

# **Economic and Social Council**

## **Development Cooperation Forum**

### **Geneva, July 2007**

#### **DRAFT AIDE MEMOIRE**

#### **High-Level Symposium**

#### **19-20 April, UN Office in Vienna**

The 2005 World Summit mandated ECOSOC to convene a biennial high-level *Development Cooperation Forum* (DCF)<sup>1</sup>. The DCF will *review trends* in international development cooperation, including strategies, policies and financing, *promote greater coherence* among the development activities of different development partners and *strengthen the normative and operational link* in the work of the United Nations.<sup>2</sup> The General Assembly in resolution 61/16 further decided to launch the DCF in Geneva in July 2007 and thereafter to hold the first biennial Forum in New York in 2008.

To facilitate dialogue among stakeholders during the upcoming launch of the DCF and to begin a consultative process for the Forum taking place in 2008, the Department of Economic and Social Affairs of the United Nations is supporting the organization of several high-level symposiums, hosted by Member States and with particular focus on the key challenges facing development cooperation. The first event, organized in cooperation with the Government of Austria, will take place in Vienna, 19-20 April 2007. The theme of the Vienna High-Level Symposium will be “*Country-level experiences in coordinating and managing development cooperation*”. Organized as a multi-stakeholder event, with the participation of high-level individuals in an expert capacity, the symposium will consist of plenary sessions and roundtable discussions.

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<sup>1</sup> The idea of ECOSOC transforming itself into a “development cooperation forum” was first proposed in the Report of the Secretary-General’s High-Level Panel on Threats, Challenges and Change, 2004 (see page 87).

<sup>2</sup> See GA resolution 60/1, paragraph 155.

## Background

The DCF is expected to exert a positive influence on the international development cooperation system by bringing together all the relevant actors to engage in a dialogue on key policy issues affecting the quality and impact of development cooperation, including developed and developing countries, OECD/DAC, BWIs, UN system organizations, regional development banks, bilateral development agencies, as well as civil society and the private sector.

The General Assembly more specifically, decided that the DCF will:

- a) review trends and progress in international development cooperation, and give policy guidance and recommendations to promote more effective international development cooperation;
- b) identify gaps and obstacles with a view to make recommendations on practical measures and policy options to enhance coherence and effectiveness and to promote development cooperation for the realization of the internationally agreed development goals (IADGs), including the Millennium Development Goals (MDGs);
- c) provide a platform for Member States to exchange lessons learned and share experiences in formulating, supporting and implementing national development strategies; and
- d) in accordance with the Rules of Procedure, be open to participation by all stakeholders, including the organizations of the United Nations, the international financial and trade institutions, the regional organizations, civil society and private sector representatives;

In addition, GA resolution 61/16 provided for ECOSOC to undertake regular and periodic review and assessment of international economic and development policies and their impact on development. As the basis for discussion during the launch of the DCF in 2007, the Secretary-General was requested to prepare an analytical background report.

The Vienna High-Level Symposium will aim to identify key challenges, examine progress, and discuss good practices by donors and recipient countries in implementing some of the policy goals established at the 2005 World Summit and the Monterrey Conference on Financing for Development as they relate to the management and coordination of development cooperation at the country-level. The meeting is expected to provide substantive input into both the upcoming launch of the DCF and the preparations for the first biennial Forum in 2008.

A number of other important development cooperation issues will be discussed in a follow-up symposium, tentatively scheduled to take place in a recipient country in the first half of June. Potential issues for discussion in this symposium may include trends in international development cooperation, with particular focus on South-South and triangular cooperation, as

well as the coherence of the global development cooperation architecture. UNDESA also plans to support the organization of several other high-level symposiums on selected priority issues in the fall of 2007 and the first half of next year as part of the preparations for the first biennial Forum in 2008.

### ***Building on the global partnership for development***

The DCF will be anchored in the *global partnership for development* set out in the Monterrey Consensus, the Johannesburg Plan of Implementation and the Millennium Declaration, and reaffirmed at the 2005 World Summit.

This global partnership for development entails commitments of countries to sound policies, good governance at all levels and the rule of law. It also calls for the mobilization of domestic resources, attracting international flows and promoting international trade as an engine for development. In addition, it involves *increased international financial and technical cooperation for development*, sustainable debt financing and external debt relief, as well as enhanced coherence and consistency of the international monetary, financial and trading systems.

The promotion of enhanced quality and effectiveness of development aid is an integral part of the global partnership for development, as part of a broader strategy to increase financial resources for development and strengthen development cooperation.

The Monterrey Consensus recognized that official development assistance (ODA) plays an essential role as a complement to other sources of financing for development. It also stressed that recipient and donor countries, as well as international institutions, should strive to make ODA more effective by using development frameworks that are owned and driven by developing countries. In addition, it called for the harmonization of operational procedures to the highest standard so as to reduce transaction costs and that initiatives such as untying of aid should be supported and enhanced. Moreover, the Consensus recognized the need to enhance the absorptive capacity and financial management of recipient countries.

At the 2005 World Summit, Member States also welcomed recent efforts and initiatives to enhance the quality and impact of aid, including the Paris Declaration on Aid Effectiveness.<sup>3</sup> They resolved to take concrete, effective and timely action in implementing all agreed commitments on aid effectiveness, with clear monitoring and deadlines, including further aligning assistance with countries' strategies. In addition, Member States called for the strengthening of institutional capacities, reduction of transaction costs, elimination of bureaucratic procedures and progress in the untying of aid. Further to the Monterrey

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<sup>3</sup> The 2002 Monterrey Conference on Financing for Development played a key role in launching the debate on aid effectiveness, which was subsequently followed up at the 2003 Rome High-Level Forum on Harmonization and the 2005 Paris Forum on Aid Effectiveness.

Consensus, they recognized the need for enhancing the absorption capacity and financial management of recipient countries and strengthening the focus on development results.

In sum, the Monterrey Conference, the 2005 World Summit Outcome, as well as the Rome High-Level Forum on Harmonization (2003) and the Paris High-Level Forum on Aid Effectiveness (2005), have helped to forge a new global consensus on priority areas for more effective development cooperation. Key elements of this consensus are the following: (a) MDG-based national development strategies as the framework for cooperation, (b) strong national ownership, grounded in strengthened capacity, (c) increased use of budget support, (d) use of national systems (procurement, audit, reporting etc.), (e) greater predictability of aid flows, (f) mutual accountability, and (g) performance-based/results-oriented cooperation.

### *Trends in funding for development cooperation*

As the result of Monterrey commitments, the decline in the share of ODA in developed-country GNI was reversed, as it rose to 0.25 per cent on average in 2003 and 2004. At the time of the 2005 World Summit, several UN Member States announced commitments to substantial increases in ODA. If all commitments are met by the target date of 2006, total ODA is projected to reach USD88 billion, an increase of almost 50 per cent in nominal terms from the total recorded in 2002, and USD130 billion in 2010.

Despite the positive trend since 2002, the current and projected levels of ODA for the period 2006-2010 still fall far short from the various estimates of about USD150 billion deemed necessary for developing countries to attain the MDGs. A recent report by the UN Millennium Development Project makes the point that the current composition of ODA must change towards greater focus on financing specific MDGs-related expenditures, particularly considering that during the 1990s, the share of debt relief, emergency aid and technical assistance of total aid flows increased considerably. Consequently, despite the recent recovery in recorded donor contributions, ODA has been a declining source of budgetary resources for development for the developing countries, limiting their efforts to reach the MDGs.

Considering that aid remains quite a large share of GDP and financial flows in many developing countries, particularly, the least-developed countries, the predictability and stability of resource flows has emerged as a key factor in determining the impact of development assistance in contributing to the realization of the MDGs. The UNDESA *2005 World Economic and Social Survey* reveals that not only are ODA flows more volatile than either GDP or fiscal revenue, but their relative volatility increases with the degree of aid dependence.

Another salient feature of development cooperation is that donor flows tend to get concentrated in a few countries imposing considerable transaction costs in managing surges of

flows while other low-income countries suffer from under-funding. For example, since the 1980s, the top 20 countries have received 90 per cent of all aid from OECD/DAC countries. Donors are also sometime criticized for moving in and out of countries together compounding the problems of the recipient countries. In addition, significant gaps between commitments and disbursements have sometimes added to the precariousness of the aid delivery system.

Until recently, OECD/DAC donors accounted for around 95 per cent of all international development aid. That picture is now rapidly changing. A significant number of non-OECD/DAC donors have recently emerged, or re-emerged, on the development cooperation scene. The Republic of Korea, for example, aims to raise its development aid to USD1 billion by the year 2010 and China has committed to provide USD10 billion in loans on concessional terms and preferential export buyer's credits within the next three years. Research also shows that non-OECD/DAC donors, mostly from Asia, provided up to 12 per cent of humanitarian aid between 1999 and 2004 - with China now being the third largest donor of food aid.

### *Recent developments affecting global development cooperation*

According to an Overseas Development Institute study, the international development cooperation system now consists of a loose aggregation of more than 150 multilateral agencies, including UN system agencies and the global and regional financial institutions; 33 bilateral agencies which are members of OECD/DAC; at least 10 non-OECD/DAC governments providing significant sums of ODA; and a growing number of vertical special-purpose global funds. Of total ODA, bilateral aid accounts for approximately 70 per cent with the multilateral system accounting for the remaining 30 per cent.

Summing-up, several recent developments are contributing to a major rethinking of how the global development cooperation system will operate in the future. These developments include:

1. *Up-scaling of aid.* As part of a new partnership for development, donors have committed to double development assistance to a projected level of US\$130 billion by 2010;
2. *Emerging donors.* New emerging, or re-emerging, OECD/DAC and non-DAC donors, including China, India, Republic of Korea, Thailand, Malaysia, Mexico, Turkey, Brazil, South Africa, Russia and other Eastern European countries;
3. *Increased South-South and triangular cooperation.* Rapidly growing volume of South-South and triangular development cooperation;

4. *Adoption of the Paris Declaration on Aid Effectiveness in March 2005.* The declaration sets out five major principles of aid effectiveness: (a) ownership of development strategies by partner countries, (b) alignment of donor support with those strategies, (c) harmonization of donor actions, (d) managing for results, and (d) mutual accountability. The Paris Declaration also contains some 50 commitments to improve aid quality to be monitored by 12 indicators;<sup>4</sup>
5. *New special purpose funds.* Proliferation of new vertical and special purpose funds, with recent ones including the Global Fund to Combat AIDS, Tuberculosis and Malaria; Millennium Challenge Account; GAVI Alliance, and the pilot International Finance Facility for Immunization;
6. *UN development system reform.* Ongoing dialogue on the reform of the UN development system; and
7. *Slow progress in the implementation of some areas of the Monterrey Consensus.* In particular areas relating to trade, debt and systemic issues.

A number of the world's major political factions are increasingly taking interest in the debate on the reform of the aid architecture. OECD/DAC, for example, organizes annually the Tidewater Meeting of development cooperation ministers to facilitate policy review and coordination among its member countries. The 2006 Commonwealth Finance Ministers' Meeting in Sri Lanka in September 2006, decided to establish a working group of senior officials drawn across the membership to consider reform of the aid architecture and how the Commonwealth could influence this debate. Earlier in 2006, the Commonwealth Secretariat, in cooperation with La Francophonie, also organized a regional workshop in Bangladesh on the reform of the international aid system.

## **Objective(s) of the High-Level Symposium**

The objectives of the High-Level Symposium in Vienna are threefold, firstly, to examine how well recipient countries and donors have realized several key policy goals established at the 2002 Monterrey Conference on Financing for Development and the 2005 World Summit, as they relate to the management and coordination of development cooperation at the country-level, secondly, to identify the most daunting challenges facing recipient countries and donors in realizing current goals, and, thirdly, to propose policy options in areas where there are possibilities for consensus-building among stakeholders for further discussion in the preparations leading up to the 2008 DCF.

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<sup>4</sup> Participants in the Paris Meeting agreed to preliminary quantitative targets for five of those indicators.

## **Key topics for discussion**

Against this backdrop, the high-level symposium will focus its discussions on five key issues, each considered critical for effective coordination and management of development cooperation at the country-level.

### **a) National development strategies: *how to operationalize the IADGs?***

A significant outcome of the 2005 World Summit was the commitment of developing countries to adopt and implement by 2006 comprehensive national development strategies to achieve the internationally agreed development goals (IADGs), including the MDGs. A national development strategy is expected to provide an assessment of development needs, to set clear national-specific development goals, and to identify the policy frameworks and resources required to achieve them. A credible, comprehensive national development strategy will reduce the likelihood of donors developing their own priorities independently, which reduces the risk of promoting incoherent or conflicting development visions and programmes. Hence, a sound national development strategy is a key element in fostering alignment of external assistance with country priorities. However, for this logic to apply it is critical that the strategy is genuinely nationally owned and provides a clear framework for setting long-term development priorities.

The symposium could examine case studies of how governments have operationalized the IADGs through the formulation and implementation of national development strategies. More specifically, such country experiences could focus on examples of how the IADGs are transformed into actionable national policies and strategies; how national development goals are reconciled with the the IADGs; and how participatory approaches can be informed by the IADGs when formulating development priorities at the country level.

Other issues to be explored during the symposium could include the following: are recipient countries making adequate progress in developing and implementing comprehensive national development strategies? Are recipient countries generally taking a more proactive role in the partnership process with donors? Is there evidence of enhanced alignment of development assistance with national development priorities in recipient countries? Is the deepening of the partnership between recipient countries and donors being reflected in fewer aid conditionalities? Are civil society and private sector organizations becoming an active partner with governments in the formulation and implementation of national development strategies at the country-level?

### **b) Financing national priorities: *how to mobilize suitable resources?***

As part of the *global partnership for development*, reaffirmed at the 2005 World Summit, developed countries agreed to support country-led efforts to adopt and implement national development strategies through, inter alia, substantial increase in development aid of sufficient quality and

arriving in a timely manner. This commitment is significant as the success of national development strategies is contingent on several financial prerequisites, such as long-term public expenditure plans, multi-year financing frameworks and predictable and stable funding support by donors.

In recent years, the funding for development cooperation has begun to shift away from project aid to general budget and sector-wide programme support. Most developing countries have welcomed this shift as the new modalities are felt to promote better alignment of development aid with national priorities. Yet, general budget-support and sector-wide programme funding flows tend to be more volatile than project aid, which is usually committed up front and disbursed on a multi-year basis. It is therefore critical for the realization of the IADGs that donors follow through on their multi-year pledges of aid in order to facilitate more comprehensive and effective strategic planning in recipient countries.

The symposium could discuss the main challenges to more predictable and stable funding for development cooperation. Country case studies could particularly illustrate how certain planning frameworks of recipient countries are conducive to multi-annual donor pledges; how trust funds operating on a multi-year basis can promote more stable and predictable resources; and how general budget-support is practiced in some recipient countries with the view of promoting the development of adequate capacities for longer-term planning.

**c) National capacities: *are they fit for up-scaling of aid?***

The provision of development aid is regularly associated with multiple and complex donor requirements and in many instances straining institutional capacities in recipient countries. Weak capacity to coordinate and manage development aid is also hampering the ability of many developing countries to effectively implement national development strategies. Major up-scaling of development aid is likely to add further complexity to this process and its success will ultimately depend on upgrading of institutional capacities in recipient countries for aid coordination and management, including evaluation and monitoring of results. The quality of this upgrading, in turn, will require significant capacity enhancement in data collection and statistical analysis.

For development aid to be effective in contributing to the realization of the IADGs, governments must also be in the driving seat from project design to implementation and evaluation. This means that governments need to have the capacity to link projects into overall sector plans and ensure the best use of resources. Such coordination is vital given limited absorptive capacities in many countries.

Some of the issues to be discussed during the symposium could include the following:



*National capacities:* are recipient countries investing adequately in the strengthening of aid coordination and management capacities, e.g. through legislation, policies, procedures, systems for financial management and data collection and statistical analysis and other institutional structures as well as enhanced monitoring, evaluation and reporting? If not, what are the main constraints? How to better map the potential gaps in institutional capacities? Are donors adequately assisting recipient countries in the capacity-building process?

*New aid modalities:* what has been the experience with the new aid modalities? Have the new aid modalities lowered transaction costs and reduced procedural burden on recipient countries? Which capacities in recipient countries need particular strengthening for effective coordination and management of the new aid modalities?

**d) Aid quality: *how to improve monitoring?***

In addition to considerable additional resources, the realization of the IADGs will require significant improvements in the quality of aid. The *2005 Paris Declaration* is an important step in that direction, particularly its emphasis on alignment of development aid with national priorities, the strengthening of national capacities, and enhanced use of national administrative systems.

With common principles and commitments for aid quality pronounced in the Paris Declaration, regular monitoring and reporting on the realization of those obligations becomes essential for enhanced impact of development aid. Besides regular evaluations undertaken by donors and recipient governments, national parliaments, civil society organizations and the media in the respective countries have an important role to play in the oversight process, particularly the assessments of results and impact.

Case studies could be used to examine good practices in monitoring of aid quality at the country-level. The discussion could also focus on issues such as the following: what are the main challenges associated with the monitoring of aid quality? Is there evidence that recipient countries are strengthening the monitoring of aid quality through use of performance indicators and regular evaluation? What challenges does monitoring of aid quality pose in fragile states? Are national parliaments playing a more active role in monitoring and evaluation of aid quality and impact? Are civil society organizations and media similarly increasingly concerned with assessing the quality of aid and development results?

**e) Donor harmonization: *how to step-up the effort?***

In the Monterrey Consensus, the 2003 Rome Declaration, the 2005 Paris Declaration, and more recently, the 2005 World Summit Outcome, bilateral donors and multilateral agencies committed to take concrete action to improve the management and effectiveness of aid at the

country-level by simplifying and harmonizing procedures that overburden poor countries' institutional capacity.

In the 2003 Rome High-Level Forum on Harmonization, donors agreed to review and identify ways to amend, as appropriate, individual institutions' and countries' policies, procedures, and practices to facilitate harmonization. In addition, developed countries committed to reduce donor missions, reviews, reporting, streamline conditionalities, and simplify and harmonize documentation.

The 2005 Paris Declaration similarly committed donors to implement, where feasible, common arrangements at the country-level for planning, funding (e.g. joint financial arrangements), disbursements, monitoring, evaluating and reporting to government on donor activities and aid flows. Donors also committed to make full use of their respective comparative advantage at the sector or country-level by delegating, where appropriate, authority to lead donors for the execution of programmes, activities and tasks.

Case studies could examine how recipient countries, in partnership with development partners, have made significant strides in harmonizing donor procedures and practices at the country-level. Other issues to be discussed could include the following: how to scale-up efforts in donor harmonization? What are the major constraints to such efforts? Is there an emerging trend towards common arrangements among donors at the country-level for supporting national development strategies, including the measurement of development results? What is needed to further enhance this collaboration?

## **Expected outcome of the symposium**

The High-Level Symposium in Vienna is expected to contribute to the upcoming dialogue at the launch of the DCF in 2007, as well as substantive preparations for the 2008 Forum by:

- Identifying priority areas requiring actions by recipient countries and donors, with the aim of further strengthening country-level coordination and management of development cooperation;
- Suggesting practical measures and policy options to improve the coordination and management of development cooperation at the country-level, with particular focus on the following:
  - ❖ Operationalizing the IADGs;
  - ❖ Advancing nationally owned development strategies
  - ❖ Planning for multi-year funding;
  - ❖ Strengthening of national aid coordination and management capacities;

- ❖ Improving monitoring, evaluation and reporting on aid quality;
- ❖ Harmonizing further donor procedures and practices.

## **Participants, organization and management**

The High-Level Symposium in Vienna will provide an opportunity for senior government officials, as well as representatives of other stakeholder groups, such as bilateral donors, multilateral organizations, civil society and the private sector to engage in a dialogue on some of the key issues facing the effectiveness of development cooperation at the country-level.

The discussion on each theme in the meeting will be introduced by a short presentation that will provide a succinct analysis of the current situation, major areas of progress, as well as those requiring further improvement, with the aim of facilitating a dialogue on potential policy options for consensus-building among stakeholders. Break-out sessions will also be used to engage participants in more in-depth discussions and brainstorming on the issues concerned.

The official language of the meeting will be English (with French interpretation). The background paper for the meeting and other relevant documents, including a draft annotated agenda, will be posted on the ECOSOC website (<http://www.un.org/docs/ecosoc/>).

## **Contact for further information**

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