” (UN 2000). The International Conference on Financing for Development held in Monterrey, Mexico in 2002 reiterated this view and recognized that “a substantial increase in ODA”, *inter alia*, would be required to achieve the MDGs (UN 2002). These international agreements have helped to increase the political momentum for aid following a substantial weakening during the 1990s. In 2010, net ODA flows from members of the Development Assistance Committee (DAC) of the OECD reached \$128.7 billion, the highest level ever in nominal terms (OECD-DAC 2011).<sup>1</sup>

For some developing countries, especially the LDCs and some SIDS, ODA is a major source of external finance when measured as a percent of GNI, on a per capita basis or as a proportion of the government budget; for other developing countries, ODA is of little significance. For instance, in 2008, net ODA flows constituted more than 10 percent of GNI in 26 developing countries.<sup>2</sup> Most of these are either LDCs or SIDS. Several

post-conflict countries are also recipients of substantial amounts of aid. For 31 countries, mostly middle-income, net ODA flows represented less than 0.5 percent of GNI in 2008 (author calculations based on data in World Bank, World Development Indicators 2010). Some of the poorest resource-scarce countries, as well as some small islands, attract little FDI and are not able to access finance on international capital markets in the same way as many other developing countries can. Thus, aid flows become all the more important as a source of foreign exchange and development finance.

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For a subset of developing countries, a high degree of dependence on aid accentuates macro-economic vulnerabilities and may also be a contributory factor in the overall sustainability of the MDGs. A dependence on aid is akin to ‘putting all one’s eggs in the same basket’ and leaves countries exposed to sharp fluctuations in the overall volume of aid as well as donor preferences in terms of the purposes to which aid is put.

There are four broad avenues through which dependence on aid can influence sustainability of the MDGs:

- 1. Degree of dependency on aid:** Where countries are heavily dependent on aid (measured as a proportion of government revenues, on a per capita basis or as a percent of GNI), governments remain vulnerable to sharp fluctuations in aid flows. In some cases, countries may not be especially dependent on aid, but certain sectors within a country may rely heavily on aid to function and thus are vulnerable (e.g., the health sector).
- 2. The procyclicality of aid:** Where aid is procyclical, it can exacerbate rather than mitigate the impacts of business cycles and/or extreme weather-related shocks. Where aid is countercyclical, it can have an important smoothing or insurance function. The empirical evidence suggests that, on average, aid is procyclical.



3. **The volatility of aid:** Where aid is volatile or unpredictable, recipient governments are less able to plan expenditures effectively. This raises the costs of financial management and can worsen the composition of government spending (e.g., divert resources from capital investment towards recurrent expenditure). However, it should be noted that not all volatility in aid is necessarily negative; volatility in aid can be associated with aid shortfalls and aid windfalls.
4. **The uses of aid:** While the headline ODA figure suggests substantial increases in aid over the last decade, this masks the extent to which relatively little aid actually reaches recipient countries overall. Some sectors (e.g., the social sectors) have seen larger increases in aid than others (e.g., agriculture and the productive capacities). However, the evidence shows that much aid has had little meaningful impact on development outcomes and the MDGs.

These problems are well known and have inspired a number of international efforts aimed at addressing them, such as the Paris Declaration on Aid Effectiveness of 2005 and the Accra Agenda for Action of 2008, both under the auspices of the Organisation for Economic Co-operation and Development (OECD).<sup>3</sup> These international agreements, endorsed by many donors, recipient countries and international organizations alike, aim to improve the effectiveness of aid through a pre-defined set of actions to be undertaken by both donors and recipients. Progress, however, has so far been mixed.<sup>4</sup>

Policy responses to secure sustainability of the MDGs in aid-dependent countries must therefore seek to address the concerns cited above. This will necessarily involve actions by aid recipient countries and aid providers.

This chapter provides a broad overview of current dynamics in international development cooperation. It continues with an analysis of the specific avenues through which aid influences sustainability of the MDGs. The chapter concludes with a series of policy recommendations at the donor-and recipient-country levels to improve aid's contribution to the development process, with a particular focus on measures to safeguard MDG progress.

### Setting the Scene: Aid at a Glance

The ODA landscape has changed markedly over recent years in relation to how much aid is provided, by whom, to which countries, through which modalities, as well as the purposes to which it is put. In 2010, net ODA from members of DAC of the OECD reached \$128.7 billion, the highest real level of ODA ever (OECD-DAC 2011). Since 2000, ODA from OECD-DAC members has increased from \$53.9 billion (current prices), an increase of almost two and a half times (OECD-DAC 2010).

Non-OECD-DAC donors have also increased aid levels significantly. Indeed, 'South-South cooperation' (SSC) has become much more prominent over the last decade, as rapid economic growth by many major developing countries has led to a greater role in international affairs. Estimates of total South-South cooperation stand at about \$15.3 billion in 2008 (in current prices), or 9.5 percent of total development cooperation (UN DESA International Development Cooperation Report 2010). The largest developing country providers of development aid are China, Saudi Arabia and the Bolivarian

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Republic of Venezuela (at about \$2 billion each in 2008) and India (\$750 million in 2008). In 2008, the top three providers accounted for about 75 percent of total South-South development cooperation (UN DESA 2010).

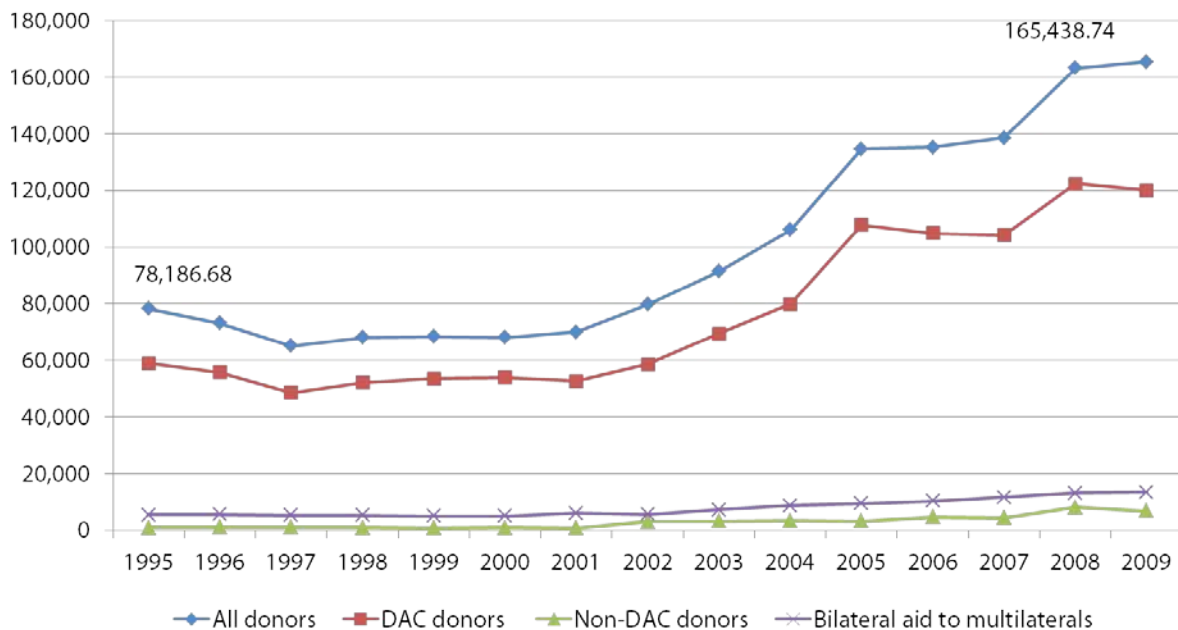
When measured as a proportion of donors' GNI, however, a somewhat different picture emerges. ODA from OECD-DAC donors has increased only marginally since 1995, from 0.26 percent in 1995 to 0.32 percent in 2010 (OECD-DAC 2011). ODA as a percent of GNI was at its lowest in 1997, at just 0.22 percent (OECD-DAC 2010).

Indeed, only a handful of international donors have reached the longstanding UN target of 0.7 percent ODA/GNI (Denmark, Belgium, Luxembourg, the Netherlands, Norway and Sweden in 2011) (OECD-DAC 2010). Although a number of other more 'modest' commitments to increase aid also exist (e.g., by the G8 in 2005 to increase ODA by "around \$50 billion per year by 2010, compared to 2004" and the EU commitment to a collective EU target of 0.56 percent ODA/GNI by 2010), these have been squarely missed. The OECD-DAC reported that, in 2010, total ODA fell approximately \$18 billion short of the commitments made at the G8 Summit in 2005 (in 2004 prices and exchange rates); \$125 billion was committed, but only \$103 billion was actually delivered (OECD-DAC 2010).<sup>5</sup> When measured against the UN target of 0.7 percent ODA/GNI, ODA fell short by \$153 billion in 2009 (in 2004 dollars) (UN MDG Gap Task Force 2010).

Although much lower in absolute terms, ODA provided by so-called 'emerging' donors has increased sharply over the last decade, and especially the last five years. The chart below illustrates the sharp rise in development cooperation from the following emerging donors: the Czech Republic, Hungary, Iceland, Poland, Slovak Republic, Turkey, Taiwan, Israel, Slovenia, Thailand, United Arab Emirates.

For 'traditional' OECD-DAC donors, the OECD recently projected slower aid growth ahead.<sup>6</sup> Global CPA is predicted to grow at a real rate of 1.3 percent per year for DAC countries from 2011 to 2013, compared to

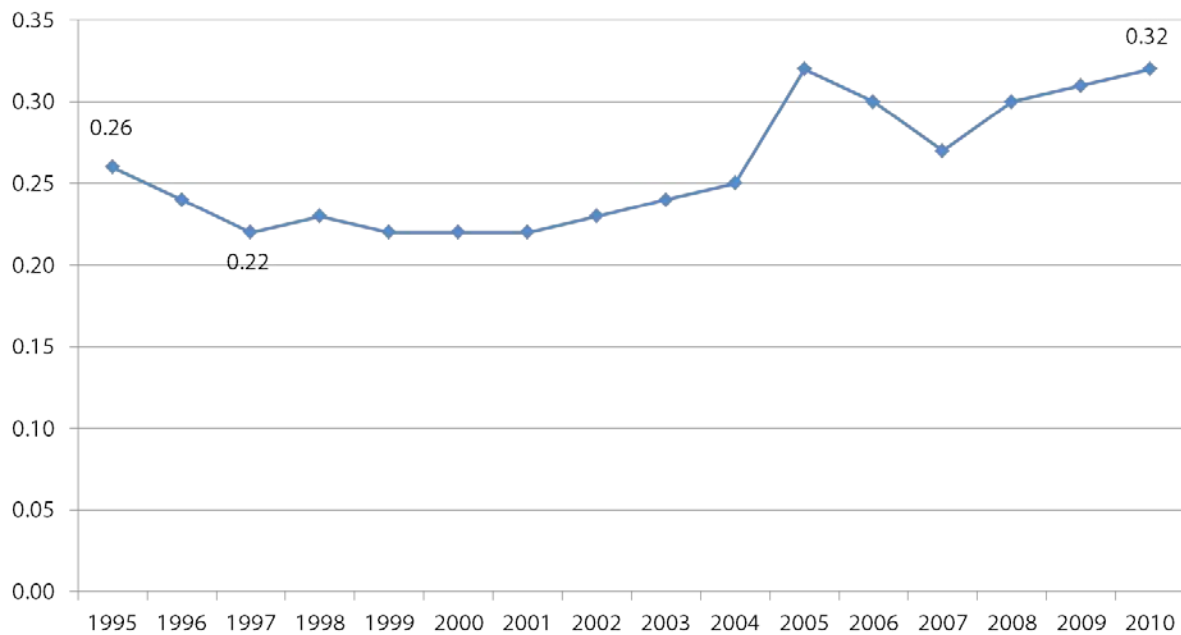
**Chart 5.1: Total ODA, all recipients and all donors, 1995–2009 (US\$ millions)**



Source: OECD-DAC 2010

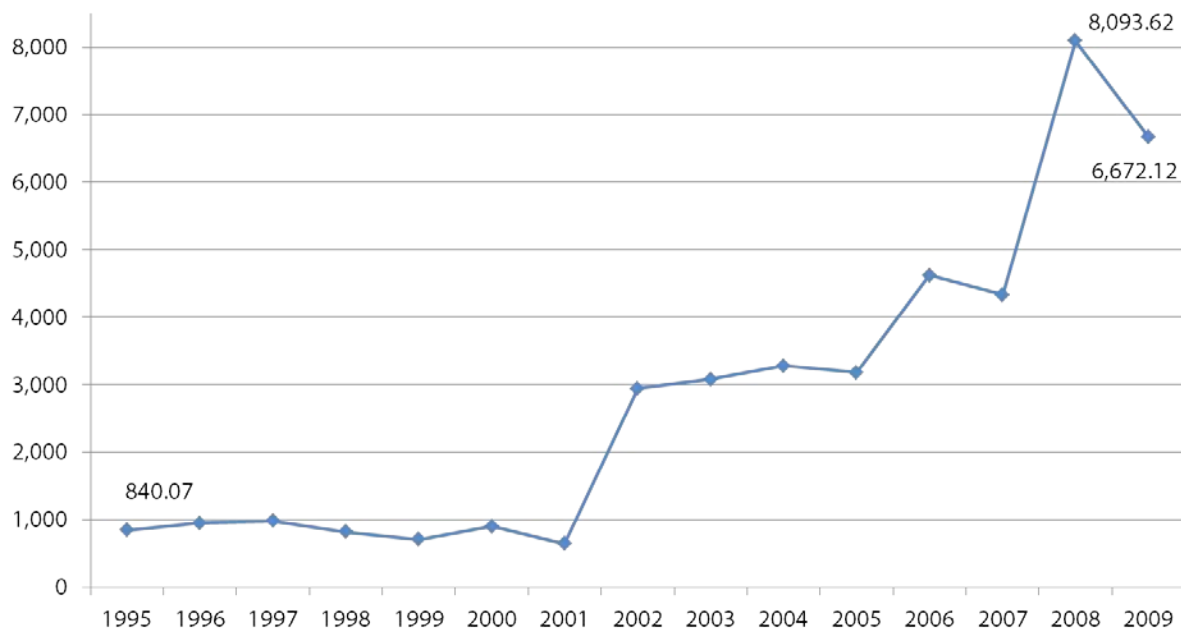


**Chart 5.2: ODA as a percent of GNI, OECD-DAC donors, 1995–2010**



Source: OECD-DAC 2011

**Chart 5.3: Non-OECD-DAC donors' total ODA (current US\$ millions)**



Source: OECD-DAC 2010



*The recent slowdown in development cooperation funds from so-called 'traditional' donors is indicative of the fragility of international aid and of internationally agreed promises to increase it.*

8 percent per year on average over the past three years. Projected increases in population in many recipient countries will outpace the growth in aid from traditional donors.

On the other hand, South-South cooperation is on a sharp upward trajectory with respect to volume and the emergence of new players. Assistance from private voluntary organizations and the development of a number of innovative finance schemes must also be added to this mix. Both have increased considerably over recent years. Estimates of the amount of

development assistance provided by private philanthropy from developed to developing countries stood at around \$52.6 billion in 2008 (Hudson Institute 2010). South-South philanthropy also has a longstanding tradition and is increasing sharply, especially in the Arab world. Innovative financing schemes have so far generated around \$4 billion in resources for development, mainly to support interventions in the health sector.<sup>7</sup>

The current picture is thus one of a significantly more diversified donor landscape over the last decade and particularly the last five years. For recipient countries, more donors mean more resources and also more competition among them. This can be viewed positively. On the other hand, it may lead to greater fragmentation in the delivery of aid and can place large administrative burdens on the governments of recipient countries.

**Table 5.1: ODA and Other Aid Flows: An Overview**

Funding Source	Monies Contributed, US\$ million (2009, current prices)
ODA (OECD-DAC)	120,000.63
ODA (non-DAC countries that report to OECD-DAC)	6,672.12
South-South Cooperation (donors that do not report to OECD-DAC)	15,300.00 *
Bilateral aid to multilaterals	13,443.66
Innovative finance mechanisms	4,000.00 <sup>8</sup>
Private philanthropic initiatives	52,600.00 *

\* 2008, current prices

**Source:** OECD 2010, Leading Group, Hudson Institute 2010, UN DESA 2010.

The recent slowdown in development cooperation funds from so-called 'traditional' donors is, however, indicative of the fragility of international aid and of internationally agreed promises to increase it. Prospects for most industrialized countries reaching 0.7 percent ODA/GNI any time soon are not promising. And although recent increases in South-South cooperation offset this somewhat, the volume of aid overall is still far from sufficient when compared to the amounts needed to support the MDGs. A key question for the future is whether the current political momentum for increased aid will be sustained beyond the 2015 MDG target date.



## ODA as a Source of Vulnerability to Sustaining MDG Progress

ODA can influence sustainability of the MDGs. However, the transmission channels will vary from one recipient country to the next. A country's overall dependency on aid is perhaps the most important consideration, but the extent to which aid actually matters in terms of sustainability of the MDGs also depends on whether aid makes (or has made) any meaningful contribution to development outcomes. This, in turn, is influenced by the ways in which aid is delivered and the extent to which it supports or undermines macro-economic stability and resilience to shocks in recipient countries.

A large body of research has attempted to provide some insight as to why aid is not especially effective in recipient countries. Some of this research has emphasized recipient countries' characteristics to explain the poor performance of aid; other research has focused more on donor behaviour as the main determinant.

On the recipient country side, research has explored the roles of, *inter alia*: policy and institutional quality (Collier and Dollar 2002); institutional quality alone (Burnside and Dollar 2004); civil conflict and war (Collier and Hoeffler 2002, Collier 2006); the 'nature' of the regime in place (i.e., totalitarian, democratic, etc.) (Islam 2003); geographical characteristics (e.g., being landlocked or a small state) (Collier 2006, Commonwealth Secretariat); degree of economic openness of the economy (Burnside and Dollar 2000); degree of vulnerability to external shocks, such as export price shocks and/or extreme weather events (Collier and Dehn 2001, Guillaumont and Chauvet 2001 and 2002); the degree to which aid is fungible (Petersson 2004); and the extent to which the scaling-up of aid leads to 'Dutch Disease' (Rajan and Subramaniam 2005).

On the donor side, the research has looked at: the volatility of aid relative to other sources of government revenues (Bulir and Hamman 2003 and 2006, Chauvet and Guillaumont 2008); donor motivations for aid (e.g., political, strategic or economic interests of donors) (Alesina and Dollar 2000); and the destination of aid, i.e., what aid is actually spent on and the proportion that actually reaches beneficiary countries (e.g., technical assistance, direct budget support, social or productive sectors, debt cancellation, humanitarian crises, etc.) (OECD 2007, EURODAD 2006, 2007, 2008 and 2009).

The research that finds that aid is most effective in those countries with strong policies and institutions has been enormously influential in policy circles over the last decade. Donor agencies have embraced the implication that more aid should be channelled to countries with stronger policies and institutions, but have been more reluctant to embrace the implication that aid should be eliminated, or at least substantially reduced, in the countries with the weakest policies and institutions (Clemens, Radelet and Bhavnani 2004). This research has prompted some major donor agencies and multilateral institutions to be more 'selective' with their aid allocations and to allocate larger shares to countries with supposedly 'stronger' policies and institutions (as judged by donors), where it will presumably have a bigger impact on development and economic growth. This has helped contribute to the phenomenon known as 'donor darlings' and 'donor orphans'.<sup>9</sup>

Other research has pointed to the heterogeneity of aid flows themselves rather than to the heterogeneity of aid recipients. All aid is not alike and the extent to which aid is 'effective' depends on the objective of that aid. For instance, with politically motivated aid, economic development may be a welcome side-effect of aid, but it is not the metric by which policy makers would evaluate the effectiveness of that aid (Clemens, Radelet and Bhavnani 2004). Supporting economic growth is the clear objective of some aid (e.g., aid to support the development of productive capacities), while, in other cases, it is not the objective at all (e.g., aid in humanitarian crisis situations). Aid to build infrastructure (such as roads, ports, irrigation systems, etc.) may





be expected to have a fairly rapid impact on economic growth. However, aid provided to halt environmental degradation, improve education and health systems or to build political systems may have economic growth as only secondary objectives. Moreover, the impact of these interventions will take a much longer time to become apparent and it will also be harder to attribute the positive development outcome directly to a particular aid intervention (Clemens, Radelet and Bhavnani 2004). The heterogeneity of aid flows explains the mixed results of aid.

Fears over so-called 'Dutch Disease', which posits that a sizeable inflow of ODA will exacerbate macro-economic instability by raising inflation and appreciating the real exchange rate, has also been influential in some policy circles. Under such a scenario, it is assumed that growth will be impaired because exchange rate appreciation will hamper the competitiveness of a country's export sector (Rajan and Subramaniam 2005). Thus, the scaling-up of aid as called for in the UN Millennium Declaration may be counter-productive to countries' development efforts. While it is broadly accepted that an ill-advised use of an ODA surge can pose macro-economic problems (e.g., where it fuels a consumption boom), concerns over 'Dutch Disease' should be manageable and ODA can contribute to sustainable development if ODA is used wisely to prioritize public investment and boost net imports (UNDP 2005). Thus, aid can and should be scaled up significantly in support of the MDGs.

At the same time, much concern has also been raised about the proportion of ODA that ever reaches recipient countries at all (EURODAD 2006, 2007, 2008 and 2009). The broad headline figure conceals the reality that a significant proportion of development cooperation funds are never available for in-country spending. For instance, technical assistance (which represented 12.7 percent of ODA in 2009) typically involves a contract between a donor agency and a consultant in its own country. The aid recipient receives a service (the consultancy report, training, etc.), but the valuation of the service is beyond its control and no cash transaction takes place with the developing country. On the other hand, volatility associated with this form of aid may be less problematic than that by which funds are channelled directly to recipient countries' budgets.

### *The Determinants of Aid-related Vulnerability*

This section explores the four main avenues through which aid can influence sustainability of the MDGs, namely:

1. Overall dependency on ODA
2. Procyclicality of ODA
3. Volatility of ODA
4. Uses of ODA

#### *1. Dependency on ODA*

Two sets of countries emerge as most heavily dependent on ODA: the LLDCs and some SIDS. Dependence on ODA can be measured in a variety of ways: aid as a percent of GNI; aid per capita; aid as a proportion of government revenues; aid as a percent of gross capital formation; and aid relative to other external capital flows such as loans, remittances and FDI.

The region that receives the largest volume of ODA relative to other regions is sub-Saharan Africa. This is also the region where most LDCs are located and where most countries 'off-track' towards the MDGs can be found.



Thus, at a very simplistic level, the poorest region in the world receives the highest volume of aid relative to other regions. Given large increases in aid levels since 2000, sub-Saharan Africa and the LDCs now receive historically unprecedented volumes of aid.

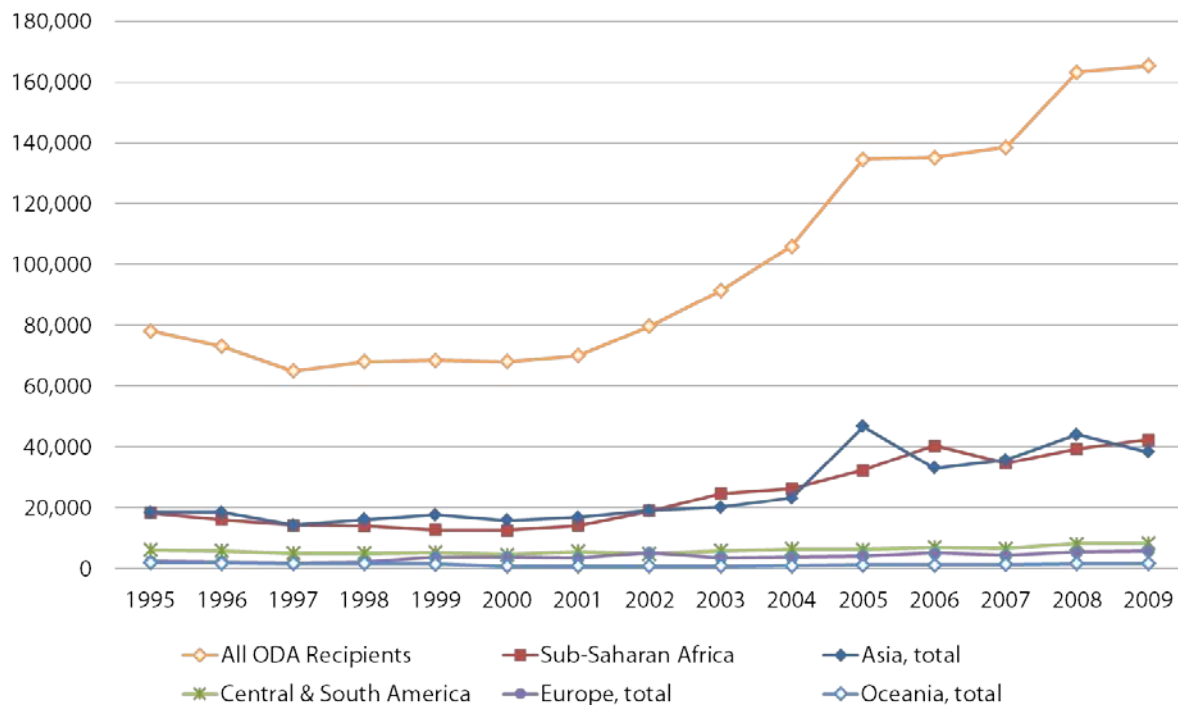
Of a total ODA envelope of \$165.4 billion in 2009 (current prices), sub-Saharan Africa received \$42.2 billion (25.5 percent). As a proportion of total ODA, sub-Saharan Africa receives roughly the same amount of development aid today as it did in 1995 (23.4 percent in 1995), although this amount did decline in 1999 and 2000 to approximately 18.5 percent of total ODA allocations (OECD-DAC 2010).

Asia receives the next largest aid allocation relative to other regions. In 2009, 23.1 percent of ODA was received by Asia (\$38.3 billion). Europe, Central and South America, North Africa and Oceania each received less than 4 percent of total ODA allocations in 2009 (OECD-DAC 2010).<sup>10</sup>

The Least Developed Countries received almost \$40 billion in ODA in 2009 (24.1 percent of total ODA), more than any other income category both in volume terms and as a proportion of total aid (OECD-DAC 2010).<sup>11</sup> That said, the LDCs still receive far less aid than donors have committed to provide them. The United Nations target for aid to the LDCs is between 0.15 percent and 0.2 percent of industrialized countries' GNI. Between 2000 and 2008, OECD-DAC ODA to the LDCs rose from 0.05 percent to 0.09 percent of GNI, a substantial increase, but still well below the lower bound target of 0.15 percent (OECD-DAC 2010 and MDG Gap Task Force 2010).

The United Nations has formally recognized that the LLDCs and SIDS need special assistance from the international community, in part due to geographical characteristics that accentuate their development

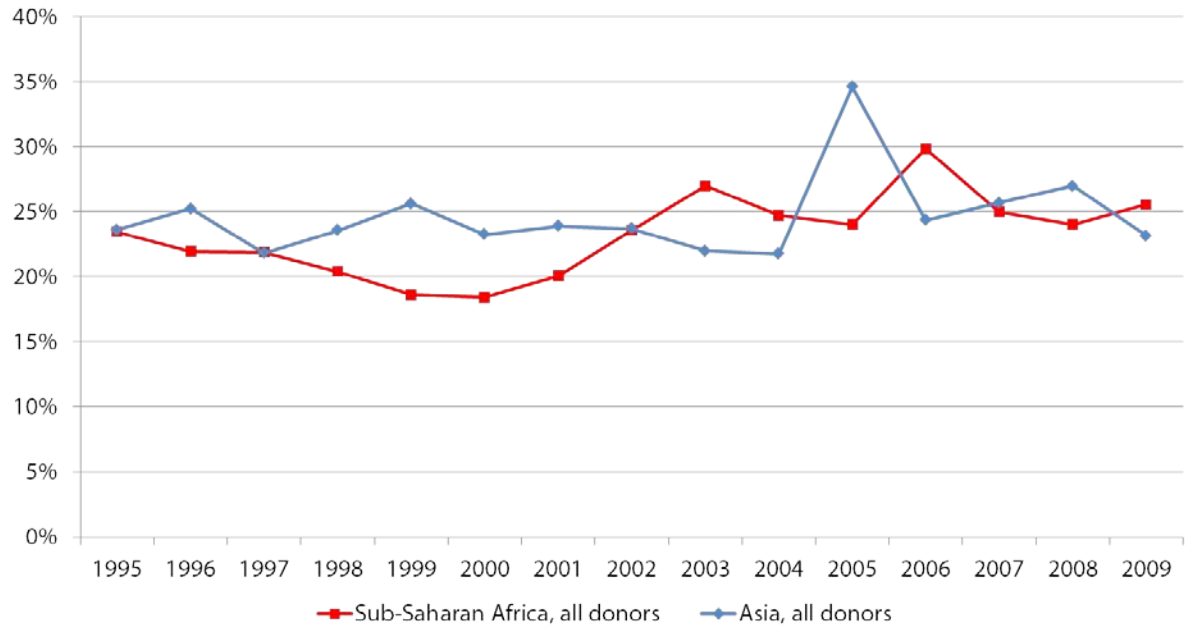
**Chart 5.4: Total ODA by region, 1995–2009 (current US\$ millions)**



Source: OECD-DAC 2010

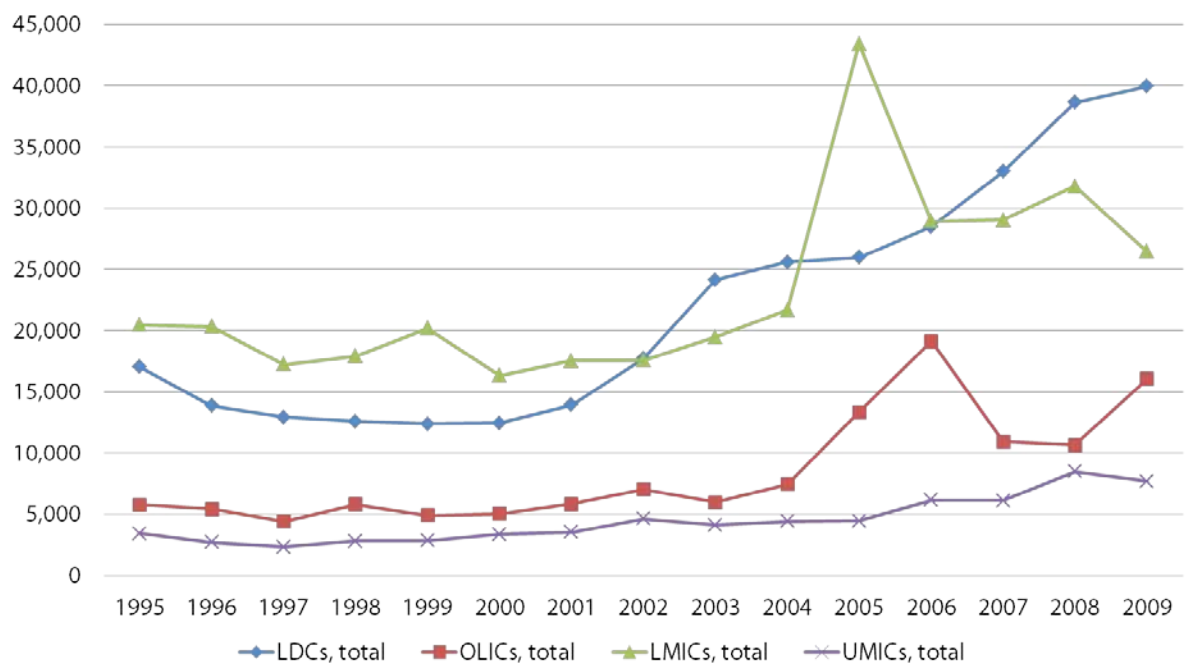


Chart 5.5: ODA to Asia and sub-Saharan Africa as a percent of total ODA



Source: OECD-DAC 2010

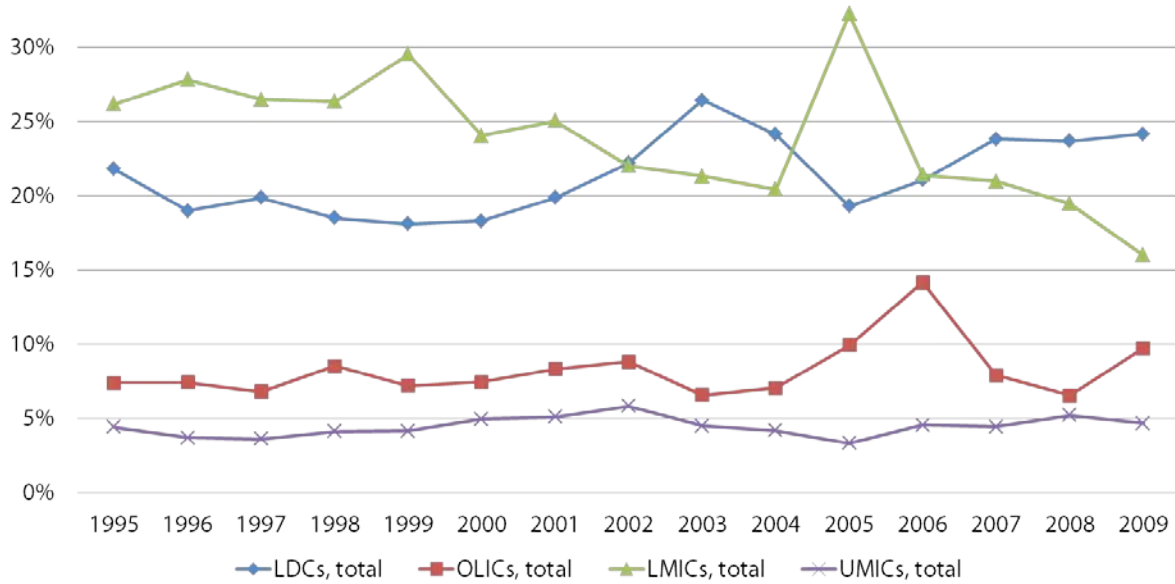
Chart 5.6: ODA to income groups, all donors (current US\$ millions)



Source: OECD-DAC 2010

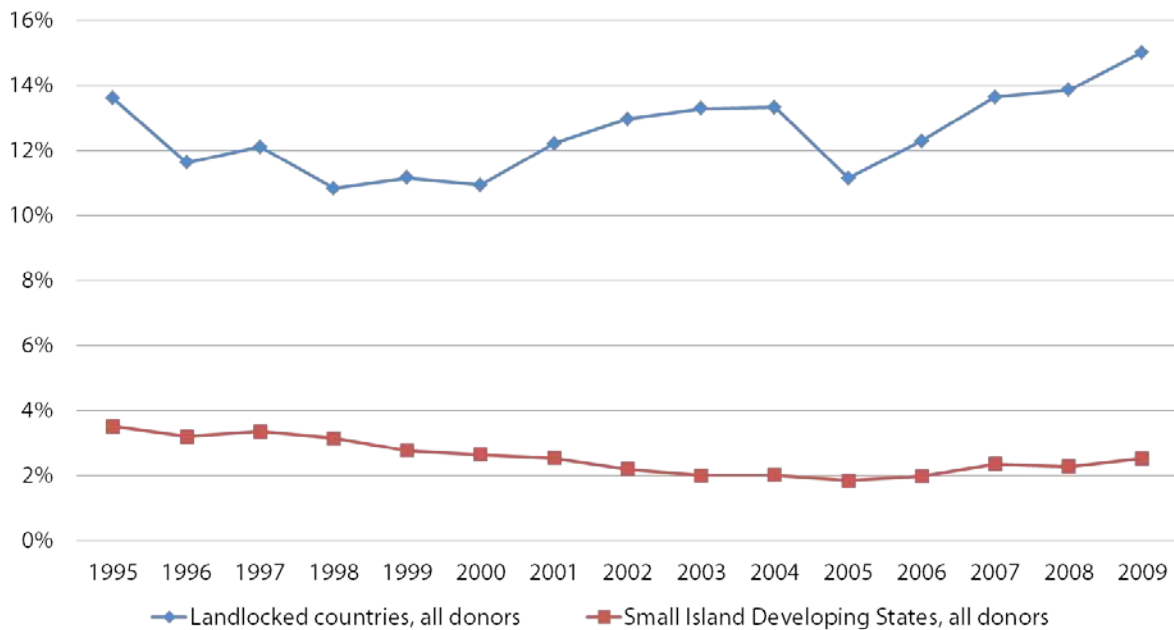


**Chart 5.7: ODA to different income groups as a percent of ODA, all donors**



Source: OECD-DAC 2010

**Chart 5.8: ODA to recognised vulnerable country groups as a percent of total ODA**



Source: OECD-DAC 2010



challenges (UN OHRLLS). ODA to the LLDCs actually decreased between 1995 and 2000 (OECD-DAC 2010). Recent increases to this group as a whole (from 11 percent of total ODA flows in 2005 to 15 percent in 2009) reflect significant aid directed towards two countries only — Afghanistan and Ethiopia — and the fact that both countries are landlocked was not the primary motivation for these aid increases (MDG Gap Task Force

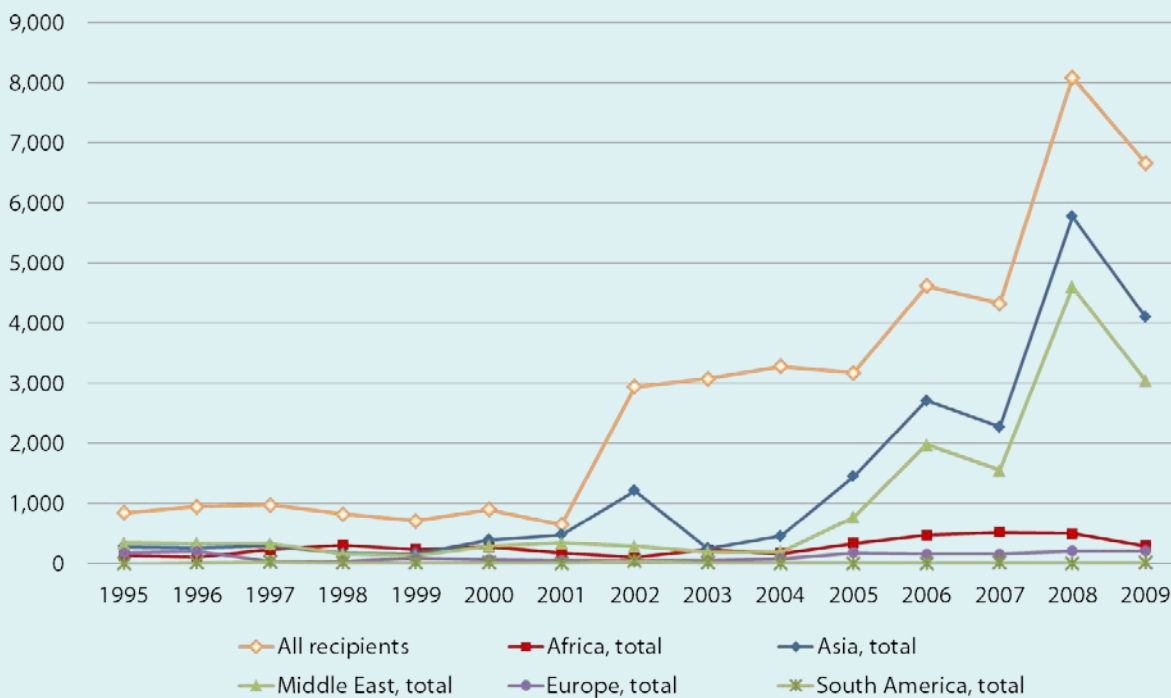
### Box 5.1: South-South Cooperation Traditionally Has a Large Intra-regional Component

Much South-South development cooperation has traditionally been intra-regional. Thus, the major beneficiaries of South-South development cooperation so far have been countries in Asia and the Middle East where several of the major South-South aid providers are found (see chart below). China provides around 40 percent of its ODA to Asia (Schueller 2010). As of December 2007, Arab donors had channelled 59 percent of their cumulative commitments to other Arab countries. India channels much of its assistance to Afghanistan, Bhutan, Maldives, Myanmar, Nepal and Sri Lanka (UN DESA 2010).

Venezuelan cooperation also has a strong Latin America and Caribbean bias.

This is now changing, though. For instance, China pledged in November 2009 to provide \$10 billion in concessional loans to Africa between 2010 and 2012, double the pledge for the previous three years (UN DESA 2010). Overall, it appears that geographical, cultural, language, political or other ties may be just as important—if not more important—in ('old' or 'new') donors' decisions about aid allocation and considerations of countries' relative levels of need for donor assistance are often secondary.

### Non-DAC donors' ODA to different geographical groups (current US\$ millions)



Source: OECD-DAC, 2010, 'Development aid reaches an historic high in 2010'; [www.tinyurl.com/oecd2010](http://www.tinyurl.com/oecd2010)



2010). ODA to SIDS declined between 1995 and 2005 from 3.5 percent of total ODA to a low of 1.8 percent. It has recovered slightly over the last few years to reach 2.5 percent of total ODA in 2009 (OECD-DAC 2010).

In summary, large increases in development aid over the last decade have translated into increased resources for sub-Saharan Africa, Asia and the LDCs. But when measured as a proportion of the total ODA envelope, ODA allocations to different geographical regions and income categories have not changed very much over the last 15 years. ODA to lower-middle-income countries is, however, currently on the decline as compared to previous years (from approximately 24 percent in 2000 to 15.9 percent in 2009) (OECD-DAC 2010).

The largest proportions of ODA are channelled to sub-Saharan Africa, the world's poorest region, and to Asia, the region in which the largest number of the world's poor are found. These regions are also the beneficiaries of unprecedented amounts of aid. This implies that sub-Saharan Africa and Asia (and the LDCs) would be more vulnerable to any eventual sharp decreases in development aid. However, this picture in the aggregate masks the extent to which aid flows have in reality been skewed towards just a few countries.

### Box 5.2: ODA Concentration

ODA is heavily concentrated in a much smaller number of countries and this degree of concentration has increased over the last decade, as indicated by the chart. This indicates that donors provide aid for a variety of reasons not necessarily related to poverty reduction and the MDGs.

In 2008, the top 20 aid recipients received almost 54 percent of all country-allocable aid for that year. The top 10 aid recipients received 37.6 percent (UN MDG Gap Task Force 2010). Donor priorities also change over time. So while Iraq received almost \$9 billion in ODA in 2008, the figure was just \$174 million almost a decade earlier (UN MDG Gap Task Force 2010). Of the top 20 ODA recipients in 2008, only nine are classified as LDCs (marked with an asterisk). These facts remind us that being a major beneficiary of aid in dollar terms does not necessarily imply dependency on aid *per se*.

#### Top 20 ODA recipients, 2008

Country	2000 ODA receipts (current US\$ millions)	2008 ODA receipts (current US\$ millions)
Iraq	174	9,880
Afghanistan *	232	4,865
Ethiopia *	1,065	3,327
occupied Palestinian territory	986	2,593
Viet Nam	2,104	2,552
Sudan *	359	2,384
Tanzania *	1,601	2,331
India	1,867	2,108
Bangladesh *	1,716	2,061
Turkey	502	2,024
Mozambique *	1,488	1,994
Uganda *	1,362	1,657
Dem. Rep. of the Congo *	299	1,648
Pakistan	907	1,539
China	2,256	1,489
Kenya	745	1,360
Egypt	1,927	1,348
Ghana	864	1,293
Nigeria	252	1,290
Liberia *	102	1,250
<b>TOTAL</b>	<b>20,808</b>	<b>48,994</b>
<b>TOP 20's share of total aid</b>	<b>37.5%</b>	<b>53.9%</b>

Source: United Nations, 2010, *MDG Gap Task Forced Report 2010*, United Nations, New York

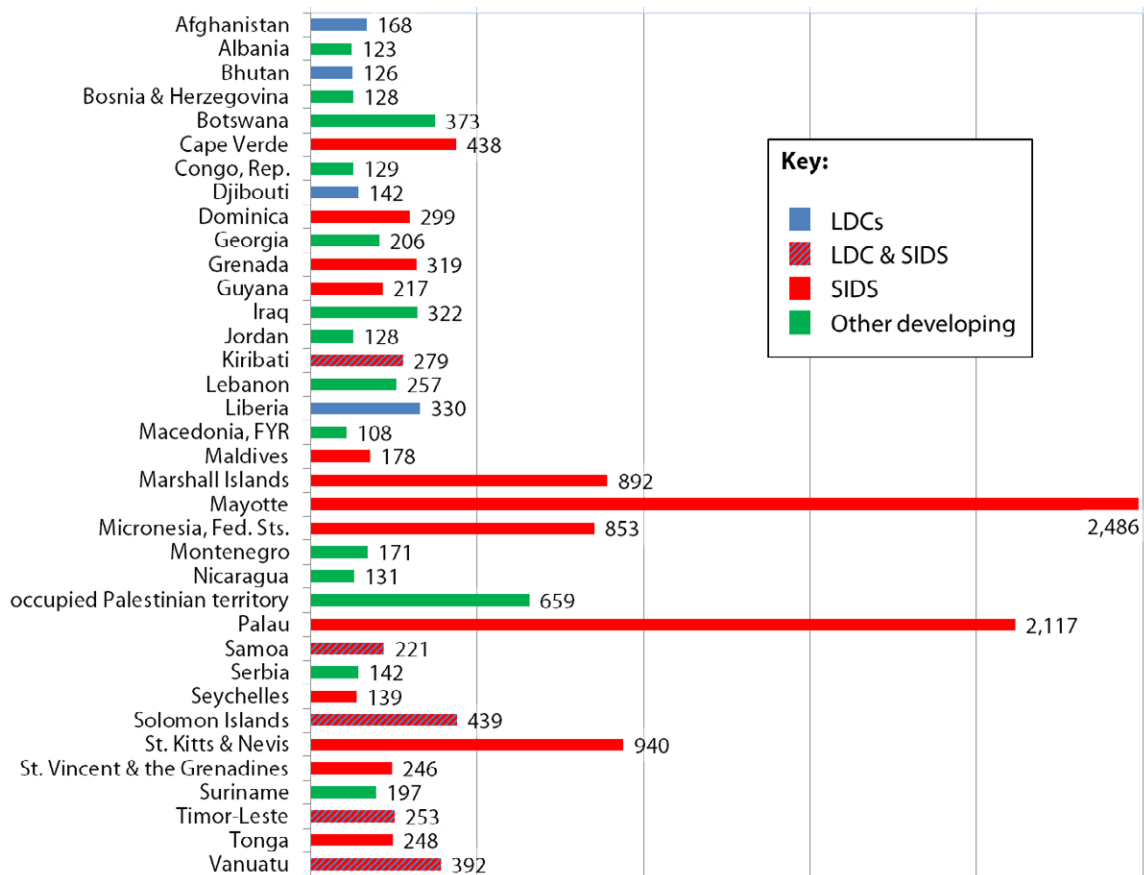


## ODA PER CAPITA

The amount of aid that developing country governments have available to spend per head of population is an important issue. When measured on a per capita basis, a different picture of the major beneficiaries of development cooperation emerges. Not surprisingly, countries with relatively small populations receive more ODA per capita on average than other developing countries. Having larger populations, many LDCs receive smaller amounts of aid per capita. In 2008, 36 countries received more than \$100 in aid per capita (author calculations based on data in World Bank, World Development Indicators 2010). Eighteen of these countries (50 percent) were SIDS and nine were LDCs (only four of which were non-SIDS LDCs).<sup>12</sup> Several post-conflict countries (e.g., Liberia, Timor-Leste, etc.) also receive substantial sums of aid on a per capita basis.

On a per capita basis, Oceania receives more than five times more aid than sub-Saharan Africa (OECD-DAC 2010). These findings imply that, on a per capita basis, a significant number of LDCs is heavily dependent on official development aid.<sup>13</sup> This, in turn, increases their vulnerability to sharp swings in ODA. However, it should also be pointed out that some of the small island states that receive substantial sums of aid on a per capita basis are not necessarily the poorest *per se*.

**Chart 5.9: Countries and territories that receive more than \$100 in ODA per capita (2008)**



**Source:** Author calculations based on data in World Bank, World Development Indicators, 2010



## ODA AS A PROPORTION OF CENTRAL GOVERNMENT EXPENDITURE

The extent to which governments rely on external aid as a proportion of their budget is also important, since governments need to plan expenditures effectively on the basis of detailed projections of inflows, both internal and external. Where aid is a large proportion of the government budget, sudden decreases (and increases) in aid must be carefully managed so as not to seriously undermine expenditure plans.

Relatively little current information on aid as a percent of central government expenditure is available at the aggregate level. This may be for a number of reasons. For instance, aid flows can sometimes be unpredictable, so governments have to frequently adjust their budgets to account for shortfalls (or windfalls) in aid receipts. There is also a lag between budget years and the time this information is passed on to relevant multilateral bodies such as the World Bank.

In 2007, 15 of 48 developing countries that provided data to the World Bank on ODA as a percent of central government expenditure relied on ODA for at least 25 percent of that expenditure (World Development Indicators 2009). These countries are: Afghanistan, Armenia, Bangladesh, El Salvador, Ghana, Kenya, Kyrgyzstan, Lao PDR, Madagascar, Mali, Mongolia, Nicaragua, the Niger, Togo and Zambia. Seven of these countries—almost half of the total—are located in sub-Saharan Africa, while five are in Asia and the CIS, two are in Latin America, and one is in Europe. The two aid-dependent countries in Latin America, El Salvador and Nicaragua, are very small countries next to their larger (non-ODA dependent) regional neighbours. Eight countries are classified as LDCs, again underscoring the high degree of aid dependency of this category of countries.

The countries that stand out as most heavily dependent on aid as a proportion of government expenditures are Afghanistan, Lao PDR, Madagascar, Mali, Nicaragua and the Niger, although this probably gives only a partial picture due to lack of data availability.

ODA will be especially important in resource-scarce countries. In countries rich(er) in natural

*The largest proportions of ODA are channelled to sub-Saharan Africa, the world's poorest region, and to Asia, the region in which the largest number of the world's poor are found.*

**Table 5.2: Most Heavily Aid-Dependent Countries as a Proportion of Central Government Expenditures (2007)**

Country	ODA as a % of Central Government Expenditure (2007)
Afghanistan*	167.7
Armenia	23.0
Bangladesh*	21.7
El Salvador	22.1
Ghana	26.0
Kenya	24.0
Kyrgyzstan	39.8
Lao PDR*	89.7
Madagascar*	108.1
Mali*	97.4
Mongolia	23.2
Nicaragua	76.4
Niger*	108.4
Togo*	27.6
Zambia*	39.9

\* Also an LDC

**Source:** World Bank, World Development Indicators, 2009.

Note that many countries do not report this data to the World Bank and therefore could not be analysed.





resources, governments may be able to extract sizeable resource rents and thus aid will become less important as a source of revenues and foreign exchange, even though the country may otherwise be extremely poor.

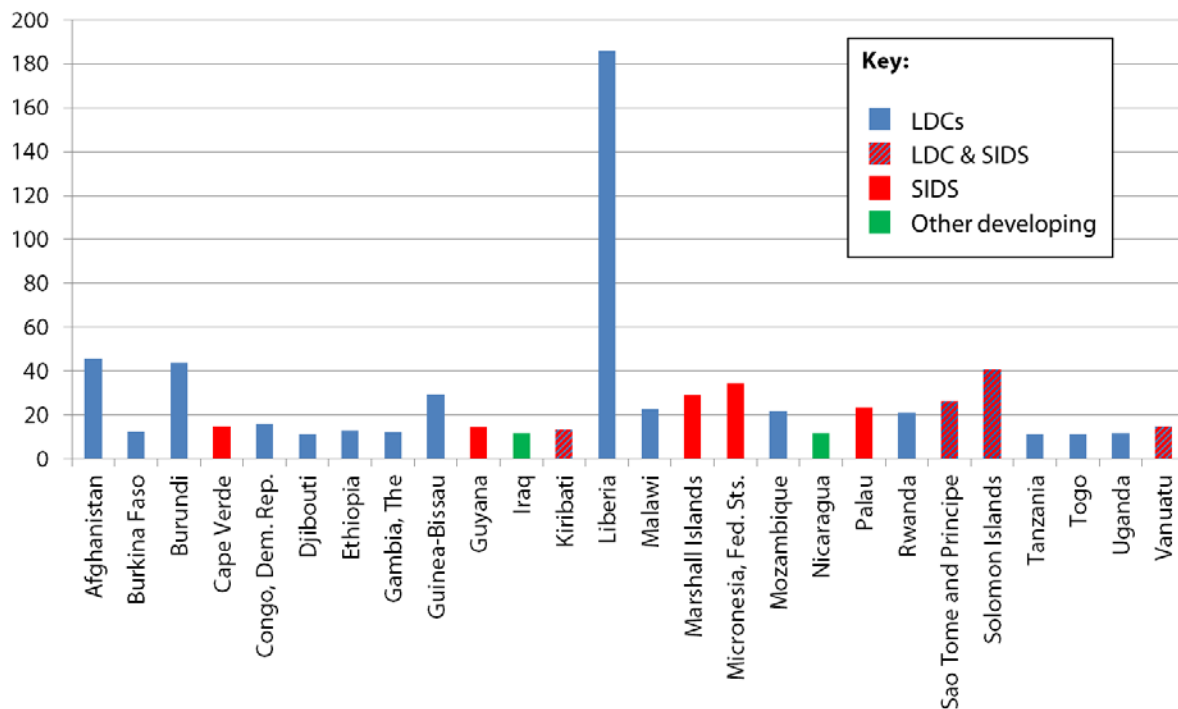
### ODA AS A PERCENT OF GNI

ODA as a percent of GNI shows official aid as a share of the country's overall national income in a year. In 2008, 26 countries registered ODA levels in excess of 10 percent of GNI. Of these 26 countries, 17 are LDCs (16 of which are in sub-Saharan Africa) and 9 are SIDS (4 countries are both LDCs and SIDS) (author calculations based on World Bank, World Development Indicators 2010). This leaves two further countries, one of which is low-income (Nicaragua), the other middle-income (Iraq). At the extreme end of the scale, Liberia's ODA/GNI ratio exceeded 185 percent in 2008 (World Development Indicators 2010). Relative to the size of their economies, the data shows that, once again, LDCs and SIDS are most dependent on ODA.

For 31 developing countries, net ODA flows represented less than 0.5 percent of GNI in 2008. Eleven of these countries are in Latin America and the Caribbean, eight are in Asia, five are in the Middle East and North Africa, and three are in sub-Saharan Africa (author calculations based on data in World Bank, World Development Indicators 2010).

It is interesting to note that several countries in the category of 'not especially dependent on aid' (China, India and Turkey) actually keep significant amounts of aid dollars in *volume* terms relative to other countries and, indeed, feature in the 'top 20' ODA recipients for 2008. However, because these countries' economies are very

### Chart 5.10: Countries with ODA in excess of 10 percent of GNI (2008)



Source: World Bank, World Development Indicators 2010



large (and growing), aid flows as a proportion of GNI are of little significance overall. Put simply, some of the countries that receive the most aid dollars are also among the least aid-dependent. For most countries in Latin America, ODA is also small as a percent of GNI.

#### *ODA AS A PERCENT OF GROSS CAPITAL FORMATION*

Reliance on ODA to support gross fixed capital formation (i.e., new value added in an economy) indicates the extent to which governments need external rather than domestic resources to fund growth-enhancing investments. The region most heavily dependent on net ODA as a percent of gross capital formation is sub-Saharan Africa.

At least 27 countries in the region relied on ODA to finance more than 10 percent of gross capital formation in 2009.<sup>14</sup> However, many have ratios in excess of 50 percent or more: Central African Republic at 111 percent, Comoros at 76.2 percent, Democratic Republic of the Congo at 74.5 percent, Côte d'Ivoire at 90.4 percent, the Gambia at 67.3 percent, Georgia at 69.9 percent, Haiti at 63 percent, Kosovo at 52.7 percent, Malawi at 65.6 percent, Mozambique at 98.1 percent, Nicaragua at 53.6 percent, Rwanda at 82.3 percent, and Sierra Leone at 148 percent (World Bank, World Development Indicators 2010).<sup>15</sup>

These figures are probably underestimated, since some countries have not reported this data to the World Bank. The other countries also heavily reliant on net ODA to finance gross capital formation are mostly small vulnerable economies (e.g., LDCs such as Comoros, Dominica, Grenada, Haiti, Seychelles, St. Lucia, St. Vincent and the Grenadines, Tonga, etc. or non-island small economies such as Bhutan, Kosovo, Lesotho, etc.).

#### *ODA RELATIVE TO OTHER EXTERNAL CAPITAL FLOWS*

The degree to which a country is dependent on aid also depends on how important aid is relative to other external capital flows, such as loans, FDI and/or migrant remittances. For many of the LDCs and some SIDS, ODA is important because they have little or no access to international capital markets. They also attract little FDI, which is the major source of external finance for the developing world as a whole. In addition, the World Bank and the IMF impose limits on the amounts of non-concessional loans that LICs may assume under the debt sustainability framework for LICs (World Bank and IMF 2006). This also increases the importance of grants and concessional loans for certain countries.

Developing and transition economies attract half of all global FDI inflows, estimated to have been \$1.2 trillion in 2010 (UNCTAD 2010). While FDI remains heavily concentrated in a number of emerging economies, more private capital flows than ever before are moving into LICs, especially those rich in natural resources.

Between 1995 and 2009, FDI inflows to Africa increased by 936 percent. In 2009, FDI to Africa reached \$58.6 billion (UNCTAD 2010); ODA levels to the region in the same year stood overall at \$47.6 billion, which means that, as a whole, FDI is slightly more important than ODA to Africa as a source of external finance. Of course, this hides the extent to which FDI and aid flows are heavily concentrated in certain countries. While Africa's overall FDI share remains small, the rate of growth is such that it is conceivable that FDI could increasingly substitute aid. Indeed, even though ODA and FDI typically have very different objectives (FDI for the most part does not have 'development' as its aim), the literature suggests that there is a shift from aid to FDI as an economy moves to a higher per capita income level, i.e., FDI tends to substitute aid (Kristjansdottir 2007).



## Box 5.3: 'Sectoral' Aid Dependency

Some countries that are not especially dependent on development aid overall may, however, rely heavily on aid to finance one or more sectors within their economies. This is especially the case with the health sector. The recent upswing in donors' and philanthropists' interest in health issues such as HIV/AIDS, child immunization and others has created many new initiatives to fund health interventions in developing countries. A significant proportion of these funds has been channelled to developing countries via so-called 'vertical' funds.<sup>16</sup> Indeed, the relative share of vertical funds in health is much higher than in other sectors with more than 25 percent of ODA delivered through such mechanisms (Goodwin 2008).

Because of the increased prominence of vertical funds, coupled with the tendency for donors to 'herd' around 'fashionable' sectors, a particular sector within the country — HIV/AIDS, for instance — may be almost entirely externally financed even if a country is not particularly dependent on ODA overall. From the perspective of sustainability of the MDGs, it will be important to consider not only a country's overall level of aid dependence, but also the dependence of specific sectors on donor resources. The sudden withdrawal of donor funding could be hugely disruptive at best and catastrophic at worst. Consequently, recipient country governments in such situations should have realistic 'contingency' plans to prepare for any such eventuality.

**Source:** Goodwin, Frazer, 2008, 'European Public Health Alliance', *Vertical Funds in the Health Sector*, July.

For some countries, migrant remittances are a major source of foreign exchange. At present, these flows are more than twice as large as the volume of ODA. Official recorded remittance flows to developing countries reached \$325.5 billion in 2010, although it is likely that billions more were transferred through non-official channels (World Bank 2010). Poorer countries receive relatively larger remittances: the lower the average income in a country, the more likely its citizens will seek to migrate for economic motives. Many SIDS also register large migrant remittances, in part because many of their citizens are living abroad in the absence of economic opportunities at home. This helps to offset, at least in part, the vulnerability derived from a high degree of dependency on ODA. Indeed, the data shows that some SIDS (e.g., Dominican Republic, Haiti, Jamaica, Mauritius, etc.) and some other small vulnerable economies (e.g., Lesotho) are also equally, if not much more, dependent on migrant remittances than on aid.

As a whole, the LDCs and some SIDS are heavily dependent on ODA. Many, but certainly not all, are also in receipt of significant amounts of aid dollars relative to the size of their economies, as a proportion of the government budget and/or on a per capita basis.

Dependency on ODA is accentuated by limited access to other forms of external capital, such as bond finance or FDI (although this is now changing for some countries); a limited ability to tax also fosters dependency. In some countries, though, large migrant remittances mitigate dependency on ODA to some extent. In dollar terms, however, many relatively much wealthier countries receive far higher levels of development cooperation, which indicates that donors provide aid for a variety of reasons not necessarily related to poverty reduction and economic growth.

### 2. *The Procyclicality of Aid*

The world's poorest countries are among those with the least diversified economies. Many LDCs typically rely on a few commodity exports to generate most of their foreign exchange. The prices of these commodities on world markets are, in turn, extremely volatile. A similar picture is true for many SIDS, which depend



heavily on 'industries' such as tourism or financial services coupled with a handful of commodity exports. As a consequence, these countries are more exposed to external shocks than many other countries, such as terms of trade shocks or recessions in the developed world. This vulnerability was manifested most recently with the concurrent food, fuel, and financial crises, which led to sharp increases in many countries' food and fuel import bills and then by sharp decreases in the prices of many commodity exports and in numbers of tourists. Some countries also experienced extreme weather events over the same period.

The poorest countries and aid-dependent countries are among those least able to cope with external shocks and other crises due to their pervasive liquidity constraints and lack of effective countercyclical policy tools combined with weak institutions. In such circumstances, aid is most effective when it is countercyclical. Where aid is countercyclical, it can be an important smoothing device or insurance function and can help to mitigate the worst effects of the external shock. It can thus enhance macro-economic stability in recipient countries.

While the empirical evidence is mixed as to whether aid tends to be countercyclical or procyclical, the literature suggests that, on average, aid tends to be procyclical, i.e., countries tend to receive more in years when economic activity is on the rise and less when it is on the decline (Gemmell and McGillivray 1998, Bulir and Hamann 2003). Bulir and Hamann (2003 and 2006) find that aid inflows are more volatile than fiscal revenues and that shortfalls in aid and domestic revenues tend to coincide, i.e., aid tends to be procyclical.

*Increases and decreases in aid are frequently a manifestation of economic conditions in donor countries; thus, aid increases when times are good and falls when times are bad.*

Increases and decreases in aid are frequently a manifestation of economic conditions in donor countries; thus, aid increases when times are good and falls when times are bad. Consequently, between 2008 and 2009, when the effects of the financial crisis took hold, 10 OECD-DAC donors decreased their aid levels as a proportion of GNI (Australia, Austria, Canada, Germany, Greece, Ireland, Italy, Japan, New Zealand and Portugal) (OECD-DAC 2010).

Where aid is procyclical, it can exacerbate rather than mitigate the business cycle. This undermines macro-economic stability in recipient countries and, in turn, impedes economic growth and development. Procyclicality also undermines countries' resilience to shocks. This undermines the development effectiveness of aid and may jeopardize sustainability of the MDGs.

### 3. The Volatility of Aid

A large body of evidence points to a very high degree of volatility associated with aid flows. This volatility not only reduces the value of aid, but can contribute to macro-economic instability in recipient countries (Bulir and Hamann 2003 and 2006, Chavet and Guillaumont 2008, Kharas 2008, Markandya, Ponczek and Yi 2010).

Bulir and Hamann (2003 and 2006) find that aid inflows are more volatile than fiscal revenues. Pallage and Robe (2001) find that aid is twice as volatile as real output. Meanwhile, Kharas (2008) shows that aid volatility is five to six times as large as volatility in GDP and three times as large as export volatility. It has also worsened in recent years. It is also possible that aid volatility could worsen further as donors increase their aid commitments while stepping up coordination among themselves and choose aid recipients more selectively. In addition, some donors are shifting away from project aid to programme aid (given in the form of direct



budget support or sector-specific support). While this can substantially reduce transaction costs in recipient countries and increase the effectiveness of aid, programme aid tends to be more volatile than project-based aid (Eifert and Gelb 2005). There is minor support for the notion that weaker states have slightly more volatile aid, but this is not statistically significant, and geographic region, income level and degree of aid dependency do not appear to have sizeable impacts on levels of aid volatility (Kharas 2008). Finally, some volatility can also be linked to exchange rate fluctuations. Because donors typically provide programme aid in their own currencies, large fluctuations in exchange rates between donor and recipient can negatively (or positively) affect what recipient countries are able to 'buy' with their aid.

The literature systematically suggests that volatility in aid flows is extremely costly, particularly in the LDCs. Both donors and recipients tend to overestimate aid disbursements (Bulir and Hamann 2003, Desai and Kharas 2010). Aid volatility can cause harm in three ways: 1) by raising the cost of financial management; 2) by worsening the composition of investment; and 3) by amplifying the fiscal effects of business cycles (Desai and Kharas 2010). For developing countries, aid can be uncoordinated and fragmented. Donors are unaware of each other's activities and often duplicate analytical work. This leads to volatility, waste and overlap of activities (Kharas 2008). Aid volatility can worsen the composition of investment. For instance, unexpected shortfalls in aid lead governments to shift expenditures away from growth-enhancing long-term investment to short-term consumption (Celasun and Walliser 2008, Desai and Kharas 2010).

Not all aid volatility is alike, however. Aid volatility comprises both aid shortfalls and aid windfalls. Thus, in some circumstances, volatility in aid can be viewed as positive rather than negative. For example, when aid responds to disasters such as the earthquake in Haiti in January 2010 or the Indian Ocean tsunami in December 2004, aid volatility is generally regarded as positive. Many donors also regard the ability to reduce aid to corrupt governments (or in the event of war or conflict) as a good thing.

However, the effects of aid windfalls and aid shortfalls are typically asymmetric; while aid windfalls are associated with increases in government consumption, aid shortfalls typically lead governments to slash investments (Desai and Kharas 2010). Moreover, aid windfalls in response to external shocks are unlikely to come anywhere close to compensating governments sufficiently for the loss in output and other associated damages.

There are many other reasons why aid is volatile, some associated with donor behaviour and others associated with recipient country behaviour. The major sources of aid volatility are summarized in Table 5.3.

The costs associated with aid volatility are extremely high. Kharas (2008) places the deadweight loss associated with aid volatility at 15 percent to 20 percent of the total value of aid in recent years. At 2009 ODA levels, this equates to an annual loss of approximately \$24 billion to \$33 billion (author calculations based on OECD-DAC 2010).

Even though some aid volatility can be regarded positively (for instance, in response to a natural disaster), in the overall long run, aid volatility is, on average, negatively correlated with economic growth (Markandya, Ponczek and Yi 2010). However, the effect varies, depending on the level of aid absorption of the recipient country. For economies with full (or close to full) aid absorption, aid volatility appears to lead to a negative impact on growth over the medium and long terms; for those economies with low aid absorption, the relationship is negligible (Markandya, Ponczek and Yi 2010). One could expect aid volatility to affect the LDCs with high levels of aid absorption more severely.


**Table 5.3: The Determinants of Aid Volatility**

Recipient country reasons	Donor country reasons
<p><b>Domestic political turmoil:</b> Internal conflicts and political instability may negatively affect aid flows. Post-conflict countries, on the other hand, may be the beneficiaries of sudden large increases in aid. Democratic governments and non-democratic governments do not experience differing levels of aid volatility, although democratic withdrawal is associated with increased aid volatility (Desai and Kharas 2010).</p>	<p><b>Donor ‘herding’ behaviour:</b> Herding occurs when donors, lacking information, respond to the publicly observed actions of other donors (Desai and Kharas 2010). This can lead to cascades of money towards some countries (or sectors) or the abrupt withdrawal of resources from others (‘donor darlings’ and ‘donor orphans’). Thus, this behaviour is associated with both positive and negative consequences for individual countries. Brief periods of sustained increases in official development aid tend to be followed by secular declines (Bulir and Hamman 2006; Desai and Kharas 2010).</p>
<p><b>Emergency aid:</b> This sort of aid, which responds to shock situations, is by its very nature difficult to predict and may enhance rather than hinder aid effectiveness.</p>	<p><b>Bureaucratic and administrative procedures in donor countries:</b> Donors are often unable to make long-term commitments to recipient countries due to domestic budget procedures. Aid budgets are frequently set annually. ODA often requires parliamentary approval and an explicit discussion of aid strategies, which can lead to abrupt changes in aid allocations. The OECD reports that donor commitments are often a poor indicator of actual donor outturns (disbursements) for a particular year.</p>
<p><b>Policy performance:</b> Major shifts in a recipient country’s policy performance can lead to aid shortfalls. The OECD-DAC shows that recipient countries with more stable relationships with donors — as signaled by a sustained track record of implementing an IMF programme — receive, on average, more predictable aid (Alesina and Dollar 2000; OECD 2005).</p>	<p><b>Donor conditionality:</b> If recipient countries do not comply with donor conditionalities, aid can be reduced or delayed. This is linked to the issue of policy performance in recipient countries. Countries with ‘sound’ policies and institutions as defined by donor agencies may be ‘rewarded’ with increased aid flows, although the empirical evidence on this point is mixed. Donors tend to ‘herd’ behind IMF and the World Bank conditionalities, i.e., aid can be reduced or delayed where countries fail to comply with the conditionality imposed by these two institutions even though these conditionalities may not be directly relevant to the donor activities being funded. Some donors link aid more closely to conditionality than others.</p>
<p><b>Corruption:</b> Recipient country mismanagement of aid — or donors’ perception of the recipient country’s commitment to use aid for the intended purposes — can lead to aid shortfalls.</p>	<p><b>Donor prerogatives:</b> This includes donor responses to domestic events (e.g., overall economic situation, fiscal pressures, public opinion, etc.) or global events (e.g., 9/11). This can have positive or negative consequences for aid in general and individual countries in particular.</p>
	<p><b>Donor specific volatility:</b> Desai and Kharas (2010) show that the United States is the donor whose aid allocations tend to fluctuate the most; the European Union the least. But this volatility in United States aid is mainly due to unexpected increases in aid (to allies and countries dependent on the United States) (Desai and Kharas 2010).</p>



For the sustainability of the MDGs, this means that countries heavily dependent on aid (e.g., some LDCs and SIDS) could in principle have a greater challenge coping with aid volatility than dealing with commodity price volatility (Bulir and Hamann 2003). A notable exception is those developing countries that receive a large amount of export income from fuel exports; they appear to be more shielded from aid volatility than other commodity-exporting countries (Kharas 2010). For others, large fluctuations in aid flows — coupled with uncertainty about future aid flows — can result in changes in government budgets, the composition of spending and instability in employment, i.e., macro-economic instability. All of this affects poverty.

#### 4. What ODA is Used For

##### *HOW MUCH AID REACHES RECIPIENT COUNTRIES?*

Aggregate aid data masks the extent to which large amounts of development aid never actually reach developing countries. This includes, for instance, aid that is spent in donor countries on assistance to refugees, development awareness-raising and research in donor countries, scholarships for developing country nationals, support to non-governmental organizations (NGOs), technical assistance, food aid, humanitarian aid and debt relief. Some NGOs have dubbed these forms of aid ‘phantom aid’ (ActionAid 2005, EURODAD 2006, 2007, 2008 and 2009). In 2007, the OECD developed the concept of ‘country programmable aid’ (CPA) or ‘core aid’ in response to these concerns; it includes only the portion of aid that is actually available to developing countries in-country to plan and spend on national development priorities.<sup>17</sup> CPA is thus much closer to the aid numbers reported in many developing country budgets.

Over the past five years, CPA has comprised about 53 percent of OECD-DAC donors’ gross bilateral aid (OECD-DAC 2010). In 2009, total CPA amounted to \$91.7 billion of a total aid envelope of over \$170 billion in 2008 prices and exchange rates. Africa and Asia receive the largest absolute volumes of CPA: in 2009, Africa received approximately \$36 billion in CPA, while Asia received \$37.5 billion (in 2008 dollars). CPA allocations to Africa — the region farthest off-track on many of the MDGs — have increased at an annual rate of approximately 9 percent over the last five years, 4 percentage points higher than the global CPA increase over the same period. On a per capita basis, Oceania receives the highest proportion of CPA, at over \$200 per person in 2009, compared to approximately \$38 for Africa (value as of 2008). While CPA has increased considerably over the last five years, the OECD-DAC recently forecast a slowdown in this growth. Additionally, increases in CPA have been crowded out by population increases in some regions, e.g., sub-Saharan Africa (OECD-DAC 2010).

The share of CPA in bilateral ODA varies widely among donors, however, from a low 10 percent (Austria) to a high 81 percent (the Republic of Korea and Portugal) (OECD-DAC 2010). Moreover, recent studies have shown that developing country providers deliver a much higher proportion of their ODA in ‘country programmable aid’, at around 90 percent in 2009. About three quarters of this is in the form of project finance (UN DESA 2010).

CPA has been shown to have a positive causal relationship on recipient countries’ economic growth and development over the short term (Clemens, Radelet and Bhavnani 2004). CPA is thus critical to the overall MDG effort. From the perspective of a recipient country, the donor base affects how much CPA that the country can expect; some deliver (much) more than others. If CPA is a more desirable form of aid, one strategy would consist in vigorously engaging with those donors who provide larger proportions of it. On the downside, however, volatility in this form of aid may be more problematic than that associated with other forms of external support.

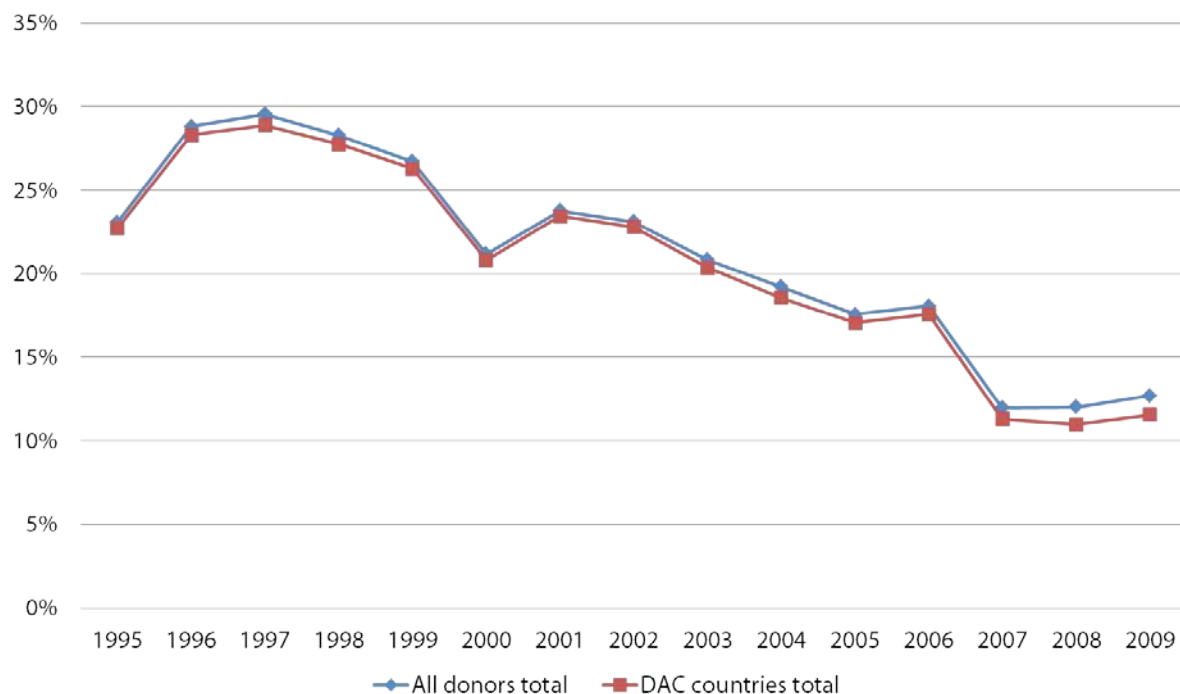


CPA is not a perfect measure of the quality of donors' ODA, however, since it still includes technical assistance, which has a mixed record with respect to its contribution to development. A significant proportion of ODA continues to be spent on technical assistance, although the figure has declined considerably over the last decade, from 21 percent in 2000 to 12.7 percent by 2009 (OECD-DAC 2010).

Additionally, a considerable amount of development aid has been used to cancel the debt of the Heavily Indebted Poor Countries (HIPC) and a number of other developing countries, especially in 2005 and 2006. The large 'spikes' in aid flows in 2005 and 2006 evident in Charts 5.5, 5.6, 5.7, and 5.8 reflect the large debt cancellation operations for Iraq and Nigeria.<sup>18</sup>

Debt relief as a proportion of ODA jumped from just 8 percent in 2004 to 21.3 percent in 2005 and 17.2 percent in 2006. Since then, it has declined steadily and was just 1.8 percent of total ODA in 2009 (OECD-DAC 2010). The claim that this form of 'aid' has contributed to development remains controversial. Debt relief can help release additional resources in recipient countries' budgets for poverty reduction and development expenditures. Additionally, some studies have shown that excessive debt can be detrimental to economic growth (Reinhart and Rogoff 2010); thus, in some cases, debt cancellation could help boost economic recovery and growth, thereby indirectly supporting the MDGs.<sup>19</sup> Nevertheless, the extent to which debt relief has actually released additional resources for MDG expenditures is questionable, since, in any event, many governments had not been able to service these debts for many years. Instead, debt relief is no more than a formal recognition by the creditor that the debt will not be recovered (EURODAD 2006, MDG Gap Task Force 2010). Because debt cancellation is counted as ODA, it has enabled some donors to increase their aid levels in certain years, while,

**Chart 5.11: Technical assistance as a percent of total ODA, 1995–2009 (US\$ millions)**

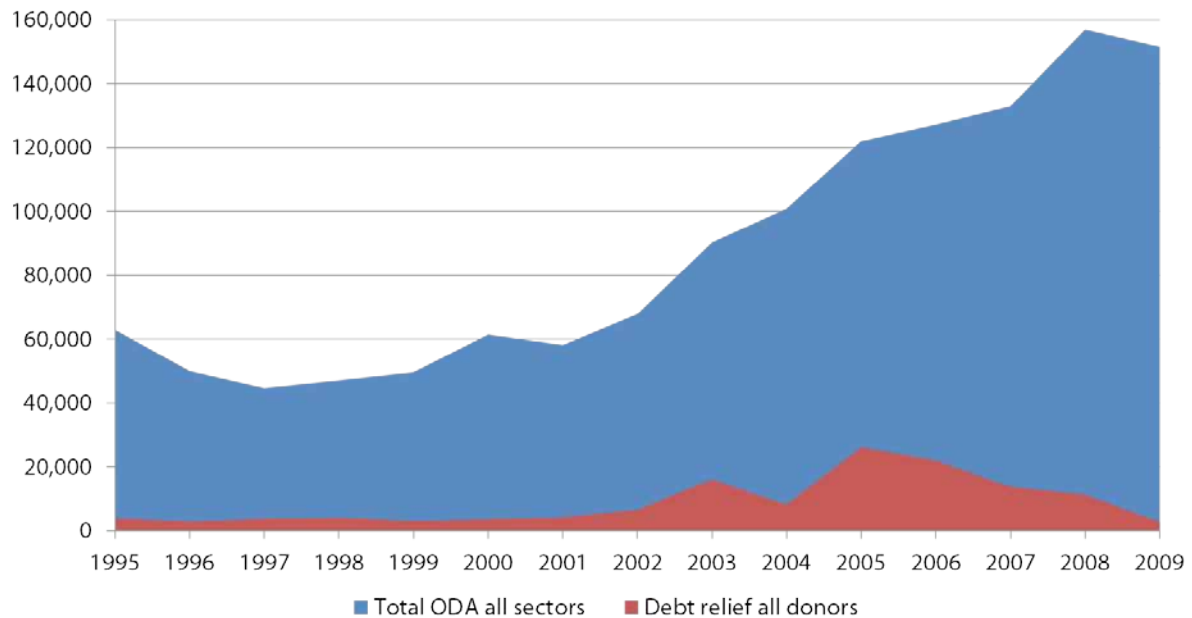


Source: OECD-DAC 2010





### Chart 5.12: Debt relief as a proportion of total ODA (US\$ millions)



Source: OECD-DAC 2010

in subsequent years, it has fallen again. Hence, OECD-DAC donors' ODA levels increased from 0.25 percent GNI in 2004 to 0.32 percent in 2005 and 0.3 percent in 2006, thanks to the large debt cancellation operations for Iraq and Nigeria, before declining to 0.27 percent GNI in 2007 (OECD-DAC 2010).

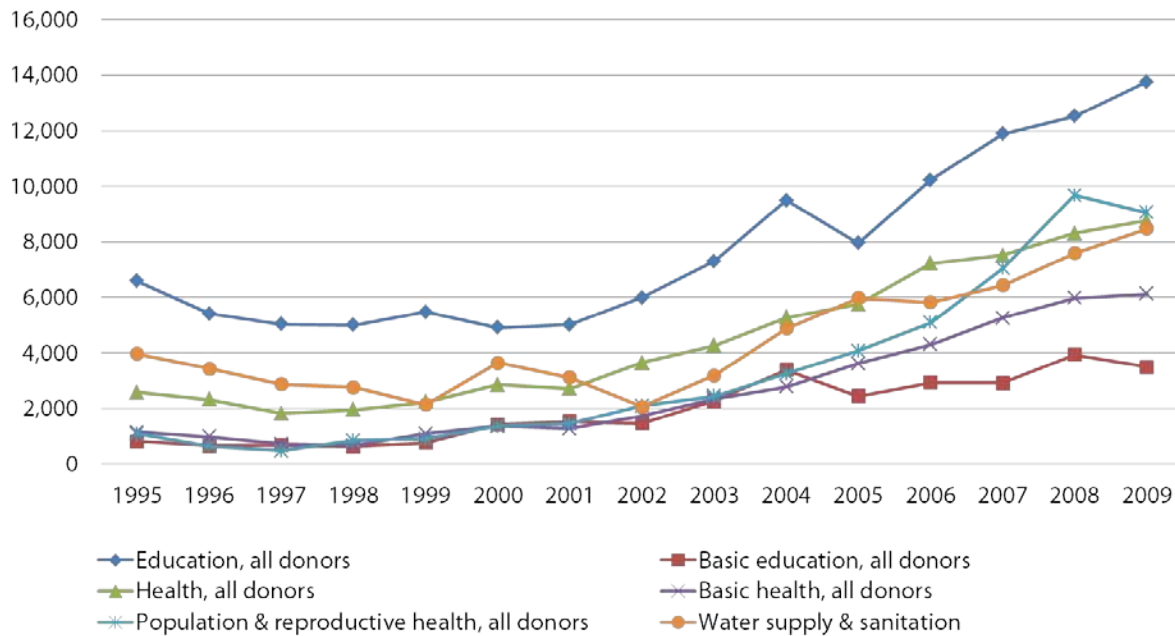
#### DEVELOPMENT SECTORS THAT BENEFIT MOST FROM AID

Although investments in infrastructure, agriculture and the productive capacities are important to countries' overall development strategies and the MDGs, the MDG agenda has to some extent re-oriented donor preferences toward the social sectors. Increases in the overall aid envelope over the last decade have tended to go towards the social sectors, while aid to agriculture, forestry, fisheries and the productive sector has remained largely stagnant, increasing only over the last couple of years.

The data show that ODA to social infrastructure and services has more than tripled in nominal terms over the last decade, from \$20.7 billion in 2000 to over \$64 billion for all donors in 2009.<sup>20</sup> ODA to the health sector has more than quadrupled between 2000 and 2009, from \$2.8 billion in 2000 to \$8.7 billion in 2009, while ODA to education as a whole has almost tripled over the same time period, from \$4.9 billion in 2000 to almost \$14 billion by 2009. In dollar terms, the volume of resources now channelled into the social sectors is unprecedented. ODA to agriculture, forestry and fisheries has also tripled over the last decade, from \$3.5 billion in 2000 to \$9.7 billion in 2009 (OECD-DAC 2010). However, unlike health and education, where the rate of increase has been more or less steady year-on-year, the growth in aid to agriculture, forestry and fisheries is only evident from 2007 onwards; between 2000 and 2007, ODA to this sector remained relatively stagnant and, indeed, declined in some years, even though overall aid levels were on the increase. ODA investments in industry, mining and construction have only nearly doubled over the last decade, from \$1.2 billion in 2000

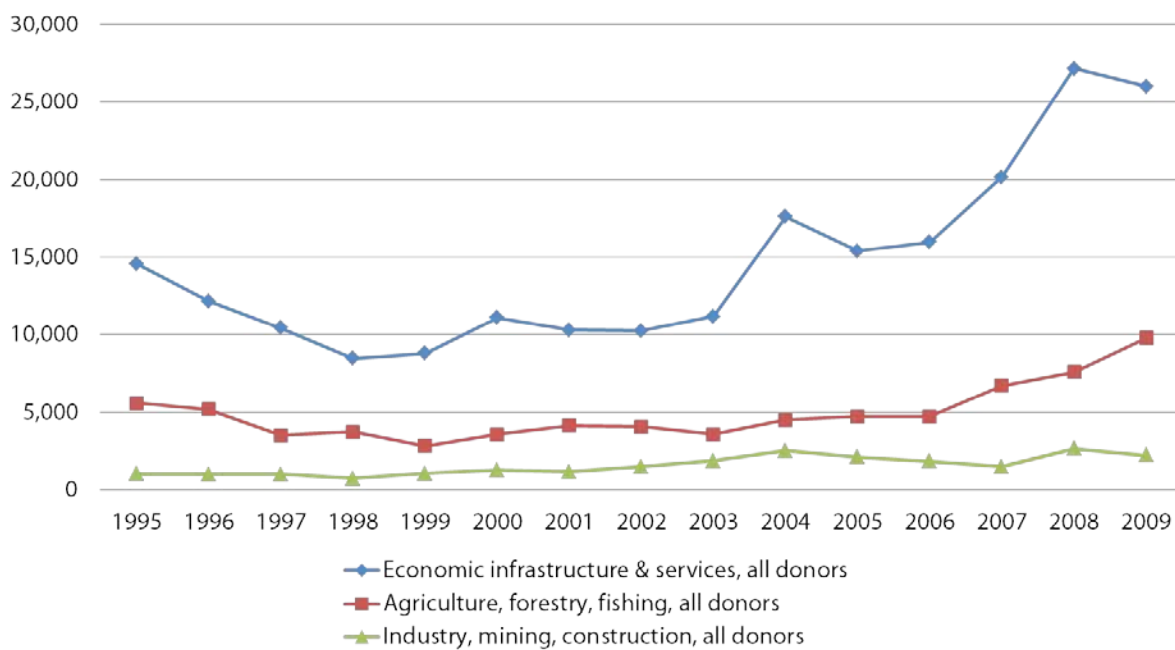


**Chart 5.13: ODA to social sectors (current US\$ millions)**



Source: OECD-DAC 2010

**Chart 5.14: ODA to economic infrastructure and agriculture (US\$ millions)**



Source: OECD-DAC 2010



to \$2.2 billion in 2009 (OECD-DAC 2010), and remain far from the amount needed to support development in the world's poorest countries.

When measured as a proportion of total ODA, however, a slightly different picture emerges. Sectoral allocations have, in fact, changed little over the last decade. ODA to education as a whole has increased little, if at all, since 2000 and has remained steady at around 8 percent of total ODA allocations. ODA to basic education has also remained steady at around 2.5 percent over the same time period. ODA to health as a proportion of total ODA

has increased slightly, from 4.6 percent to 5.7 percent between 2000 and 2009. Only ODA allocations to basic and reproductive health have increased substantially over the last decade. In 2000, basic health captured a 2.2 percent share of total ODA, rising to over 4 percent by 2009. Population and reproductive health also received a 2.2 percent share of total ODA in 2000, almost tripling to 6 percent by 2009. Despite poor progress on MDG7, which pertains to sanitation and drinking water, aid allocations to this sector significantly decline between 2000 and 2002 and have since been fairly constant at around 5 percent of total ODA (OECD-DAC 2010).

*Increases in the overall aid envelope over the last decade have tended to go towards the social sectors, while aid to agriculture, forestry, fisheries and the productive sector has remained largely stagnant, increasing only over the last couple of years.*

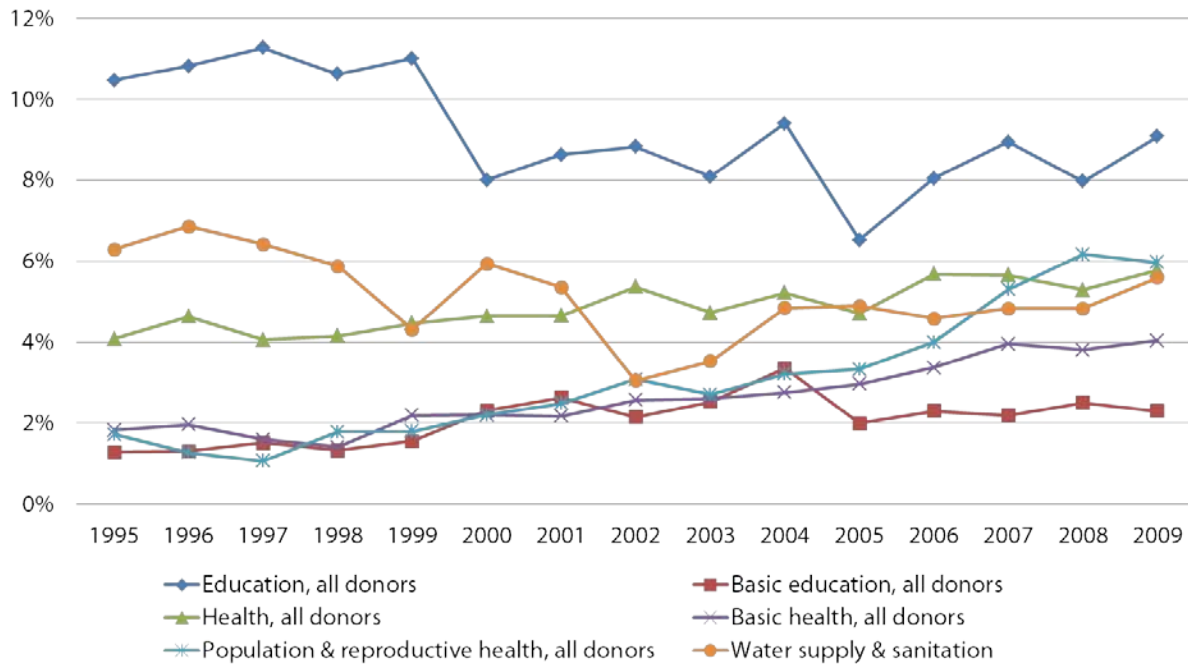
ODA to the productive sectors and agriculture progressively declined between 1995 and 2007 and has only just begun to reverse. ODA allocations to agriculture, forestry and fisheries declined from approximately 10 percent of total ODA in 1995 to 3.8 percent a decade later. Only over the last couple of years have there been small increases in aid to agriculture. In 2009, ODA to this sector reached 6.4 percent of total ODA (OECD-DAC 2010). However, this still remains well below the levels seen in 1995 and far from the United Nations target of 10 percent of ODA to agriculture. Meanwhile, economic infrastructure (roads, ports, etc.) declined from 23 percent of total ODA in 1995 to a low of 12.3 percent in 2003. In 2008 and 2009, ODA allocations to economic infrastructure increased to around 17 percent, but the scale of this trend should not be overemphasized; aid to infrastructure has only just recovered the share it held a decade ago (OECD-DAC 2010). As a result of this limited progress, some developing countries have turned to more expensive market-based finance to meet their large infrastructure gaps. This has contributed, in turn, to increased public debt burdens in some developing countries.

Many developing country aid providers have demonstrated more 'openness' to funding large-scale economic infrastructure than 'traditional' donors. While South-South cooperation focuses on all sectors in national development plans, infrastructure and the productive sectors have featured prominently. Economic infrastructure is often a priority for many developing countries, and several Southern donors (notably China, India, Kuwait, Saudi Arabia, Islamic Development Bank, OPEC Fund, etc.) have extensively supported infrastructure development, industry and agriculture (UN DESA 2010).

This form of development aid is more closely correlated with economic growth in recipient countries in the short run. Clemens, Radelet and Bhavnani (2004) find a "strong, positive and causal relationship between 'short-impact aid' and economic growth (with diminishing returns) over four years". This basic result does not depend on quality of policies or institutions; this type of so-called 'short-impact aid' causes growth, on average, across recipient countries regardless of these characteristics, although the impact on economic growth is even greater in those countries that have stronger institutions and better health (Clemens, Radelet

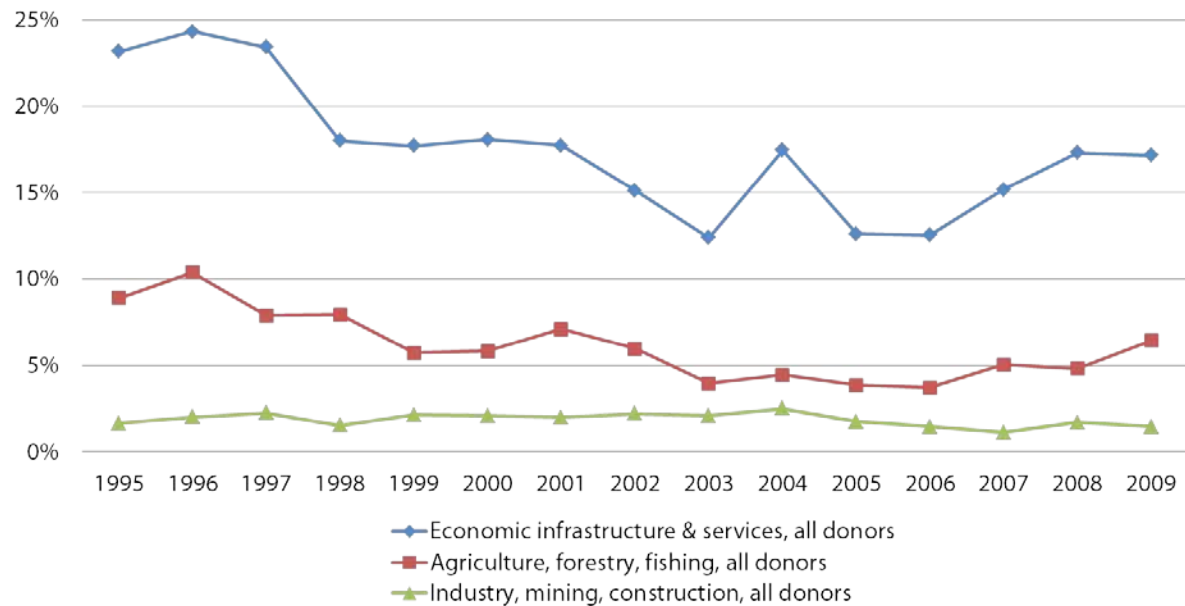


**Chart 5.15: ODA to MDG sectors as a percent of total ODA**



Source: OECD-DAC 2010

**Chart 5.16: ODA to economic infrastructure and agriculture as a percent of total ODA**



Source: OECD-DAC 2010

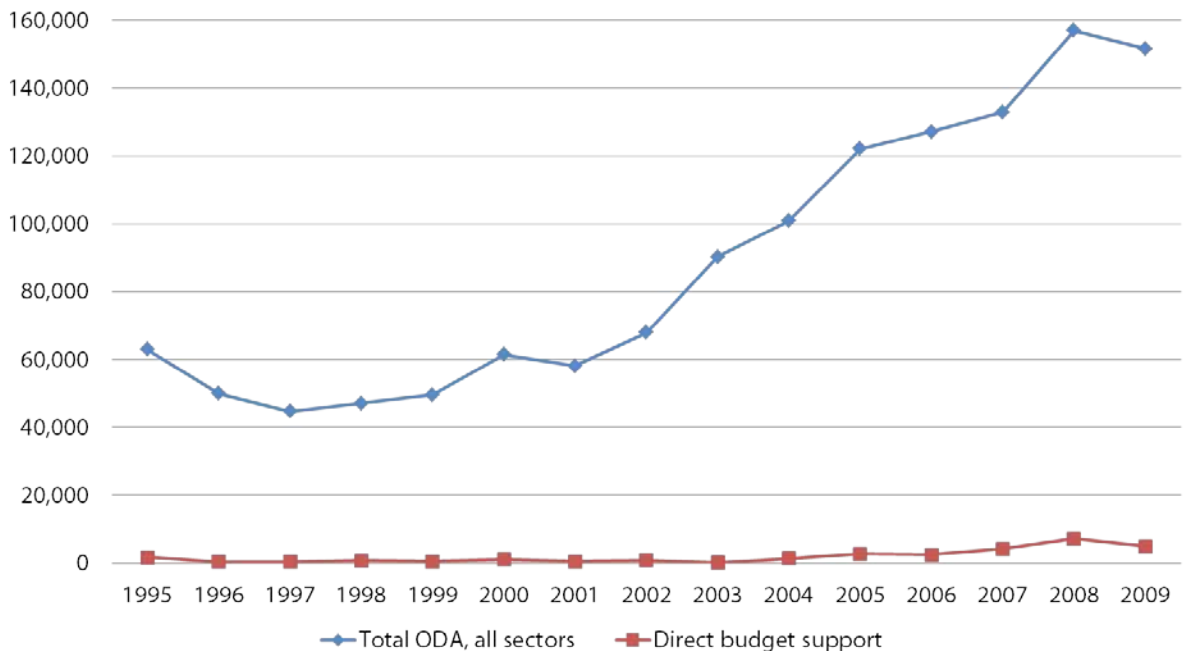


and Bhavnani 2004). They find that a \$1 increase in short-impact aid raises output by \$1.64 in present value in the typical country. While there are limits as to the amount of short-impact aid a country may be able to absorb, the turning point is well above the current amount of aid that most countries receive. Whereas the average country receives short-impact aid flows of about 2.7 percent of GDP, Clemens, Radelet and Bhavnani (2004) estimate that many developing countries could absorb up to 8 percent to 9 percent of GDP in short-impact aid.

'Short-impact aid' may be positively correlated with economic growth in recipient countries, but many studies continue to show that direct general budget support — and sector budget support — is the most efficient, effective and sustainable form of aid for promoting development (see Dom 2007, Gerster 2007, European Commission 2008, Oxfam 2010, UKAN 2010, UNDP 2010).<sup>21</sup> Yet only a fraction of aid is channelled to recipient countries in this way.

While the amount of ODA allocated to budget support has more than quadrupled over the last five years (from \$1.3 billion in 2004 to almost \$5 billion in 2009 in current prices), just 3.2 percent of ODA in 2009 was in the form of direct budget support (OECD-DAC 2010). Larger increases have so far proven politically difficult in many donor countries that are keen to report 'visible development results' to their electorates. Concerns about corruption in recipient countries compound this. Again, Southern donors have a better record on this front; recent estimates of the amount of balance of payments support and direct budget support provided by Southern donors stands at approximately 15 percent of Southern ODA. Much of this has been intra-regional, e.g., the Bolivarian Republic of Venezuela has provided oil financing to the Caribbean region and India has provided budget support to Afghanistan, Bhutan, Maldives and Nepal (UN DESA 2010).

**Chart 5.17: Direct budget support (US\$ millions)**



**Source:** OECD-DAC 2010



In conclusion, there is little rhyme or reason behind many donors' aid allocation decisions. Despite much empirical evidence that direct budget support and/or sector budget are more effective, much more aid is channelled via other modalities, such as technical assistance, that have a mixed record on development results. A wider trend in 'earmarking' of aid is evident, especially by OECD-DAC donors. This is achieved by allocating resources to so-called 'vertical' funds, global funds or trust funds in multilateral institutions. The health sector has so far been the major beneficiary while climate change looks set to benefit from significant earmarked resources in the future. However, despite vertical funds' solid track record on immediate and tangible development results, this approach can undermine country ownership of the development process and many of these funds are highly fragmented and possibly unsustainable. This may have implications on the sustainability of the MDGs in certain sectors. A trend in smaller and smaller development projects is also becoming evident. Coupled with the proliferation in the number of development actors, this stands to increase administrative burdens and challenge efficiency unless recipient countries have sufficient capacities to effectively coordinate and manage the incoming resources.

Some Southern ODA providers have a better track record on, for instance, direct budget support and the financing of economic infrastructure projects, which can be expected to contribute to economic growth in the short run. However, anecdotal evidence also points to the use of 'tied aid' by some developing country donors that may undermine the value and effectiveness of some of their aid.

That said, overall increases in aid have indeed translated into increased aid allocations (in dollar terms) to key MDG-related areas such as education, health, reproductive health and sanitation over the last decade.

## Policy Conclusions and Recommendations

ODA is at unprecedented levels in dollar terms. With the recent rapid rise in South-South Cooperation combined with commitments to increase aid from 'traditional' donors, aid is projected to rise further still over the next couple of years. This is largely due to the MDG agenda. Nevertheless, the importance of aid relative to other financial flows should not be exaggerated for many developing countries; for others, however—especially the LDCs and some SIDS—aid will remain a critical source of external finance for some time to come.

The empirical evidence has shown that, despite large increases in aid, the contribution of this aid to development outcomes relative to the size of the increase in aid has been disappointing. This can be attributed to both donor and recipient country behaviour, although the relative importance of one over the other will vary considerably from country to country. The procyclicality of aid has undermined many countries' resilience to external shocks and has exacerbated rather than mitigated macro-economic instability in recipient countries. Further, the lack of predictability and volatility in aid flows has also undermined macro-economic stability and worsened the composition of government spending. Thus, managing aid flows can be extremely challenging for many governments. This is combined with a tendency to channel substantial amounts of development aid via modalities that have a mixed record of development results (e.g., technical assistance) or that suit donor interests as much as, or more than, recipient country interests.

ODA can have a direct impact on the MDGs (e.g., through support for specific health, education, sanitation interventions, etc.) or an indirect impact on the MDGs (e.g., through supporting economic growth more broadly via direct budget support or the development of specific productive capacities). This means that



abrupt swings in aid in one area can have a knock-on impact in many other areas. As the United Nations Development Programme has shown, progress (or reversal) in one MDG area often translates into MDG progress (or reversal) in other areas (UNDP 2010).

What does this mean for the role of ODA in sustaining MDG progress? From the perspective of an aid recipient country, several considerations are important:

1. The extent to which the country is dependent on aid overall (measured in terms of aid per capita, aid as a proportion of government revenues, aid as a percent of gross capital formation and aid as a percent of GNI).
2. The extent to which certain sectors within the country are heavily dependent on aid to function (this may be a particular issue in the health sector).
3. How aid is delivered in the country, for instance, how much is received through direct budget support, project aid, 'vertical' funds, etc.? How much does the country never actually 'see'? Volatility associated with some forms of aid is perhaps more harmful than others, e.g., volatility in direct budget support or sector support may be worse than volatility in technical assistance.
4. The overall level of aid absorption in the country (on the assumption that countries with low levels of aid absorption are less likely to be more severely negatively impacted by aid shortfalls than those with full aid absorption).
5. The diversity of the country's donor base (under the assumption that a more diversified donor base will help the recipient country to spread risk in the event of aid shortfalls).<sup>22</sup>
6. The particular characteristics of a recipient country's major bilateral aid donor(s), for example, the donor's record on predictability, responsiveness to business cycles or external shocks, commitment to the implementation of conditionalities, etc.
7. Conditions prevalent in the recipient country (e.g., potential for political turmoil, strength of institutions, level of exposure to external shocks, level of political commitment to implement donor conditionalities, etc.). This can also affect the levels of aid received in particular years, as well as its overall volatility (for better or worse).
8. Access to other sources of external and domestic finance to substitute for or complement ODA, with particular consideration of whether these sources of capital are procyclical or countercyclical, i.e., the extent to which they could be drawn down in the case of economic shocks or other cyclical downturns.
9. The overall record of aid on development results in the country (this will include the track record of particular donors as well as the record in particular sectors).

The preceding analysis suggests some possible policy responses for aid recipient countries and particularly for those more heavily dependent on aid. In some cases, however, there may be certain opportunity costs or other difficulties associated with these policy measures; these must be carefully weighed up against the potential benefits. Possible policy responses include:



- 1. Save some aid:** Where aid is volatile and/or typically procyclical (and taking this as given), some savings of aid in the form of reserve accumulation may be useful to some recipient countries. This would serve as a form of ‘insurance’ to be drawn on in cases of external shock or cyclical economic downturns. Aid would thus act as a useful smoothing device. There are some difficulties and costs associated with this strategy, however. How much aid a country is able to save will depend on its overall level of aid absorption. Those countries most dependent on aid and with full or close to full aid absorption may be able to save less aid than other countries (even though they may benefit most from this sort of strategy). The opportunity cost of saving aid rather than spending it must also be carefully considered, i.e., one should ask what the alternative uses of these aid resources are. Could these uses support rapid economic growth and human development? Additionally, with the ‘earmarking’ of aid on the increase by donors, the extent to which recipients may have the leverage to save some aid may also be restricted.
- 2. Diversify your donor base:** A more diverse donor landscape entails more resources and more competition between donors. Some developing countries may be able to use this to their advantage. Increasing the number of development cooperation partners may help aid recipient countries to spread risk, e.g., the sudden withdrawal of one partner may affect them less severely. It may also allow recipient countries to shift towards supposed ‘more stable’ or ‘desirable’ development partners, i.e., those whose aid is more predictable or those which offer the types of aid in which the country is most interested (for example, direct budget support or other forms of country programmable aid, or those donors who impose less conditions, etc.). Again, this strategy may have some costs. A larger number of donors may lead to greater fragmentation in the delivery of aid and coordination problems and could place large administrative burdens on recipient country governments. Thus, the capacities of indigenous institutions would need to be evaluated and/or combined with a strategy to rapidly develop institutional capacities.
- 3. Reduce reliance on aid:** A primary objective of aid-dependent countries should consist in defining a way to ‘exit’ from aid at some point in the future. The development of a realistic ‘exit’ strategy may help recipient country governments to focus attention on how they will raise revenues in the future and the development areas that ODA should be used to support today. Over the longer term, the ability to raise more resources domestically will increase policy space and country ownership of the development process. Governments should explore ways to mobilize more external and internal resources for development. Again, some policy options have both advantages and disadvantages. Possible policy measures include: issuance of sovereign debt on international and/or domestic capital markets; increased taxation of multinational corporations (or, conversely, tax breaks to attract more FDI);<sup>23</sup> strengthening and broadening the domestic tax base; and implementing measures to catalyse remittance flows and curtail illicit outflows of capital. These measures can be successful only if they are implemented within the framework of a broader development strategy.
- 4. Ensure that aid supports the development process:** Much aid has not, in fact, supported positive development outcomes, so recipient country governments may wish to be more aggressive concerning the aid that they will and will not accept. The national development strategy should guide this. Of course, the extent to which this is a realistic prospect for some countries is debatable. Moreover, some donors may just offer their aid to someone else in retaliation. This must be weighed against the possibility that a recipient country may receive less, but better, aid. Lower amounts of aid may, in turn,





be easier to coordinate and the results easier to attribute. Governments may be particularly interested in exploring ways in which aid can be used as a catalyst for the mobilization of private sector resources and investment. Additionally, the development of a clear aid policy and the implementation of an aid information and management system to capture aid and other external financial flows may also help to ensure that the government of recipient country governments uses aid transparently and effectively. UNDP has helped many recipient governments to implement and use such systems.

There are also policy recommendations for donors. Many donors have already committed to increase the quantity and quality of their aid. This is essential to ensure mutual accountability for development results. Pledges by some donors to increase the quality of their aid are contained in the Paris Declaration and Accra Agenda for Action endorsed in 2005 and 2008, respectively.<sup>24</sup> These international agreements commit donor and recipient countries to a range of measures to improve the effectiveness of development aid.<sup>25</sup> Despite these commitments, however, progress has been slow.

In 2008, the OECD, which has responsibility for monitoring OECD-DAC donors' progress on key aid effectiveness principles, reported mixed results. For instance, progress on increasing the predictability of aid — critical to macro-economic stability in some recipient countries — has been slow. Progress on improving coordination among donors and increasing the use of recipient country systems has also been slow.<sup>26</sup> In addition, many donors — especially the emerging donors — do not adhere to the Paris Declaration and Accra Agenda for Action. Many emerging donors were not involved in the development of the Paris Declaration and, as a consequence, feel no ownership over it and no need to be bound by the principles contained in the document. Some emerging donors have also developed their own aid effectiveness principles, which they believe are more suited to their cooperation activities. Some see the United Nations Development Cooperation Forum (DCF) as an alternative international forum in which issues concerning aid effectiveness may be debated more inclusively.<sup>27</sup>

These considerations suggest several policy measures that donors would do well to take:

- 1. Increase the quantity of development aid:** Developed country donors should recommit to the UN target of 0.7 percent ODA/GNI and set clear timetables for meeting this aid commitment. Consideration should be given to appropriate targets on aid quantity for emerging donors. The target will undoubtedly vary between donors.
- 2. Improve development effectiveness of aid:** All donors should make every effort to improve the effectiveness of their development cooperation. The IV High Level Forum on aid effectiveness in Busan, the Republic of Korea, in November 2011 provides an opportunity for a renewed commitment to aid effectiveness. However, over the long-term, there needs to be more consideration about the most appropriate and inclusive forum for debating aid and issues of development effectiveness. The DCF has been cited as one opinion in this regard. Much more aid needs to reach recipient countries than is currently the case, as too much is still spent within donor countries or on services that donor countries provide and much more aid could be channelled via direct budget support, which is the most efficient and effective form of resource transfer.
- 3. Better target aid:** ODA needs to be better targeted to reach those who need it most. This includes the poorest countries, the poorest communities within countries, and those countries with recognized structural constraints to development (e.g., the LDCs and SIDS). The degree of aid concentration has



worsened over the last decade and needs to be reversed. More aid needs to be allocated on the basis of objective need and structural vulnerabilities.

- 4. Enhance the role of aid in macro-economic stabilization:** There needs to be more use of aid as a smoothing device to counter the fiscal effects of business cycles or external shocks. On average, aid tends to be procyclical, which can amplify the negative effects of economic downturns. ODA should be countercyclical in order to make the biggest contribution possible to macro-economic stability.
- 5. Increase transparency and accountability in aid:** Donors must publicize more information about their development cooperation activities. Increased transparency will help to support greater accountability for aid decisions in both donor and recipient countries. This recommendation applies equally to 'old' and 'new' development cooperation partners; currently, very few emerging donors publish clear and systematic data about their aid activities, an omission that leads to much speculation about what they do 'well' and what they do 'badly'. More information will lead to a range of better outcomes, *inter alia*: more effective oversight, the ability to learn from other donors' experiences, better coordination between donors, and improved development outcomes.

A key question for the future is whether the current political momentum for increased aid will be sustained beyond the 2015 MDG target date, especially given the mixed track record of aid on tangible development outcomes. Another essential issue is that some countries (mainly LDCs and SIDS) are likely to need sustained external support for many years due to structural constraints to development. How the international community responds to these challenges and how it apportions responsibilities for helping to finance these countries' development will also be crucial.

Climate change adds another critical element to the equation. Climate change is already magnifying many developing countries' development challenges. Furthermore, it is increasing the cost of development. The international community has pledged much climate finance (\$100 billion per year by 2020) to support adaptation and mitigation in developing countries. How this finance will be raised still remains unclear. How this finance will relate to traditional forms of development aid is also unclear, and one might question the extent to which climate finance will represent a truly 'additional' source of finance and how climate finance and ODA will be 'counted' when many sources of funds are simultaneously designated to address climate and development issues. These are critical issues for ODA in the coming few years.



## Notes

1. OECD-DAC 2010, Development Aid Reaches an Historic High in 2010: [www.tinyurl.com/oe.cd2010](http://www.tinyurl.com/oe.cd2010)
2. These countries are: Afghanistan, Burkina Faso, Burundi, Cape Verde, Democratic Republic of the Congo, Djibouti, Ethiopia, the Gambia, Guinea-Bissau, Guyana, Iraq, Kiribati, Liberia, Malawi, the Marshall Islands, Federated States of Micronesia, Mozambique, Nicaragua, Palau, Rwanda, São Tomé & Príncipe, Solomon Islands, the United Republic of Tanzania, Togo, Uganda and Vanuatu.
3. See OECD: [www.tinyurl.com/oe.cd-PD-AAA](http://www.tinyurl.com/oe.cd-PD-AAA)
4. As reported by the OECD in its annual 'Monitoring Survey'. For more information, see: [www.tinyurl.com/PD-AAA-progress](http://www.tinyurl.com/PD-AAA-progress)
5. Refers to OECD-DAC donors only.
6. See: OECD-DAC, Development Aid Reaches an Historic High in 2010: [www.tinyurl.com/oe.cd2010](http://www.tinyurl.com/oe.cd2010)
7. Some of the more established and well-known schemes include the international solidarity levy on air tickets and the International Finance Facility for Immunisation (IFFIm), both of which were launched in 2006. The international solidarity levy on air tickets has so far raised over \$1 billion for HIV/AIDS, malaria and tuberculosis (UNITAID 2009) and the IFFIm has raised over \$3 billion for immunization programmes (IFFIm 2010). The resources raised through innovative finance schemes have generally supported interventions in the health sector and have been channelled to recipient countries via so-called 'vertical funds'. A note of caution: some of these initiatives are donor-funded (and therefore are not additional to the ODA totals mentioned above); others raise revenues privately and therefore represent additional sources of development cooperation.
8. Innovative finance schemes have raised a total of \$4 billion since 2006 (Leading Group).
9. Recent estimates indicate that 'donor orphans' are underaided by around \$12 billion per year (UNDESA 2010).
10. Europe was allocated 3.5 percent of ODA in 2009; North Africa received 1.7 percent of ODA in 2009; Central America received 2.6 percent; South America received 2.2 percent; and Oceania received 1 percent (OECD-DAC 2010).
11. When measured next to other low-income countries and middle-income countries.
12. Note that Kiribati, Samoa, Solomon Islands, Timor-Leste and Vanuatu are classified as both LDCs and SIDS.
13. Note that a small number of LDCs are both SIDS and LDCs.
14. Net ODA.
15. All figures refer to 2009.
16. 'Vertical funds' focus 'vertically' on specific issues or themes, in contrast with the 'horizontal' approach of the country-based model of aid. Such funds have their advocates and their critics. Many vertical funds have a stronger record on clear, measurable development results than other donors, in part because of the nature of their interventions (e.g., numbers of children immunized across a certain number of countries). However, the extent to which vertical funds are aligned with national development priorities has been called into question, as well as whether they undermine rather than strengthen the development of indigenous health systems. The use of vertical funds has become so prevalent that coordinating mechanisms for the sector have been developed, i.e., initiatives coordinating the initiatives (Goodwin 2008). This has increased transaction costs further still. Some vertical funds are heavily dependent on donor contributions to carry out their activities (e.g., Advance Market Commitments, etc.). Thus, given current fiscal pressures in several major donor countries, the sustainability of some funds over the longer term may be legitimately questioned. The Global Alliance for Vaccines and Immunisation (GAVI) has been funded through the mechanism known as the International Finance Facility for Immunisation (IFFIm), launched in 2006. This mechanism 'frontloads' future aid commitments for development spending today via the issuance of bonds by donor countries in international capital markets. Donor governments' future aid will be used to repay these bonds and there is some concern that future aid levels will decline as a result.



17. OECD, Getting Closer to the Core – Measuring Country Programmable Aid: [www.tinyurl.com/CPA-measure](http://www.tinyurl.com/CPA-measure)
18. In Chart 5.8, the decline in ODA levels registered in 2005 and 2006 by LLDCs and to a lesser extent by SIDS reflects the exceptional debt relief operations in those years for Iraq and Nigeria. Almost all donors count these operations as ODA. As a consequence, some donors register a ‘one-time spike’ in annual aid flows relative to previous years before returning to previous levels. In other cases, donors may reduce aid to other developing countries in a particular year. For further information, see the Paris Club: [www.clubdeparis.org](http://www.clubdeparis.org)
19. Reinhart and Rogoff (2010) show that, while the relationship between government debt and real GDP growth is weak for debt/GDP ratios below 90 percent, above the threshold of 90 percent, median growth rates fall by 1 percent and average growth falls considerably more (in advanced and emerging economies). Emerging and developing countries face lower thresholds for total external debt (public and private), which is usually denominated in a foreign currency. When total external debt reaches 60 percent of GDP, annual growth declines about 2 percent; for higher levels, growth rates are roughly cut in half.
20. ODA to social infrastructure and services was relatively stagnant in nominal terms between 1995 and 2000 (OECD-DAC 2010).
21. There are various reasons for this: it contributes to national ownership, increases the accountability of recipient governments to their citizens and parliaments, helps build the capacities of local institutions, reduces transaction costs, increases predictability and ensures a greater proportion of aid is spent directly on the intended beneficiaries.
22. Donor ‘herding’ behaviour may mean, however, that a greater number of donors may not necessarily entail reduced risk. On balance, however, it probably will help slightly.
23. The evidence on the effectiveness of tax breaks or tax holidays as a means to attract FDI is not particularly strong, although some multilateral financial institutions have long advised this policy.
24. See OECD, Paris Declaration and Accra Agenda for Action: [www.tinyurl.com/PD-and-AAA](http://www.tinyurl.com/PD-and-AAA)
25. These commitments include: ownership—developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption; alignment—donor countries align behind these objectives and use local systems; harmonization—donor countries coordinate, simplify procedures and share information to avoid duplication; results—developing countries and donors shift focus to development results and results get measured; mutual accountability—donors and partners are accountable for development results; predictability—donors will provide information on their planned aid to partner countries three to five years in advance; country systems—partner country systems, rather than donor systems, will be used to deliver aid as the first option; conditionality—donors will switch from reliance on prescriptive conditions about how and when aid money is spent to conditions, based on the developing country’s own development objectives; untying—donors will relax restrictions that prevent developing countries from buying the goods and services they need, allowing countries to get the best goods and services at the lowest price from whomever and wherever they can.
26. For a full summary of results, see: [www.tinyurl.com/PD-AAA-progress](http://www.tinyurl.com/PD-AAA-progress)
27. The DCF brings together developing and developed countries, parliamentarians and civil society organizations, local governments and the private sector for a frank dialogue on development cooperation. It reviews trends in development cooperation and promotes greater coherence among the activities of various actors. The next DCF will be held in June/July 2012 in New York. See: United Nations Development Cooperation Forum: [www.un.org/en/ecosoc/dcf/index.shtml](http://www.un.org/en/ecosoc/dcf/index.shtml)



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