

The DAC as a central actor in development policy issues: experiences over the past four years

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The DAC as a central actor in
development policy issues:
Experiences over the past four years

Richard Manning

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Abbreviations

BRICS	Brasil, Russia, India, China and South Africa
DAC	Development Assistance Committee
DAG	Development Assistance Group
DESA	Department of Economic and Social Affairs
EU	European Union
GAVI	Global Alliance for Vaccines and Immunisation
IFIs	International Financial Institutions
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
UN	United Nations
UNDP	United Nations Programme
WTO	World Trade Organization

Foreword

This speech, delivered by Richard Manning at the KfW Development Bank, on 28 November 2007, gives an overview of his experience as Chair of the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) over the past four years and discusses some of the challenges ahead. It begins with a brief outline of the Committee's history, before important changes of focus that occurred in the mid-1990s. Richard Manning is one of the most influential personalities in the field of International Development Cooperation. From 2001 to 2003 he chaired the DAC Task Force on Aid Practices, which produced a report on "Harmonising Donor Practices for Effective Aid Delivery" ahead of the High Level Forum in Rome in 2003. In 2005 he was Co-Chair at the Paris High Level Forum on Aid Effectiveness. Richard Manning's reflections on the learning process on the way from Paris to the Accra High Level Forum, scheduled for September 2008, are based on his manifold practical experiences and help to identify key areas where more progress towards Aid Effectiveness is needed and how to address them. I would like to thank Richard for his decision, to publish his personal insights as chair of the DAC as a DIE-Discussion Paper.

Dirk Messner, Director of the DIE

Bonn, April 2008

Contents

Abbreviations

1	Introduction	1
2	The significance of <i>shaping the twenty-first century</i> and follow up: Millennium development goals – harmonisation alignment – policy coherence	2
3	Key trends in DAC work over the past four years	4
4	The DAC in the wider world	11
5	Conclusion	17

1 Introduction

The DAC traces its origin to the Development Assistance Group (DAG), a body of nine members, which first came together in Washington on 9 March 1960. The DAG was founded as part of a major set of decisions taken by the United States and a few partners in the late 1950s and early 1960s, as the consequences of the financial problems of major Asian countries, on the one hand, and the wave of decolonisation in Africa, Asia and elsewhere, on the other, became increasingly apparent. Notably, there was recognition that there would be a need for programmes of international aid over many years. The role of the DAG within this new architecture was well set out in the mandate agreed for the DAC in 1960; it entered into force in 1961, when the newly created OECD became the DAC's home. The key sentence reads, *"The Committee will continue to consult on the methods for making national resources available for assisting countries and areas in the process of economic development and for expanding and improving the flow of long-term funds and other development assistance to them."*

These terms of reference have indeed remained unchanged ever since.

Aid Volume

Encouraging a wider sharing of the "burden" of aid was undoubtedly a main reason why the United States, as the dominant donor of the day, was so strongly supportive of the foundation of the DAG and subsequently the DAC. It also helps to explain why, uniquely among OECD Committees, the DAC has had a full-time Chair since its inception, provided by the United States right until 1999. Notably, the United States wished to see the rapidly emerging economies of the day, such as Germany and Japan, play a larger role alongside itself and the more traditional, but also more narrowly focussed "colonial" donors such as Belgium, France, the Netherlands, Portugal and the United Kingdom.

This agenda required a clear definition of what should count as aid, so a major thread of early DAC work was to define the concept of "Official Development Assistance" (ODA), a lengthy process which culminated in the definition, agreed in 1972, that ODA *"consists of flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character and contains a grant element of at least 25 % (calculated at a discount rate of 10 %)."*

It also required transparent reporting of what had actually been committed and spent. This gave DAC's work a strong element of reporting and publishing statistics on aid flows that has been central to its mandate ever since. Much time and effort went into using this data to encourage "laggards" to increase their aid. And the DAC definition became the de facto basis for all international aid targets, notably the 0.7 % of Gross National Product target established by the United Nations in 1970 and already achieved by Sweden, the Netherlands, Norway and Denmark between 1974 and 1978.

Aid Quality and Effectiveness

But the core agenda of the DAC was also, from the start, concerned with the quality and effectiveness of aid.

Quality was seen partly as a necessary complement to the question of volume. Clearly, flows at market or near-market terms cannot be seen as equivalent to highly concessional loans or outright grants. DAC therefore spent much effort not only on establishing the minimum concessionality of ODA, as defined above, but also on devising ways of encouraging overall bilateral programmes to be on softer terms. This was done through “Recommendations”, the latest of which was agreed in 1978 and still remains in force; it requires that the average grant element of each member’s ODA programme should be 86 %, with higher sub-targets for Least Developed Countries.

Another aspect of quality was seen as the ability of aid users to get greater value for money by being able to buy in any market (“untying”). Detailed discussion on untying aid began in the early 1970s; shockingly, it took until 2001 to get a DAC-wide agreement in place, and even that covers only financial aid to Least Developed Countries.

Effectiveness is a wider concept than quality. Right from the start, the Committee was involved in the review of its members, first by the Chair (who initially reviewed the entire membership each year), and then through a Peer Review process involving the membership, which gradually became less frequent but more structured. And much work was done on good practice, ranging from the financing of local and recurrent costs to the use of technical co-operation.

In 1982, a working party (now a network) of evaluators was established; it has proved a very useful body for lesson learning, establishing common language, standards and methodology, and for commissioning joint evaluations.

Policy Issues

Finally, over time the DAC developed a role as a platform for the common interests of aid agency staff in some key policy areas, such as gender, environment, governance, poverty reduction, conflict and the problems of fragile states – a common feature of which is that there were no other well-developed networks that brought aid agency policy staff together across the membership. For example, in the early 1990s, the DAC did pioneering work in bringing issues of governance, participatory development and conflict management into the development mainstream, linking together emerging communities of practice among its members.

2 The significance of *shaping the twenty-first century* and follow up: Millennium development goals – harmonisation alignment – policy coherence

In the mid-1990s, the DAC faced something of a crisis. The end of the Cold War had given rise to new – and politically very important – programmes of support to the countries of Central and Eastern Europe, and the Former Soviet Union. Although the DAC

had succeeded in keeping most of these countries separate from the recipients of ODA as such, it was evident that ODA levels were declining among many DAC members and that aid was an easy programme to cut as OECD members sought to bring their fiscal accounts under control. In this unpromising environment, in 1995 the DAC embarked on an “Exercice de Réflexion” in which its members asked themselves what the role of development co-operation should be in the medium-term.

The product of this reflection was the landmark document *Shaping the Twenty-First Century: the Role of Development Co-operation*, which launched three parallel strands of activity that have proved strategically important not just for DAC itself but for the development process worldwide.

The first, an idea introduced by Japan, was that a limited number of quantitative goals should be established for achievement in the medium term, so that development co-operation would be seen as contributing to real and understandable change in developing countries. In discussing this idea, it was quickly agreed that any goals should be drawn, insofar as possible, from the sequence of United Nations (UN) sectoral summits which had taken place over the previous few years. A proposal, strongly promoted by Germany, to include specific reference to considerations of governance and human rights was retained, but without any quantitative target.

The result of this process was the agreement on the International Development Goals, which in turn provided the template for the adoption of the Millennium Development Goals at the UN General Assembly in 2000. The UN version eliminated references to sexual and reproductive health (later restored as a sub-target in 2005) and to governance and human rights, while adding a separate Goal which enabled the contribution of rich countries to be tracked as part of the process.

The second strand, which built on DAC work on good practice, was the assertion of partnership as a fundamental principle of the relationship between donors and recipient countries. This attempted to rebalance relations, moving from the highly conditioned donor mindset of the structural adjustment era to recognition of the need for a more mature partnership.

This strand of work led, a few years later, to the setting up of a Task Force to examine donor practices with – as a decisive innovation – fifteen developing countries as full partners in the discussion. I was Chair of this Task Force, whose work led directly to the High Level Forum on Harmonisation in Rome in February 2003.

The third strand comprised a call for “*a determined effort to achieve coherence between aid policies and other policies that impact on developing countries.*” This led, over time, to initiatives within the OECD to promote policy coherence for development.

3 Key trends in DAC work over the past four years

I became Chair of the DAC in June 2003. It has been a good time to play this role.

In the first place, the establishment of the Millennium Development Goals (“the Goals”) has shown forcibly the power of measuring results. The Goals are far from perfect, and the way that they have been interpreted is in some ways unfortunate – for example a weakening of interest in infrastructure, now being reversed, and a naïve belief in many quarters that Goals established at the global level can be expected to be achieved in the same timescale at the regional and country levels, though the ambition to do so is praiseworthy. Nevertheless, the Goals have proved very powerful in encouraging the poorer developing countries and the donor community to become much more serious about what their programmes are really achieving.

In the second place, the Goals themselves, the success of the campaign against unsustainable debt, the impact of migration, and the aftermath of 9/11 have all contributed to a much stronger feeling in the minds of both politicians and the wider public in many OECD countries that we need not, and should not, accept the present degree of inequality between nations, and that high levels of poverty are a security issue as well as a humanitarian one. As I put it in the Development Co-operation Report for 2005, we have begun to see more of a “joint enterprise” to tackle this key issue. Strong arguments have been put forward (e. g. by Jeffery Sachs) about what a greater investment of aid can achieve; in some parts of the health sector, where scaling-up of aid has been most marked, evident progress can now be seen. At the same time, considerable scepticism has been expressed (e. g. by William Easterley and the former Chief Economist of the International Monetary Fund [IMF]) as to how far increased aid can really tackle underlying problems of growth, poverty and governance.

This has provided an environment within which the DAC itself has been placed under greater pressure to demonstrate results.

To an important extent, this pressure has been reflected in the work of the Committee during my time as Chair in the reassertion of the importance of DAC’s core work on aid volume and aid effectiveness.

Aid Volume

On aid volume, the move by most DAC (and all European Union [EU]) members to quantitative and, above all, time-bound targets for ODA levels has naturally encouraged much more attention to issues of the definition of ODA. It is fair to say that many Finance Ministries in DAC member countries (and probably many Foreign Ministries) consider the existing definition narrow and out of date, notably in relation to the increased costs of dealing with state failure and interventions designed to re-establish basic levels of security. It is equally true to say that a growing chorus of civil society representatives has been no less critical of what is already claimed as ODA, notably the convention of writing off at face value commercial debt forgiven by the Paris Club, together with accrued interest.

I believe that a key function of the DAC Chair to hand on to his (or I hope before long her) successor an ODA definition that remains credible. When I arrived, I contemplated a root-

and-branch assessment of the definition under some panel of Wise Persons. I soon concluded that this way involved unacceptable risks and little prospect of consensus. I therefore adopted a broadly conservative approach, which turned out to be in tune with the fact that the views of the membership were quite divided on any radical change. As a result, the only changes since 2003 have been:

- Six clarifications/modifications of what should score as ODA in the interface between development and security-related concerns. Experience to date suggests that these have resulted in some greater clarity, but with very little increase in actual transactions counting as ODA.
- The addition of Belarus, Libya and Ukraine to the list of ODA recipients at the time that we finally stopped reporting flows of “Official Aid” to Russia and to the EU Accession countries of Bulgaria and Romania. The inclusion of Belarus and Ukraine was particularly welcomed by OECD member states from central Europe.
- An agreement that transfers under the Clean Development Mechanism could be scored as ODA only if the donor did not benefit from the associated carbon credits or if any such benefit was deducted from the ODA flow.

A second matter which has been very significant vis-à-vis the perception of the DAC is that we have maintained and indeed improved the transparency of our reporting on ODA. In particular, since 2004 we have published a regular “simulation” (**not** a forecast) of the consequences in terms of real disbursements of the public pledges made by most DAC members. We also took the step of publishing up front, country-by-country, the amounts being delivered as debt relief once these reached (in 2005) a scale that could not be ignored in any sensible analysis. Both decisions were contested by some of our members, and I should like to put on record my appreciation of the determined and principled handling of these pressures by Michael Roeskau, the then Director of the Development Co-operation Directorate. In both cases, initial concerns were not repeated, and I believe that our readiness to “publish and be damned” was of very considerable value in facilitating public debate and in sustaining the credibility of the OECD.

I do, however, leave with one item of business that I feel that the Committee has been far too slow in addressing. This is the continued use of a discount rate of 10 % in calculating the 25 % minimum grant element required for a loan to count as ODA. This convention, adopted in 1972 as a proxy for the opportunity cost of public investments foregone to make funds available for lending, is out of line with the measures used either by OECD for its export credit work or by the IMF and the World Bank for considering lending to be of a concessional character. In my view the grant element formula is simply indefensible, since in present market conditions it is incompatible with the requirement, explicitly stated in the ODA definition, that loans must be “concessional in character”. It should therefore be a priority to put in place some measure – possibly alongside the existing discount rate – that does guarantee that ODA loans are indeed concessional. It is self-evident that we do not wish, for example, to encourage lending to poor countries on terms which just meet the existing criterion by non-OECD countries – or, I would suggest, by OECD countries themselves.

One thing that struck me immediately on becoming Chair was that, whereas I had access to highly detailed figures for how aid had been spent in the past, there were no figures at

all for how aid might be spent in the future. Yet clearly, our members must have plans of some sort. And clearly, better knowledge of the plans of others could help everyone to improve their own decisions on allocating aid.

So I got the Secretariat to arrange a rather simple survey, the results of which we presented to the Senior Level Meeting in 2003. The results were partial, but not entirely useless. For example, they suggested a relative rise in Africa's share of bilateral aid, and no disposition to increase the share of multilateral aid in the total – two predictions that have so far been well borne out by actual figures.

Together with the World Bank, we tried a more ambitious survey of future intentions in 2006. We received usable responses from a majority of DAC members, but these accounted for less than a third of DAC aid, because few of the larger donors were willing to provide information. The results were, nevertheless, suggestive: Those who responded were not, in aggregate, planning to increase aid at the rate that would deliver the commitments made by the EU and the G8 in 2005.

We are conducting a similar survey this year, and will present the results to the Senior Level Meeting on 12 December. I expect that this time we shall have enough coverage to make much more valuable information available to our members – information that may really help decisions on, for example, issues of country concentration. I consider this a strategically important development for the DAC.

Aid Effectiveness

You cannot justify increasing aid if you do not provide it in efficient and effective ways. We all know, as practitioners, that traditional ways of doing business have large costs, for both donors and recipients – costs that would, in my opinion, never be tolerated in the private sector. I first became involved in this agenda through a concern about the costs, particularly to recipients, of a lack of harmonised behaviour by donors: how could one develop a sector efficiently in an aid-dependent country if every donor had different decision-taking systems, different accountability requirements, different conditions and so on?

As I learned more about the agenda as Chair of the Task Force on Donor Practices, I came to realise that harmonisation was only a part of a much wider agenda. By the time of the Rome High Level Forum, we had gone some way to integrate the dimension of alignment: specifically, aligning aid behind well-considered local strategies, for example those set out in Poverty Reduction Strategies. As we moved towards the second High Level Forum on Aid Effectiveness in Paris, the agenda broadened, quite correctly, to strengthen the developing country dimension further through a more explicit recognition of the importance of real ownership of policies by the host country and by inclusion of the important principle of mutual accountability. We had already – at Marrakesh in February 2004 – integrated the critical dimension of managing for results. We thus approached Paris with a much more balanced, and in some ways a more political, agenda than at Rome.

One other aspect was uncomfortably clear. A year or more after the Rome Forum, there was depressingly little knowledge of the Rome Declaration at country level, and consequently no chance that it was significantly affecting behaviour of donors or host

countries in most cases. We had to do better in Paris. Hence the concept of indicators to measure the key dimensions of the Paris Declaration, and of targets to be achieved by 2010.

One can easily criticise in detail the choice of indicators, and indeed of targets. One may regret that we have added one more international monitoring process to the many that exist. But what one cannot deny is that recognition of the Paris Declaration is vastly higher than of the Rome equivalent, and I believe this is very largely the result of setting up monitorable indicators. There is also much evidence that the process has triggered local discussion and has encouraged several developing countries to specify their own requirements against the core dimensions of aid effectiveness – as for example in Vietnam.

The process owes much to the Working Party on Aid Effectiveness, first under Michel Reveyard and now under Jan Cedergren. This body has moved from being a classic subsidiary body of the DAC to become a genuinely tripartite (bilateral, multilateral, recipient) enterprise, hosted and serviced by the DAC Secretariat. It is a tribute to the flexibility of both DAC members and of the wider OECD that this has been possible.

The DAC and its partners are now well advanced in the preparation of the Third High Level Forum on Aid Effectiveness, to be held in Accra, 2–4 September 2008. This event should be seen as putting more energy into turning the principles agreed in Rome and Paris into reality on the ground. It will benefit from the first survey of progress on the indicators in the Paris Declaration since the establishment of a 2005 baseline. It will also benefit from many strands of work, both under the Working Party on Aid Effectiveness itself (for example on public financial management and procurement) and outside (for example on applying aid effectiveness principles to the work of vertical funds and on division of labour among donors). And it will involve developing countries and civil society in a more structured and comprehensive way than before. We are looking to the Accra Forum not to rewrite the Paris Declaration, but to put in place an “Accra Action Agenda” which will identify the key areas where more progress is needed and how to address them.

If the Paris Declaration has been the highest profile attempt in my time as Chair to improve the effectiveness of aid, it has been accompanied by two other instruments.

The first of these is the most traditional of all DAC instruments: *Peer Review*. I have to admit that I came to DAC with a rather unenthusiastic view of Peer Review. In my own agency, it had traditionally been regarded as rather a chore, and few changes could be attributed to it.

Over time, my view has changed. I have now seen not a few examples where Peer Review has combined with local reform efforts to encourage serious improvements. And many experienced agency heads have told me that the process has been valuable, and that over time the effect of Peer Review is quite marked. Civil Society organisations and Parliaments certainly make considerable use of Peer Review findings in their local discussions with the executive.

The Secretariat deserves credit for gradually systematising and tightening up the review process, and I have also seen the value that experienced examiners can bring to the

discussions. Indeed, I regard the quality of the examiners as the most significant factor in a useful review, after the openness of the country being reviewed. The next Development Co-operation Report will highlight twelve lessons for the effective management of development agencies that we have taken from the last cycle of reviews.

The second instrument is the promotion of *evidence-based policymaking*. This has to do with the willingness and the ability of both development agencies and poor countries to be clear about the objectives they are pursuing, to monitor and evaluate them effectively, and to manage their own institutions in a way that gives incentives for contributing to the objectives. This agenda engages several different units within the DAC/OECD family:

- The DAC-hosted Partnership in Statistics for Development in the Twenty-First Century (PARIS21) works to build local statistical capacity, a key underpinning of any results-based approach.
- The Development Centre contributes knowledge and research on aid effectiveness.
- The Joint Venture on Managing for Development Results (part of the Working Party on Aid Effectiveness) encourages learning and good practice in managing for results in both developing countries and donor agencies.
- The DAC's Evaluation Network promotes good evaluation practice, including a new focus on impact evaluation through joint initiatives with UN and Multilateral Development Bank evaluation networks, and links to other international initiatives in this field.
- The Informal Network of DAC Development Communicators, supported by the Development Centre, concentrates on how to put out messages to the public.
- During my time as Chair I have seen, and sought consciously to promote, a notable increase in the attention being paid to this range of issues. As ODA rises and becomes yet more exposed (rightly) to public scrutiny, they will become even more important.

Policy Issues

The DAC already had a strong set of policy communities when I arrived, and had invested a lot of effort in lesson learning and good practice in many areas of development policy. Having spent several years supervising the policy division of my own government's bilateral development agency, I was very conscious of the linked problems of over-production of policy documents, which can become counter-productive, and of lack of follow-through of policies at the field level.

I therefore sought to encourage all the DAC networks working on policy to think less in terms of the number of new policy documents produced and more in terms of the impact of policy documents on donor behaviour at field level. I was particularly struck by the experience of hearing at a meeting on conflict prevention that while the DAC guidelines on this subject, which had been issued a few years previously, were considered to be the best material of their kind that existed, they were virtually unknown in the field, even in

donor offices. This, in turn, reflected the traditional practice of the DAC of leaving individual members to conduct (or not) the dissemination of good practices and guidelines agreed in the DAC.

I am pleased with the way that the various policy communities have responded to this challenge. For example, when the Fragile States Group drafted a set of “Principles” for engagement in situations of fragility, individual members tested the usefulness of these in ten developing countries, sparking useful local debate in many cases and resulting in the refinement of the draft Principles themselves. It was good to hear the other day that donors are using the Principles as a point of reference in, for example, Southern Sudan.

Another excellent example has been the work to develop, on the basis of a good policy paper on Security Sector Reform, approved by the DAC in May 2004, a more operational Manual which has been put together as the sort of guide that field staff can carry with them and is full of practical examples of how to address common problems. This has very clearly helped to trigger more collaboration between development actors and their political and defence colleagues. Nonetheless, there is still a lot to do to concentrate DAC’s “guidance” work on a few key issues and maximise its prospects of changing donor behaviour in practical ways.

Of course, developing good practice at the field level is not the only purpose of these networks. They also have an important role to play in clarifying policy (for example, bridging long-standing tensions in order to achieve an agreed DAC statement in April 2006 on the importance of pro-poor growth) or bringing to the attention of senior policymakers the relative failure of policies in some areas (for example, the lack of attention to adaptation to climate change in the 2005 publication, *Bridge over Troubled Waters: Linking climate change and development*). And they enable policy communities to support and interact with each other across the whole DAC community, as was shown by a recent meeting that addressed how to promote crosscutting issues like gender, environment and human rights in the context of the Principles of Aid Effectiveness. Indeed, recent years have seen a marked resurgence of donor interest in gender equality and women’s empowerment as powerful multipliers of development efforts. I hope that this means that we are moving beyond high-minded – but ultimately ineffectual – political rhetoric toward significantly increased investments and more nuanced approaches to empowering women and tackling entrenched gender inequalities.

Policy Coherence for Development

Before my arrival as Chair, the OECD had put in place a so-called “horizontal project” on promoting more coherent policies by its members which would take account of their impact on poorer countries. OECD has both advantages and disadvantages as a home for this kind of work.

A key advantage is, or ought to be, the fact that its secretariat is relatively small and can fairly readily get together to ensure that cross-Directorate issues are addressed. The downside is that the organisation has traditionally been very “stovepiped”, in other words Directorates have very much served Committees of people from the same policy community. Progress, therefore, requires some encouragement from the top of the Organisation and pressure from members.

Over my time as Chair, I have seen a steady increase in the links between DAC and other policy communities; this was accelerated following the election of a new Secretary-General keen to promote cross-Committee work. The transfer of the centre of the work on policy coherence for development back to the office of the Secretary-General should help to consolidate this. In the future, I would also welcome a more catalytic role by the DAC in relation to other Committees. As in my previous experience within my own government, creating effective links depends on finding some potential areas of shared interest. Policy coherence has to be a “two-way street”. The increasingly outward-looking approach of the organisation has certainly assisted the process.

A few areas worth mention in this connection are:

- **Aid for trade.** (see below)
- **Environment.** In 2006, the first joint Ministerial meeting between DAC and the Environment Policy Committee since 1991 took place. Ministers agreed on a *Framework for Common Action* and a *Declaration on Integrating Climate Change Adaptation into Development Co-operation*, which will guide our joint work until a follow-up event in 2009.
- **Agriculture.** The Agricultural Directorate devoted its November 2006 Global Forum to the topic of the development coherence of OECD agricultural policies.
- **Fisheries.** A joint meeting of the Fisheries and Development Assistance Committees in April 2007 produced an agreed publication on how to address the incoherence of the fisheries policies of many OECD countries towards developing countries.
- **Research into neglected infectious diseases.** A joint high level meeting of the Science and Technology Committee and the DAC at Noordwijk in May 2007 agreed on a Noordwijk Development Agenda designed to promote more research into diseases of importance to developing countries for which market forces alone do not provide sufficient incentives.
- **Migration.** Contributions to the OECD horizontal work on migration are part of the policy coherence for development programme – in particular work on the development impact of return migration. An experts’ meeting on return migration will be held in Italy in early 2008.
- **Anti-corruption.** The DAC’s High Level Meeting in 2007 agreed to improve coherent approaches to tackling the “supply side” of corruption, notably by better enforcement of the OECD’s Anti-Bribery Convention, ratification of the UN Convention by OECD members, and improved Legal assistance on recovery of stolen assets.
- **Tax.** Work between DAC’s Governance Network and OECD’s Centre for Tax Policy on improving support for revenue-raising in poor countries is developing well.

- **Conflict and Fragility.** Whole of Government approaches are an integral part of the Principles for Good International Engagement in Fragile States and Situations, and of Security System Reform.

4 The DAC in the wider world

One of the most obvious changes in my time as Chair has been in the relationship between the DAC and other parts of the international system, which has been driven, above all, by the rapidly-changing context in which development co-operation is being supplied.

The DAC in the OECD

As with all Committees of the OECD, the DAC has a “sunset clause”, which means that it needs a decision by the OECD Council to extend the mandate of the Committee, with whatever amendments the Council may see fit to agree, beyond the end of 2008. Ahead of this deadline, a formal evaluation of the DAC has just taken place; it will be presented to the Council in December 2007. The evaluation of the performance of the Committee concludes that with respect to the criterion of Relevance, it is high to very high; with respect to Efficiency it is medium; and in Effectiveness and Sustainability, it is high. This is, in general, a strikingly positive endorsement of the relevance and impact of the work of the DAC and work is already in hand to tackle some of the concerns about efficiency.

The most significant recommendations of the evaluation are:

- The DAC should conduct a strategic reflection, in consultation with a wide range of stakeholders, on how development assistance needs and constraints are likely to evolve over the longer term in the context of the globalisation process, together with a fundamental reassessment of its role, structure, functioning and composition in the light of the opportunities and risks that are likely to arise.
- The DAC should strengthen its capacity for top-down direction vis-à-vis its subsidiary bodies.

This means that in the immediate future sufficient top-down guidance needs to be given on the draft Programme of Work and Budget for the next OECD biennial planning period of 2009-2010 (which will start with the Senior Level Meeting in December 2007); it also means that before preparation of the work programme from 2011, there will be a need for a deeper reflection on the DAC’s comparative advantage. This is a very reasonable requirement in the fast-changing world of international resource flows.

The Committee has had annual “retreats” since 2004, and these have proved excellent occasions to look at ways of doing our work more efficiently and with greater impact. One of the most important results was the agreement that, from 2006, voluntary contributions should be pooled in support of the Programme of Work and Budget agreed on by the Council through a limited number of sub-budgets and at predictable times of year. This has two very significant advantages. In the first place, it means that DAC members cannot use these contributions to promote activities which may be a priority for them or for individual units of the Secretariat but not for the Committee as a whole. In the second

place, it has reduced the number of financing agreements from 145 in 2004–05 to an expected 26 in the current biennium, with a valuable saving of transaction costs.

DAC members have been sufficiently generous and sufficiently flexible to enable this system to work. The work of the Committee is expected to cost EUR 24 million in the present biennium, funded virtually 50 : 50 by OECD core funding and voluntary contributions, representing a significant rise in the latter from previous levels. Staff positions have risen from 68 in 2003 to 94 today (excluding PARIS21), a figure that is about the maximum that the present management structure can support. Rigorous prioritisation will be needed to prevent an ever-expanding mandate.

The DAC forms part of the so-called Development Cluster of the OECD. This groups DAC with the OECD Development Centre, the Sahel and West African Club, the External Relations Committee and the Africa Partnership Forum Support Unit, under the leadership of Deputy Secretary-General Mario Amano. The existence of the Cluster facilitates coherence and information flow among its constituent bodies.

The DAC's key relationship is with the Development Centre, and the OECD Global Forum on Development is at the heart of this relationship. This joint venture of the two bodies began in 2006 with a three year project to explore and assess the changing architecture of development co-operation finance. This is an interesting experiment, which has gathered expertise from not just DAC's members but also from other OECD and non-OECD governments, multilateral agencies, northern and southern research bodies, and other non-State actors in pursuit of better understanding of what some have termed the "non-system" of development co-operation. It shows promise, but needs to deliver more concrete results as it approaches the end of its initial phase.

The DAC and the UN

The United Nations Development Programme (UNDP) has long been an observer member of the Committee, along with the IMF and the World Bank. It has played a particularly significant role, for example, in capacity development and governance questions. But it has become even more significant through its dual role as co-ordinator of UN development assistance programmes in-country, and its housing of the secretariat of the UN Development Group, whose remit also covers the full range of UN Funds and Programmes and most of its Specialised Agencies. UNDP/DAC co-operation has been very important, not least in delivering on the monitoring of the Paris Declaration indicators and in our work on capacity development.

DAC has a different, but also constructive, relationship with the UN Secretariat, notably the UN Department of Economic and Social Affairs (DESA). As the guardians of the UN Financing for Development process and the secretariat for the new Economic and Social Council Development Co-operation Forum, UN-DESA has frequently sought information and participation from the Secretariat as well as my participation as Chair of the DAC. We have done our best to respond positively to such requests, which I see as in the interests of better understanding and transparency of development co-operation. The demands on time are, however, increasing and will be particularly significant in 2008, with the first full meeting of the Development Co-operation Forum in July and various events leading up to

the Financing for Development Conference in December. It will be important to build constructive relationships between these UN processes and the Accra High Level Forum.

The DAC and the IFIs, including the Development Committee

The World Bank, and to a lesser extent the IMF and the Regional Development Banks, has been a key partner in much of the work of the DAC and of its subsidiary bodies. Indeed, the Evaluation of the DAC takes the Committee to task for having so extensive a relationship with the World Bank in comparison to other stakeholders. It is, however, difficult to see how the Committee could be fully effective without close links to the International Financial Institutions (IFIs), given their continuing important role in development finance and policy, and in addressing issues around global public goods.

Particularly close relationships exist across the aid effectiveness agenda, where the Bank has provided essential support for the process – since the establishment of the Task Force on Donor Practices – in the areas of aid allocation, aid architecture, managing for results and promotion of better statistics, and policy in fragile situations.

The Development Committee has provided an opportunity for the DAC, and more recently the OECD Secretary-General (I welcome the fact that Angel Gurría has made a point of attending and speaking at all meetings since his arrival as Secretary-General), to ensure that key elements of our work, notably on aid volume and effectiveness, are understood by Finance Ministers from developed and developing countries alike. The transparency of our reporting on aid volume has been particularly important in this role.

The DAC and the WTO

In 2003, in my first meeting with the then OECD Director for Trade, I was told, very politely, that trade was none of my business. As I leave, the DAC and the Trade Committee, with excellent co-operation between their Secretariats, have enabled the OECD to play an extremely constructive role –in close co-operation with the World Trade Organization (WTO) –in promoting an international aid-for-trade agenda that goes beyond the rhetoric dear to trade negotiators to produce some real impetus for more effective collective action to promote competitiveness in poor countries.

This very positive relationship has developed as a result of long-standing secretariat work with WTO to provide a database on aid for trade. As the profile of the issue became higher at the WTO's Hong Kong Ministerial meeting in December 2005, staff from the Development Co-operation Directorate and their Trade and Agriculture colleagues provided critical inputs to WTO working parties on the Integrated Framework and, more generally, on Aid for Trade. Three results have been the development of broader accounting for aid for trade in its various forms, a greater stress on effectiveness and a decision not to push for a new Vertical Fund for trade-related projects and programmes.

The DAC and the G8

While the DAC has been only at the margins of the G8 process, the OECD has recently become much more closely linked; this, in turn, will impact on the DAC.

The DAC's role as the organisation which accounts annually for the ODA of its members gave us some closer-than-usual involvement around the time of the Gleneagles Summit in 2005, when the issue of what the commitments of G8 members and other donors would mean for ODA increases arose. I found myself validating, based on the information available to us, the G8's broad assessment that the pledges would add some US\$ 50 billion by 2010 to the USD80 billion ODA level of 2004, in constant prices and exchange rates. The Secretariat has continued to update its simulation of the effect of pledges, which remains broadly consistent with that simulation. As I have often pointed out, a simulation does not mean that DAC members will actually deliver their public pledges, but at least no-one will be in any doubt as to whether, in 2010, these pledges were in fact delivered.

Almost all the requests of the Gleneagles Summit for follow-up on development-related issues were addressed to the World Bank. In contrast, the Heiligendamm Summit requested OECD to act as a "platform" for most of its planned discussions with the G5 of Brazil, China, India, Mexico and South Africa. This included the topic of development, including issues affecting Africa. A new unit has been established in OECD to handle these demands (just as earlier an Africa Partnership Forum Support Unit was established to follow up on the dialogue with New Partnership for Africa's Development). The DAC will undoubtedly have to follow these developments closely (see below).

The DAC and the EU

With 15 EU Member States and the European Commission in a membership of 23, the question of what collective action takes place in Brussels and what in Paris is a live issue. As the discussions in the EU have gradually extended beyond European Union-supported structures (such as the Cotonou Convention) and the development activities of the Commission to matters of general development policy, the issues becomes even more significant. The Paris High Level Forum was an interesting example of EU members coming to a DAC-hosted event with a clear common position. The EU's adoption of ODA volume targets in 2005, of a statement of development policy in 2006, and of a Code of Conduct on Division of Labour in 2007 show the significance of decisions taken in the EU for issues at the core of DAC work.

Where such common approaches exist, the role of the DAC in helping to broker agreement with bilateral donors outside the EU becomes important, as was evident at the Paris High Level Forum. More frequently, EU co-ordination within the DAC does not prevent noticeable differences of view between EU members on a number of topics. Nonetheless, the need to remain alert to what is taking place within the EU is evident, and the introduction of regular six-monthly meetings with the European Commission has been of clear value to both sides.

The DAC and Non-DAC Donors

One of the biggest changes during my time as DAC Chair has been the rapid emergence of two groups of longstanding donors, each driven by one major actor.

The first has been the Foundations, notably those of the United States, but also increasingly those of Europe and certain other countries. Of course, many foundations have been prominent development actors for years (one thinks of Rockefeller and the

Green Revolution). But the arrival of the Bill and Melinda Gates Foundation, with a programme now building up to a planned US \$ 3 billion a year, has radically changed the scene. One only has to look at the role Gates has played in establishing the GAVI Alliance, in incentivising malaria research, and in stimulating the establishment of the Global Fund to see its impact. But its systemic effect goes well beyond health. Look for example at the way in which Gates (with Hewlett) have driven the establishment of the International Initiative for Impact Evaluation – something that I do not believe the collectivity of official evaluation agencies would have seen as a priority. And the Gates Foundation is now putting together important proposals for commissioning academic research on aid effectiveness.

The DAC has started to build relations with some of these major Foundations. In addition, a meeting in Lisbon last March – as part of the DAC/Development Centre Global Forum on Development, and co-sponsored by the European Foundations Centre in Brussels – brought together an impressive range of medium-sized foundations; but it also showed that most of these run fairly small overseas programmes. These will rise, however, and further discussion, on an issue-by-issue basis, may well be useful.

The second change, of course, has been in the countries outside the DAC. I see four concentric circles. The first of these includes the OECD countries that are not yet members of DAC, such as Korea, Turkey and the OECD members from central Europe. As these countries help finance our budget and attend our meetings, relations are close and are becoming increasingly so. Several of the countries concerned are looking to join DAC, perhaps around 2010, and this will be very welcome. Several have already developed programmes larger than those of quite a few DAC members. We have already carried out a light Peer Review of the Czech Republic, and several OECD non-DAC members have participated as observers in DAC Peer Reviews.

Second, there are the EU members who are not yet members of OECD. Of these, Estonia and Slovenia have been invited to become members. All these countries have programmes which are small but growing rapidly. We look to the Commission to take a lead in helping them develop their policies, but are ready to support this by participating in events in an efficient way.

Third, there are the longstanding donors of the Middle East. The DAC used to have regular meetings with this group, which at one stage, in the late 1970s, provided over a quarter of all ODA. As their contribution declined, so did interest in co-operation. I have encouraged closer ties, and the Co-ordination Group of Arab donors invited DAC members to an interesting meeting in Kuwait last February. We plan to continue meetings on a more focussed basis.

Last but by no means least, we have the emerging economies, some of whom – such as China and India of course – are also longstanding donors. Just as Gates dominates the new world of Foundations, China dominates thinking about these donors because of the scale of its aid and other capital investments, and the sheer size of its economy. The DAC is very keen to develop dialogue with this group, and I have personally visited China, India and Thailand to help establish contacts. The so-called BRICS have now attended several events organised by DAC and the Development Centre (of which India has been a member for some years). We have yet to see the extent of their real interest in dialogue. The

Heiligendamm process and other discussions in the run-up to Accra should help define the area of mutual interest, which will be at the heart of any productive relationship.

Key Challenges Ahead

As I end my time as Chair of the DAC, it may be useful to set out some challenges that I leave behind for the Committee under my successor, Eckhard Deutscher.

The key challenge is to ensure that the Committee genuinely adds value in the rapidly-changing world of development finance. The new in-depth review with which the Committee is tasked as an outcome of the recent evaluation provides the perfect opportunity to achieve consensus among the membership on what role it looks to the DAC to perform. I would expect this to underscore the value of the DAC's work on aid volume and effectiveness, but with important changes of emphasis. For example:

- The DAC's core statistical work needs, as proposed in the evaluation, to be adapted to produce more policy-relevant material. This is partly a matter of improving the policy-relevance of data supplied by members (a difficult task, given the variety of management information systems across DAC members), partly one of applying new technology (e. g. text searching), and partly one of the international context (Can we get comparable reporting from non-OECD donors, how does the DAC system relate to UN initiatives?)
- The DAC's aid effectiveness work will, in effect, get an updated mandate from the Accra High Level Forum. But beyond that, the future of the High Level Forum process itself will need to be re-thought as we approach the next such event, which will presumably be convened in 2011 to assess progress against the targets set in the Paris Declaration for 2010.

On the policy side, one major gap at present is the lack of any serious engagement of the commercial private sector. This may, of course, simply reflect the view that discussions at the DAC-wide level are not useful, or that other venues are seen as more relevant. At the least, I see a case for some broader engagement with the growing community of bilateral institutions that specialise in financing private sector activity in developing countries, such as the European Development Finance Institutions network.

I see a growing demand from members for more comparable information on the systems of their counterparts. The Peer Review Division is about to seek information on levels of delegated financial authority. I have had questions from agency heads about DAC information on administrative costs, which is at present far from comparable. Some networking with the financial and human resource directors of DAC agencies could provide better and more comparable information and improve the robustness of the analysis in Peer Reviews.

“Development Diplomacy”, in other words managing relations with the UN, IFIs, Civil Society (including Foundations and the academic community) and non-DAC donors, will remain an important and time-consuming task for the Chair and for senior managers in the Secretariat.

But at the same time, we have to take seriously the fact that many members feel that the DAC is already doing too much, and that the Secretariat's management capacity is very stretched. Whatever new work we take on needs therefore to be balanced by reductions elsewhere or by new ways of doing business that reduce pressures on the Secretariat, on the Committee and on its members.

5 Conclusion

One of my distinguished predecessors, John Lewis, has recently written a very interesting book entitled *Development Co-operation: an Episode of Sixty Years*. It would indeed be attractive to think that we are approaching a situation where official aid is no longer needed. That is not, however, what I see. Aid from official sources can, should, and will decline over time as a proportion of development resources, but it is still needed on a large scale to help poorer countries address what the still colossal problems of poverty, unemployment, poor health, lack of education and inadequate infrastructure, together with environmental challenges of every sort. So we have to get the best value from our collective investment.

The DAC is built on the hypothesis that donors can do better by working together and learning together. We need to be practical about this. Donors are independent actors. We should not expect uniformity of approach. Diversity, within and beyond the DAC, is valuable. But if we are to make a reality of a fairer and less divided world, donors do need to work together and to learn together. The DAC needs to adapt, possibly quite radically, to the changing world environment. But this need for common learning, common reflection and common action will be with us for a good while yet.

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