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Briefing Paper 2

DEVELOPMENT ASSISTANCE

With a low domestic savings rate (averaging 10 per cent of gross domestic product), the least developed countries remain highly dependent on external financing. Development assistance from partner countries is arriving in the LDCs at about the same order of magnitude as direct investment, and both categories will need to expand for steady progress to be achieved by the world's most vulnerable economies.

At the 2001 UN Conference for the Least Developed Countries in Brussels, donors affiliated with the OECD's Development Assistance Committee (DAC) committed to dedicating 0.15 to 0.20 per cent of gross national product as development assistance for LDCs. The development partners also agreed to untie aid (*see description below*) to LDCs, improve transparency and involve recipient countries more in policy discussions.

Most of the least developed countries have come a long way towards meeting partnership commitments under the Brussels Programme of Action for the LDCs: establishing fair and stable legal frameworks and promoting democracy, human rights and the rule of law.

Donors, for their part, have nearly tripled official development assistance (ODA) to the least developed countries — from $14 billion in 2001 to nearly $40 billion in 2009, the most recent year for which data is available (*see table*). Aid levels nevertheless constitute only about 0.09 per cent of DAC members' combined national incomes, well below the 0.15-0.20 per cent target. The gap in delivery on the 0.15-0.20 per cent target is calculated to have ranged between $24 billion and $43 billion in 2008.

Aid distribution patterns have also raised concern.

- Countries of strategic importance to donors often receive much higher allocations per capita than the average recipient, even though development assistance standards place human and development needs over political or economic priorities of donors.

OFFICIAL DEVELOPMENT ASSISTANCE
2005 – 2009 from DAC donors
(net receipts in millions of $US)

	DEVELOPING COUNTRIES	LEAST DEVELOPED COUNTRIES
2005	108 441	25 967
2006	106 549	28 476
2007	106 775	32 973
2008	126 656	38 627
2009	127 527	39 940

Source: OECD/DAC

- There is also a growing trend towards allocating aid on recipient country "performance". While this may seem a good idea to guarantee results, the risk is that LDCs with weak institutions will lose aid share, perpetuating a vicious cycle.

SECTORAL ALLOCATION AND UNTYING ODA

The share of DAC assistance devoted to social needs and governance increased sharply over the period 1980-2005. Conversely, the portion going to economic infrastructure and the productive sector declined.

The trend started to turn in 2006-2008. DAC allocations for infrastructure and production rose from 19 per cent to 26 per cent of all aid — with infrastructure accounting for almost all of that rise and agriculture the rest.

Many LDC governments welcome further emphasis on major infrastructure (transport, energy, water, and information and communications technology) and farming, as these productive capacities build overall self-sufficiency and help an escape from aid dependence. This trend appears to have been accelerating in 2009-2010, as donors channelled more funding to the private sector, infrastructure and agriculture in order to combat the impact of global recession and rising food insecurity.

Nevertheless, aid share for economic infrastructure and productive capacity in manufacturing, agricultural and service sectors still falls below 2000 levels.

"Tying" aid – the practice of requiring that procurement of goods and services for aid-supported projects must draw on donor country suppliers – is said by some studies to raise the cost to developing countries by 15 to 30 per cent on average, and by as much as 40 per cent or more for food aid.

Significant progress has been made since 2001 in untying DAC aid to the LDCs. By 2007, 79 per cent of DAC bilateral ODA was reported as untied.

DEVELOPMENT ASSISTANCE FROM THE COUNTRIES OF THE SOUTH

About $9.6 billion of development assistance was granted through "South-South" cooperation in 2008, as reported to the OECD by developing and transition countries. (More than half was from Saudi Arabia.) It is likely that another $2 billion was provided by non-reporting countries, primarily by China, but also from India, the Bolivarian Republic of Venezuela, Brazil, Nigeria and South Africa. Total contributions from these non-traditional donors are expected to have risen again in 2009.

If pledges are kept, total South-South aid flows could reach $15 billion in 2015. And development aid may be only the tip of the iceberg in this growing cooperation, as trade and investment increase and many deals are linked to building infrastructure in low-income countries.

Around 90 per cent of South-South development cooperation assistance is allocated in the form of project finance and technical assistance, while around 10 per cent is for balance-of-payment or budget support. Some contributors are moving towards approaches that are more programme-based. In addition, there is an increasing focus on humanitarian assistance, which exceeded $1 billion in 2008, largely from Arab providers.

Many contributors to South-South cooperation have programmes that are co-financed by triangular cooperation, whereby DAC donors finance the projects and Southern institutions execute them.

In regional and specialized preparatory meetings leading up to the 2011 Fourth UN Conference on the Least Developed Countries — including a 2010 ministerial-level meeting on finances for LDCs — proposals on improving aid performance include the following:

- Traditional donors should realize the commitment to ODA levels of between 0.15 and 0.2 per cent of gross national income for least developed countries.
- South-South cooperation should continue to increase, in line with the growing economic heft of the emerging economies.
- Aid should be grant-based, concessional, predictable and multiyear, with minimal conditionality and aligned to LDC priorities such as infrastructure, agriculture and productive capacity.

ALTERNATIVE SOURCES OF DEVELOPMENT ASSISTANCE

An array of new ideas that broaden the base of development aid promise to benefit LDCs.

The longstanding concept of a tax on currency or international financial transactions, dating back to the 1970s, is enjoying a renaissance. It has been brought to the fore at the United Nations repeatedly in recent years, and is likely to be on the agenda of the next meeting of the Group of 20.

Several new initiatives to raise resources for health are already underway:

- MassiveGood enables travellers to make a donation of $2, €2 or £2 via online purchase of tickets and travel products.
- The International Finance Facility for Immunization, launched in 2006, has raised more than $2 billion on the international capital markets through the issuance of floating bonds.
- Advance Market Commitments (AMC) establishes contractual partnerships between donors and pharmaceutical firms to focus research on neglected diseases and distribute drugs at affordable prices.
- The Debt2Health initiative, launched by Germany in September 2007, uses debt swaps to relieve the strain on resources of developing countries by converting portions of their old debt claims into new domestic resources for health.
- The Global Strategy for Women's and Children's Health Initiative, launched in 2010 by UN Secretary-General Ban Ki-moon, has attracted $40 billion in commitments.

Finally, allocation of Special Drawing Rights by the International Monetary Fund could play an important role in providing emergency liquidity as well as advancing development. A special and expanded allocation could be set up for LDCs, with donors devoting their SDRs for LDC use in mitigating crises and providing public goods.

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