DEVELOPMENT COMMITTEE MEETING

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Statement by
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I. Progress in aid effectiveness: The Third High Level Forum on Aid Effectiveness and next steps

The Accra Agenda for Action—a significant step forward

The Third High Level Forum on Aid Effectiveness (HLF3), held in Accra, Ghana 2-4 September 2008, exceeded all expectations. This event, which built on one of the most extensive consultation processes ever held, achieved a far-reaching set of agreements that commit developing countries and donors to put the Paris principles on aid effectiveness into practice. In doing so, it paved the way for progress on financing for development and the achievement of the MDGs.

The discussions at Accra, and the preparations for the HLF3, marked a fundamental shift in the nature of the relationship between developing countries and their donors. The 1 700 participants at Accra—including ministers, officials, parliamentarians, experts and activists from 130 countries, 40 international institutions, 80 CSOs and many private institutions—called for a step change in the way aid is provided. The Accra Agenda for Action (AAA), the main outcome document of the HLF3, provides the roadmap to ensure that aid delivers more development impact.

An agreement built on wide and inclusive consultation

Both the Paris Declaration and the AAA have been driven by the Working Party on Aid Effectiveness (WP-EFF)—an international partnership of donors and developing countries hosted by the OECD-DAC.

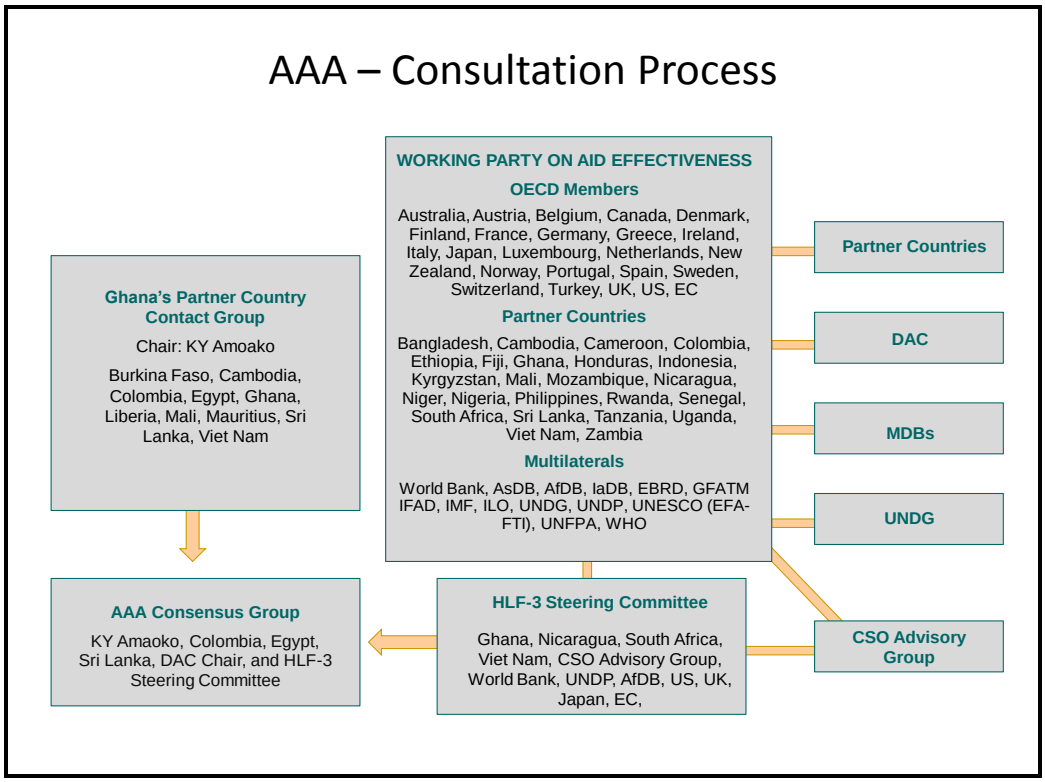

Figure : The AAA is based on a wide and inclusive consultation process led by the Working Party on Aid Effectiveness (hosted by the OECD-DAC).

Since the Paris Declaration was endorsed in 2005, the international community has grown progressively more aware of the need for developing countries to take the lead in its implementation. The work of the WP-EFF builds on this principle of ownership, which has provided the foundation for the HLF3 and AAA.

The AAA is the product of wide consultation and is built on inclusiveness, transparency and trust. The preparations for the Accra High Level Forum brought together over 100 governments, most multilateral agencies, hundreds of CSOs from around the world, many non-traditional providers of development assistance, global funds and middle-income countries. Developing countries were at the heart of the process: over 80 of them participated in regional preparatory events and 54 took part in the 2008 Survey on Monitoring the Paris Declaration.

Developing countries had their priorities for Accra from the beginning of the preparatory process. They called for progress in six key areas: conditionality; multi-annual predictability of aid; untying; complementarity and division of labour; incentives for donor staff to implement the Paris Declaration; and capacity development. The significant actions laid out in the AAA reflect these concerns, with a series of realistically ambitious commitments that are designed to take effect immediately.

Ownership is at the heart of the AAA

The first theme of the AAA is strengthened country ownership of development. The AAA calls for increased leadership from developing countries in making sure assistance is driven by demand rather than supply. This includes broadening the definition of ownership to include parliaments, local authorities and civil society.

The AAA also includes commitments to strengthen local capacity to lead and manage development, calling on developing countries to identify where their own capacity needs to be strengthened, at all levels. It specifies that technical co-operation should be provided by local and regional resources, including through South-South co-operation, and that technical co-operation should be jointly managed and draw on local and regional sources.

One of the most important agreements in the AAA is that **donors will use country systems as a first option** so that nationally owned priorities are not bypassed and local capacity for public management and accountability is not undermined. Increasing the quality and use of countries' own systems is a key aim of the Paris Declaration. Yet the findings of the 2008 Survey on Monitoring the Paris Declaration show that, while developing countries have made significant progress in improving the integrity of their systems, donors have not responded by making greater use of them.

Through the AAA, donors have agreed that if they are not able to use country systems, they must state transparently the reasons for this, and they must ensure that any other options they use do not undermine country systems. At the same time, developing countries have committed to take the lead in defining reform programmes and priorities to further strengthen their systems.

Effective and inclusive partnerships for development

The AAA recognizes that aid is about building partnerships for development which fully harness the energy, skills and experience of all development actors. Donors and developing countries have therefore agreed to reduce the excessive **fragmentation** of aid that impairs aid effectiveness at the global, country and sector level, and to promote better **division of labour** among donors. These actions put developing countries in the lead in determining the roles of donors. The WP-EFF will promote the good practice principles on country-led division of labour that it plans to finalise by June 2009 and will evaluate progress against these, promoting dialogue on division of labour across countries. In doing so, donors have committed to give special attention to addressing the needs of countries that currently receive insufficient aid.

Donors have also agreed to increase the value of development assistance by **untying aid** to the heavily indebted poor countries and promoting the use of local and regional procurement. Those donors who have not yet fully untied their aid have agreed to set out their plans to increase their use of untied aid.

The AAA encourages **all development actors**, including those engaged in South-South co-operation, to use the Paris Declaration principles as their point of reference in providing development co-operation. It recognises the role of CSOs as development actors in their own right and invites them also to reflect on how the Paris principles apply to their work.

The HLF3 also represented a step change in the partnership and dialogue among donors and governments in **situations of conflict and fragility**. For the first time, a consensus between donors and partner countries was reached on priority actions in these situations. These include monitoring the Principles for Good International Engagement in Fragile States and Situations (starting with the DRC, Afghanistan, Timor Leste, the Central African Republic and Sierra Leone) and launching an international dialogue—led by the DRC and France—on international objectives for state building and peacebuilding as prerequisites for development.

Delivering and accounting for development results

The third major theme of the AAA is ensuring that development assistance **delivers results**. Donors and developing countries agreed in Accra to achieve this by building the necessary management and information systems at the country level. Rather than pushing for visibility and attribution, donors agreed to undertake fundamental reforms in their agencies, changing **organisational and staff incentives** so as to promote behaviour that is in line with the aid effectiveness principles.

Donors and developing countries alike agreed in Accra to deliver and manage aid in a more **transparent and accountable** way. As a result, significant commitments were made by donors and recipients to facilitate better parliamentary and public oversight of aid flows, to conduct mutual assessment reviews and to fight corruption. The AAA also pledges to reduce the prescriptive conditions donors attach to aid—relating to how and when money is spent. Donors will, instead, focus on conditions based on the developing country's own objectives, as set out in its national development plans. Together with developing countries, they will make public all conditions linked to disbursements.

Last, but not least, donors agreed specifically to increase the **medium-term predictability** of aid. This will have far-reaching implications for aid effectiveness, allowing developing countries to effectively plan and manage their own development programmes. Developing countries agreed to strengthen budget processes for managing domestic and external resources and to strengthen the linkages between expenditures and results. They also agreed to work with donors on improving the medium-term predictability of aid, as well as the tools to measure it; this will make it possible to conduct better analyses of medium-term fiscal sustainability in aid-dependent countries. The IMF is keen to help with medium-term evaluations to meet the MDGs.

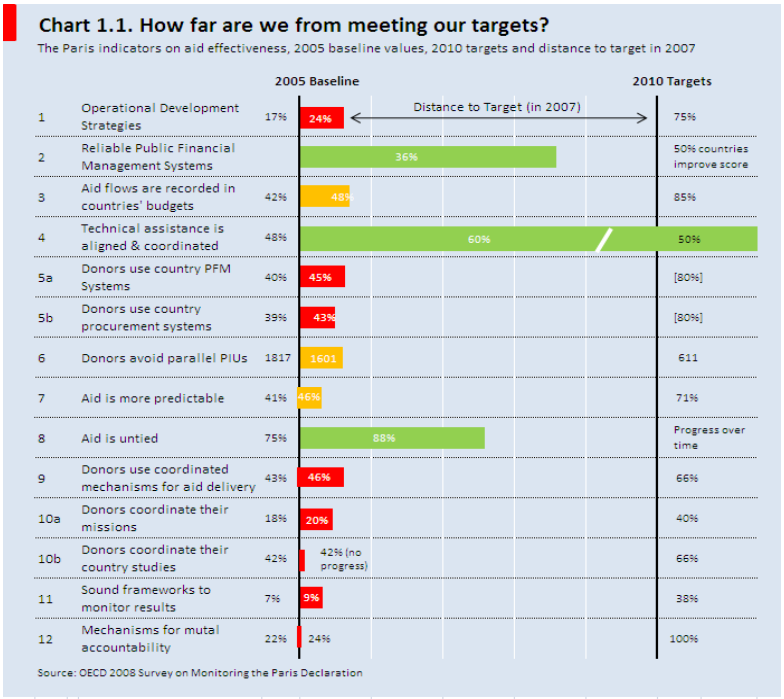

Figure : Progress on the Paris Declaration commitments—evidence from the 2008 Monitoring Survey

Aid Effectiveness—next steps

The evidence that has emerged in the preparation of the HLF3–including the results of the 2008 Monitoring Survey–shows that, despite some progress, real change is needed by both partners and donors if the 2010 targets of the Paris Declaration are to be reached. The AAA responds to this challenge, bringing renewed political will to push for more effective aid. As development actors–within a global partnership–implement the actions in the AAA, and as they work to promote the inclusive ownership embodied in those actions and to focus on results, they will ensure that development policies are informed by the right principles at the right time.

Many of the actions in the AAA call for greater transparency and capacity. In particular, donors must provide timely and realistic information on aid commitments and disbursements and they must help to develop aid management capacity. The OECD-DAC *Report of 2008 Survey of Aid Allocation Policies and Indicative Forward Spending Plans* (www.oecd.org/dac/scalingup), which examines donors' forward spending plans as well as existing aid fragmentation and concentration, provides the basic information required to enable medium-term planning as well as adjustments in aid allocations among and within countries.

But the real impact of Accra will be seen in terms of **development results.** In focusing on the issues that were most difficult or contentious in Accra, we can lose sight of important areas where our agreements came easily and quickly. Perhaps the most important of these is the most obvious: people are at the heart of the Accra Agenda for Action. Whilst improving the operational efficiency of aid delivery mechanisms is essential, the AAA recognises that what ultimately matters are results, *i.e*. their impact on the lives of poor women and men.

International Conference on Taxation, State Building and Capacity Development in Africa
Pretoria, South Africa
28-29 August 2008

This meeting was attended by Commissioners, senior tax administrators and policy makers from 39 countries, together with representatives from bilateral and multilateral organisations active in Africa on tax issues. The meeting was hosted by the South African Revenue Service, and financed and supported by the DAC's GOVNET and the OECD's Centre for Tax Policy and Administration.

The President of the African Development Bank, Mr. Donald Kaberuka, South Africa's Minister of Finance, Mr. Trevor Manuel and OECD Deputy Secretary General, Mr. Pier Padoan, addressed the meeting on the importance that revenue mobilisation plays in building capable state institutions in Africa, which are the bedrock for a democratic state. More efficient tax systems can reinforce state legitimacy through promoting accountability of governments to tax-paying citizens, building effective state administration and good public financial management.

The meeting took stock of the progress made, challenges faced and a possible new direction for African tax policy and administration in the 21st Century. In this regard, the meeting produced a Pretoria Communiqué, which paves the way for the creation of an African Tax Administration Forum to act as a focal point to strengthen African Tax Administrations by providing a space to develop joint strategies, exchange good practices, benchmark performance and improve cooperation between tax administrations and donors.

Over the three years since the Paris Declaration, we have seen a growing body of evidence of how its implementation has reduced poverty and inequalities–the Declaration's overarching goals. Now, more than ever,

gender equality, human rights and environmental sustainability are the cornerstones of our collective efforts. The AAA is a solid platform for achieving social and economic justice all over the world; it will contribute to revitalising our agreed international commitments and to realising them in a more effective aid environment.

Building the foundations for Doha and the MDGs

The Accra Agenda for Action is not only fundamental to the implementation of the Paris Declaration; it also provides global taxpayers with the assurance they need that aid resources will be used effectively. This is an essential part of the compact that must be reached at the Financing for Development conference next month in Doha. That conference will determine the volumes of funding that will be made available for reducing poverty and tackling inequality. Many donors have made commitments to significantly increase their aid in the years immediately ahead. Now, more than ever, they must make the budgetary provisions needed to ensure predictable assistance in line with their promises.

Following the July impasse in the Doha trade talks in Geneva, ministers came to Ghana knowing that they must not fail the world's poorest yet again; in Accra, they agreed to deliver on their promises. But serious challenges remain, including serious concerns about food and oil prices and climate change. There are important linkages between better aid, better trade and increased financing for development—and all are needed for long term, sustained poverty reduction.

In Accra we found common ground. We sent out a resounding message to the world: governments are serious about making development assistance work. We must continue to carry this momentum forward, through the Doha Development Round, the campaign for the Millennium Development Goals and the Financing for Development Review meeting in Qatar in November. What was achieved in Accra gives major impetus to the push to ensure that the 1.4 billion people who still live in extreme poverty get what they need to live fully and to enjoy equal opportunity. Accra promised a breakthrough in the way assistance is delivered. If accompanied by equal progress on trade reform and financing for development, we can finally offer countries the chance to work their way out of aid.

II. OECD-DAC perspectives on Development Committee agenda items

The effect of recent economic developments on long-term growth and on overcoming poverty

Developing countries have demonstrated an impressive growth in performance over recent years. As noted in the new Bourguignon report on the MDGs at midpoint, annual growth rates were, on average, three to five times higher in emerging/developing economies than in developed economies between 2000 and 2007; in the same period, almost all developing countries experienced positive growth in GDP per capita. In sub-Saharan Africa as a whole, GDP per capita growth has now been positive for seven consecutive years.

Yet at the same time, this growth has not had the impact it could—and should—have had on reducing poverty. New poverty estimates published by the World Bank reveal that the absolute number of poor people in sub-Saharan Africa nearly doubled—from 200 million to 380 million—between 1981 and 2005, using a USD 1.25 a day poverty rate. Although Africa's poverty rate fell after the mid-1990s (from 58% in 1996 to 50% in 2005), this was not sufficient to bring down the number of poor.

Recent global challenges could well exacerbate this situation, as well as set back recent improvements in economic conditions in developing countries. Climate change, high prices for food and fuel and financial market instability will all have profound impacts on economic growth and poverty reduction—in other words, on poor people. Already, growth is being set back, a number of food importing poor countries are experiencing social and political unrest and migration pressures are building. Demographic trends also mean that "more of the same" will not be enough. It is projected that in 2030, one in four youths will be African; it will be a challenge to create enough decent jobs to absorb this burgeoning workforce. Insufficient opportunities for these youths could further add to migration pressures, as well as social and political unrest.

To have a greater impact on reducing poverty, growth in developing countries needs to remain at sustained high rates. But there is equally a need to ensure that growth is more broad-based and that poor people are more employable and can develop and exploit entrepreneurial skills; only in this way will they be able to benefit from the opportunities provided by growth. Finally, greater access by women to the labour market as well as to land, financial and other markets will help accelerate growth.

A number of avenues can be pursued to increase the impact of growth on poverty reduction:

- International trade and investment linkages need to be harnessed so as to increase demand for a range of local goods and services and to raise productivity; aid for trade can help to increase the impact of trade on growth, employment and poverty reduction.

- Entrepreneurship needs to be encouraged to expand the private sector. More decent jobs need to be created within the formal economy and conditions and productivity need to be improved in the informal sector, where up to 90% of the active population in developing countries earns their livelihood. By responding more to the needs of enterprises, especially those in the informal sector, vocational training systems can have a much greater impact on improving the employability and productivity of the poor.

- Expanding and maintaining access to affordable infrastructure can remove bottlenecks to growth, reduce production and transport costs and help to connect poor people up to larger and more competitive markets.

- Increased agricultural productivity is central to promoting development in agriculture-based economies, but this needs to be done in parallel with the growth of employment in the secondary sector, so as to absorb the labour force moving away from farming.

- Social protection measures stimulate the participation of the poor in the growth process and help to shield the most vulnerable. They enable the benefits from growth to be better shared and help to break the intergenerational transfer of poverty.

- The binding constraints that are holding back the poor can be more easily identified if the latter are empowered and become more involved in, and able to monitor, decisions affecting their livelihoods. This, in turn, will help to ensure that reform processes are transparent and accountable, and that they serve the interests of the poor. Civil society needs to be involved in policy formulation, as well as in the implementation and monitoring of reforms, to ensure that policies are successfully translated into effective actions.

More than ever, there is a need to focus on promoting more rapid but also more inclusive patterns of growth in order to overcome poverty. As stressed by many developing countries, social protection and employment are two critical—yet underutilised—means for achieving the MDGs and accelerating pro-poor growth. Productive and decent employment is the main route out of poverty for most poor people, as recognised by the new MDG target on achieving full employment. Social protection shields the poor from global development challenges and helps prevent people from falling back into poverty, an increasingly important consideration in today's world.

Climate change—a development issue

As we are seeing all too often, climate change has the potential to affect all sectors of society. Droughts, floods and other extreme weather events undermine livelihoods, destroy critical transportation and communication infrastructure, jeopardize food security and energy supply, and even lead to dislocation and conflicts within and across nations. The AAA highlights that "…climate change threaten[s] the advances against poverty many countries have made." It is now well understood that adaptation to climate change is not just an environmental issue but an economic, social and political challenge. "Development as usual" will not allow us to face this challenge. In many cases, development initiatives may even increase vulnerability to climatic changes. For example, coastal zone development plans that fail to take into account sea level rise will put people, industries and basic infrastructure at risk, proving unsustainable in the long term. Climate change risks must therefore be considered systematically and integrated into development policy-making and planning, at all levels and in all sectors.

The *Declaration on Integrating Climate Change Adaptation into Development Co-operation* (OECD, 2006) committed us to assisting developing country partners in their efforts to reduce their vulnerability to climate variability and climate change; to identify and prioritise adaptation responses; and, where necessary, to integrate such considerations within a wide range of sectoral interventions and projects, in line with the principles and objectives of the Paris Declaration on Aid Effectiveness.

Climate Change in Africa

Although Africa is the continent least responsible for climate change, it is acutely vulnerable to its adverse effects – on economic growth and sustainable development, on poverty reduction, on human security, and on the prospects for achieving the Millennium Development Goals (MDGs). The impacts range from energy shortages, reduced agricultural production, worsening food security and growing malnutrition, to spreading disease, more humanitarian emergencies, growing migratory pressures and increased risk of conflict over scarce land and water resources.

Africa is the continent least able to meet the costs of adapting to these impacts, with the greatest need to develop its energy sources, and also with the potential to contribute to global efforts to reduce emissions through its forest resources. Yet it is also the continent which receives least from current carbon finance mechanisms.

The emerging agenda for action to address climate change risks in Africa was discussed at the April 2008 Africa Partnership Forum, attended by senior political leaders from African countries and their development partners. Participants agreed:

- Political will to address climate change on the continent must now be urgently mustered.
- Adaptation, capacity building and technological transfer are key vectors in Africa for addressing this issue.
- Good meteorological observatory systems for climate information and early warning systems are fundamental for climate risk management.
- There is a window of opportunity now for Africa to develop clean and renewable energy sources using affordable technologies—drawing on private sector know-how, technology and resources.
- Development partners and African governments need to facilitate and promote greater access to the carbon market and other GHG-friendly activities for Africa, including consideration of compensation for avoided deforestation.

In order to achieve these goals, we need to review our agencies' approaches and procedures, and to equip them with the right tools to tackle these challenges. A comprehensive review of DAC donors and multilateral financial institutions' efforts to integrate climate adaptation into their operations has revealed progress on a number of fronts:

- **The recognition of the need to integrate climate change adaptation is happening at the highest levels.**

  This is a necessary first step: we have found that most donor agencies now have a high-level mandate to integrate climate change adaptation into their operations.

- **Donors are raising the awareness of their agencies' staff.**

  Most agencies surveyed have indicated that they have undertaken a range of awareness-raising and training initiatives to ensure that their staff understand the climate change adaptation challenge. This includes, for example, systematic briefings for locally-based staff, preparation of country profiles outlining specific climate risks, etc.

- **Donors are integrating climate change adaptation into ongoing or planned development co-operation activities.**

At the level of individual development co-operation projects, many donors have begun to develop screening tools to identify projects that are potentially vulnerable and build in appropriate responses. Some agencies are examining not just individual projects or activities, but also their entire support strategies in order to inform development co-operation programming in a pro-active manner. Several agencies have conducted comprehensive country or sector-level climate risk assessment.

Donor agencies are also beginning to develop tools and methodologies to assess climate vulnerability in development policies and to identify adaptation options, plans, programmes and projects. These tools, which build on approaches such as Strategic Environmental Assessment (SEA) and Environmental Impact Assessment (EIA), should be shared and harmonized in order to reduce redundancy.

At their meeting in May 2008, DAC ministers and heads of agencies took note of progress on this front but recognised that much remains to be done. The most important challenge ahead is to integrate climate change adaptation into development policy making and planning, including in the context of national plans, such as poverty reduction strategies. Donors should play a more active role in bringing climate change-related risks and opportunities to the attention of developing country policy makers.

In addition, donors and partners need to move from identifying the risks facing ongoing development projects to reducing these risks in a pro-active and strategic manner, starting from the early stages of policy and programme formulation. Current trends towards providing development co-operation support at the level of policies, programmes and plans open up new opportunities in this regard, notably for enhanced dialogue on policies and strategies that can support "climate-resilient" long-term development.

Donors also need to recognise that traditional knowledge may offer experience and insights that can help build resilience to climate change at the local level. This in turn can help develop appropriate and situation-specific approaches.

Building on the experience and expertise of the OECD development co-operation and environment agencies, we are working to develop guidance for integrating climate change adaptation into development co-operation. This body of work is intended to facilitate climate risk management in the context of long-term development strategies and planning. It is benefiting from the experience and active support of UNDP, UNEP and the World Bank, as well as the regional development banks (AfDB, AsDB, EBRD, IADB, EIB).