

Global preparatory meeting
2010 Development Cooperation Forum
Thursday, 22 April 2010 (3 p.m. - 6 p.m.)

BACKGROUND NOTE

The role of aid in supporting progress
towards the MDGs against the backdrop of the economic crisis

Background

The 2005 United Nations World Summit mandated the Economic and Social Council (ECOSOC) to convene a biennial high-level Development Cooperation Forum (DCF) to *review trends* in international development cooperation, *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. The DCF was also mandated 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, including the MDGs¹.

The first DCF was held in New York on 30 June and 1 July 2008. It established the DCF as the focal point within the United Nations system for holistic consideration of issues of international development cooperation, with participation by all relevant stakeholders².

The second DCF will take place on 29 and 30 June 2010 in New York. In reviewing global trends in development cooperation, it will address the broad range of issues that affect its scale, quality and coherence. This will include the impact of the economic and financial crisis and of climate change on the quantity and quality of aid. It will also look at issues pertaining to policy coherence and at the role of South-South and triangular cooperation in a changing global environment. Looking ahead to the September 2010 Summit on the MDGs, the Forum will also discuss ways to enhance development cooperation to accelerate progress towards the MDGs.

¹ See General Assembly resolutions 60/1 (2005) and 61/16 (2007).

² Outcome Document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus (A/Conf.212/L.1/rev.1)

Objectives of the New York DCF Preparatory Meeting

1. Briefing on the preparations for the 2010 Development Cooperation Forum

The first hour of the meeting will discuss expectations for the second DCF. This will include a briefing on the preparations for the forum as well as an update on the outcome of the High-level Symposium held in Vienna on 12 and 13 November 2009 on “*Accountable and Transparent Development Cooperation: Towards a More Inclusive Framework*”. Participants will also be informed on the upcoming Helsinki High-level Symposium to be held on 3 and 4 June 2010 on the theme of “*Coherent Development Cooperation: Maximizing impact in a Changing Environment*”.

The following questions may guide the discussions:

1. How can the DCF contribute to the MDG Summit in September 2010?
2. Can the DCF provide a platform for providers and recipient countries to hold each other accountable for their respective commitments?
3. How can the DCF move forward the debate on policy coherence?
4. Should the DCF take place annually?

2. The role of aid in supporting progress towards the MDGs against the backdrop of the economic crisis

Following the briefing session, a panel discussion will be held on the role of aid in mitigating the impact of the economic and financial crisis on the internationally agreed development goals, including the MDGs. Concrete country level experiences and the perspectives of non-governmental stakeholders will stimulate a free flowing and frank discussion, which will inform preparations of the 2010 DCF and beyond.

The world economy is going through a period of profound change. While the immediate concern of the international community has been directed towards addressing the financial crisis, broad evidence suggests that the impact of the economic crisis on countries of the South is significant and could be long lasting. Concurrently, many developing countries also have been affected by other crises, notably the food and energy crises and the impact of climate change. The combination of these interrelated factors leads to dire forecasts for economic growth, even though there are initial signs of economic recovery in some economies.

a) Impact of the crisis on aid levels

While there is little evidence at the moment of the impact of the crisis on aid levels, recent policy announcements on aid allocation raise the concern that it may be of large scale and affect development cooperation prospects negatively in the long term³.

Several interrelated trends can be observed. Firstly, while aid flows to developing countries are projected to reach 107 billion US dollars (in depreciated US dollar terms) in 2010, they are still falling short 21 billion US dollars of the promises made at Gleneagles in 2005, as well as the Millennium Summit, the Monterrey Conference on Financing for Development and L’Aquila G8

³ For example, a World Bank study covering the period of 1997-2007 suggests that aid flows from financial crisis-affected countries have dropped by 20-25% and bottom out only a decade after the crisis hits. World Bank (2009): International Aid and Financial Crises in Donor Countries, Policy Research Working Paper No. 5162. Washington D.C.

Summits⁴. Africa is expected to only receive 12 out of the 25 billion US dollars pledged at Gleneagles, despite its vulnerability and wide-spread aid dependency.⁵

Secondly, aid budgets ultimately depend on economic performance of provider countries. Because the aid targets are expressed as a percentage of economic size (GNI), the volume of ODA by 2015 could be lower than forecasted if economic recovery is slow⁶. 4 billion of the 21 billion dollar shortfall is estimated to be resulting from the economic downturn and a drop in GNI⁷.

Thirdly, even before the global economic and financial crisis, ODA-to-GNI was already falling in some of the 22 DAC donors, including the largest economies. In addition, debt relief accounted for a large share of pre-crisis aid increase in some DAC-donors.

b) Crisis response and aid allocations

The present crisis is set to reinforce the pro-cyclical nature of development aid. In this context, raising the volume of development assistance is a priority and donors need to be held to account on the pledges they have made (for example, to deliver on the 21 billion shortfall currently reported by the OECD-DAC).

Support from philanthropic foundations and non-governmental organizations is becoming increasingly important. Innovative financing for development is another source of additional funding. South-South cooperation is becoming increasingly important. This shift in the landscape of development cooperation can present a window of opportunity for recipient countries to explore new models of assistance in line with national development strategies.

Other forms of development financing, including private flows, external debt and international trade have also suffered from the impact of the crisis. More emphasis has to be placed on the mobilization of resources for financing development, including private capital flows and trade. The recent High-level dialogue on Financing for Development instilled a sense of urgency on the need to integrate these flows into national development strategies.

More emphasis also has to be placed on how to effectively support the most aid dependent countries and those hardest hit by the crisis in their efforts to achieve the MDGs by 2015. Initial post-crisis aid allocation patterns suggest that flows concentrate even more on “good performers”, leaving conflict-affected and fragile states underfunded⁸.

Sectoral allocation of aid is also a serious concern. Aid may shift towards humanitarian efforts and the impact of climate change funding on aid is yet to be seen. This may have an impact on other productive sectors such as infrastructure, trade, or agriculture. Supporting these sectors is however important, as is enhancing “targeted” national social protection mechanisms,

⁴OECD/DAC On-Line Data Base, www.oecd.org/dac

⁵ See OECD-DAC projections for 2010: “Donors’ mixed aid performance for 2010 sparks concern”; http://www.oecd.org/document/20/0,3343,en_2649_34447_44617556_1_1_1_37413,00.html

⁶ See IMF (2009) *World Economic Outlook: October 2009*, Washington DC: International Monetary Fund, in: UNU-WIDER 2010.

⁷ See http://www.oecd.org/document/20/0,3343,en_2649_34447_44617556_1_1_1_37413,00.html

⁸ For example, a recent DFID-sponsored conference on the MDGs urged to increase aid to fragile states from 30 to 50% of total ODA; see: <http://www.dfid.gov.uk/Media-Room/Press-releases/2010/UK-calls-for-bold-new-plan-to-get-poverty-goals-back-on-track/>

such as conditional cash transfers, working schemes and school feeding programmes, to support the livelihood of the population.

It will also be imperative to get more “value for money” for aid in all programme countries. The first DCF underscored that aid should be flexible enough to enable countries to mitigate the impact of exogenous shocks. It is also critical to move forward in untying and increasing multi-year predictability of aid, transforming technical assistance, reducing conditionality and maximizing concessionality.

c) The crisis and the establishment of an improved aid architecture

It is often considered that the crisis presents an opportunity to improve not only international economic and financial governance but also the development cooperation system itself. This would include placing greater emphasis on aid quality or developing the ability to provide rapid counter-cyclical responses, as mentioned above.

Building on the principles of real country ownership and capacity development, there is a need for more coherent aid management frameworks. The criteria for granting external assistance to developing countries would also need to be looked at.

Finally, the development cooperation system should also ensure that aid is disbursed with the aim to mobilize a maximum of complementary funding from other sources of development financing (budget revenue, domestic savings, private foreign flows, trade earnings etc.) so as to reduce dependence on aid over the medium-term. It should also be accountable and transparent to the maximum degree, with regard to aid management processes both between and within provider and programme countries.

The following questions may guide the discussions:

1. Is it foreseen that providers of development cooperation will abide by their ODA and other commitments in spite of the slow recovery from the crisis and economic uncertainty?
2. What has been the impact of the multiple and interlinked crises on aid allocations by sectors and countries? How can aid be allocated differently to address the impact of the confluent global crises on internationally agreed development goals, including the MDGs? What is the potential of other sources of development financing in this regard?
3. Taking account of the current challenges to achieve the MDGs, how should decisions on aid allocation be made? For example, is it better to provide aid to countries that have been hit hard by the crises but have the potential to quickly recover, serving as regional growth engines,⁹ or to those that are weak and vulnerable, with little chance of recovery? How can aid allocation decisions be made more transparent?
4. How should the aid quality framework be improved to fully meet the concerns of developing countries in the context of the post – crisis recovery? What are good practices in aid policy?

⁹ See DCF analytical studies: Andersen, E. (2008): Practices and implications of aid allocation and Guillaumont, P. (2008): Adapting Aid Allocation Criteria to Development Goals in: <http://www.un.org/en/ecosoc/newfunct/2008dcfbckgrd.shtml>