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DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

**THEMATIC PAPER OUTLINES (“DEVELOPMENT FINANCE CHALLENGES 2010-2015”,
“ACCELERATING PROGRESS TOWARDS ACHIEVING THE MDGS”)**

DAC meeting, 12 February 2010

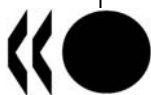
This Room Document is submitted for DISCUSSION under Item 3 of the Draft Annotated DAC Agenda [DCD/DAC/A(2010)2].

It contains background material (e.g. a working outline and draft terms of reference) for two of the documents to be produced for the 14-15 April DAC Senior Level Meeting: one on issues arising from the forward development finance agenda, and the other presenting DAC perspectives on accelerating progress in achieving the MDGs.

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I. Proposed SLM issues paper on

“Development Finance Challenges 2010 – 2015”

1. This document presents the proposed outline of an issues paper on development finance challenges 2010-2015, to be discussed at the SLM on 14 April 2010. The aim of the paper is to frame the major current development financing tensions and opportunities, including domestic resources.
2. The issues paper will provide a unique overview of donor performance and challenges at the start of 2010, which is a milestone year in terms of both international commitments and changing patterns in the global economy. This year will also see major capital increase and replenishment discussions for IDA, multilateral development banks and global funds.
3. The topics addressed in the paper will include the combined challenges emerging from the global economic crisis, the food security crisis, and the way forward from Copenhagen. The delivery challenges of ODA commitments and innovative financing will also be discussed.
4. This paper will include brief technical annexes covering: performance against ODA commitments; climate change financing; innovative financing and maximising domestic resource mobilisation through taxation. In addition to the issues paper, the SLM will receive as a background paper the Monitoring Report of the DAC HLM Action Plan on Responding to Global Development Challenges at a Time of Crisis.
5. The Secretariat will prepare a first draft of the issues paper for the next DAC meeting on 16 March 2010.

Proposed Outline of SLM issues Paper

1. Lessons from the Economic Crisis and HLM Action Plan:

- Variable impact and duration but increasing financing gaps for low-income countries;
- Assessment of DAC Action Plan implementation: insufficient predictability and country ownership;
- Evolving multilateral architecture to meet new capital needs (e.g. crisis facilities).

2. Maximising Domestic Resource Mobilisation through Taxation:

- Legitimacy and accountability arguments for stronger tax base;
- Opportunities for regional co-operation and transparency (e.g. African Tax Administration Forum);
- ODA for stronger revenue systems (long term investment).

3. Stock Take on Recent Thematic Initiatives such as *L'Aquila* Agriculture and Food Security Initiative (AFSI):

- Different funding sources including vertical funds, results and earmarks: complexity and sustainability;
- Tracking additionality of a new initiative under fiscal austerity conditions.

4. Copenhagen Implications for Development Finance:

- \$30 billion Fast Start window for 2010-2012: ensuring alignment with national strategies and systems for scaling up;
- Using markers to track ODA for climate change adaptation and mitigation and determining baselines;
- Introducing design issues going beyond 2012, e.g. Green Climate Change Fund.

5. Progress with ODA Commitments in the Context of the MDGs:

- 2009 actual and projected 2010 ODA numbers compared to commitments;
- Medium-term outlook: findings of 2010-2012 Survey on forward spending plans;
- Collective effort toward the 2015 horizon: the challenges ahead.

6. Innovative Finance (IF) and Value-Added of the DAC in IF:

- IF Framework: new sources, new partnerships and opportunities for leveraging ODA;
- DAC strengths: benchmarking and tracking of IF; guidance on IF's contribution to effective aid.

II. Proposed SLM paper on

“Accelerating Progress Towards Achieving the MDGs”

Outline of a DAC Report for the September 2010 High Level Meeting of the UNGA

I. Objective

1. The UN will hold a review conference in September 2010 to evaluate international performance in fulfilling commitments to deliver the MDGs. It is thus suggested that the DAC prepare an input to that event. The objective of the DAC submission could valorise and assess (without being self congratulatory) where DAC has contributed to progress with the MDGs. A specific objective would be to identify key messages the DAC and Members would seek to include in the eventual Declaration resulting from the review. The DAC report could also conclude by focusing on priority efforts in the remaining five years to 2015 and signalling some key issues for the debate on the MDGs post 2015.

II. Overarching storyline and key policy messages

2. It is important to identify a clear DAC value added/comparative advantage so that the report says something others cannot or do not cover.

3. The suggested niche is to take a focused look at DAC achievements through the twin lenses of poverty reduction (MDG1) and how donors have been changing the ways they work with partners and deliver aid, via the Paris Declaration and the AAA, in promoting the global partnership for development (MDG8). These twin lenses will then be used to show how other MDGs (e.g. on health, education, gender, etc.) are interdependent and interrelated; how progress in one promotes progress in others, and vice versa. Some illustrations on such themes are set out below.

4. DAC performance in mobilising and delivering ODA is an overarching storyline. The report should cover i.e. partnerships for scaling up aid, work to increase predictability and speed up disbursements and the politics surrounding pledges (e.g. Gleneagles, L’Aquila), the value of a ‘think twice’ principle and the record on delivering them. At the same time, we should seek to avoid unproductive debates about ODA demand versus supply and about how filling the gap between these will ‘solve’ the problem.

5. The report would take the perspective that developing countries are responsible for their own development with donors helping support developing country owned initiatives. The overarching story line (the ‘spine’ of the report) would then be about how donors have contributed to building and implementing effective partnerships with developing countries (the ‘how we do things’, not only the ‘what’ or ‘how much’) to reduce poverty, particularly via the Paris Declaration and the AAA. There should be particular attention to building more equal and inclusive dialogues and partnerships and making these more effective.

6. This overarching story line should be illustrated (i.e. how we promote and implement effective partnerships for poverty reduction) by a number of core policy messages from DAC work, showing how the MDG 8 principle has been embodied. The following provides an illustrative (not necessarily complete nor in any priority order) list, from which some of the key policy messages should arise:

- i) The ‘**WP/EFF story**’ of how embodying the MDG8 principle has caused the WP/EFF to evolve in the way it and donors work to promote effective partnerships. The relevance of the key principles of the Paris Declaration would be set out, with emphasis on implementing them and measuring progress and results and how new and stronger partnerships have been developed to

support e.g. scaling up and results based frameworks. In a changing landscape (increasing heterogeneity among developing countries, the emergence of important new donors, growing finance for development beyond ODA, evolving whole of government and whole of country approaches and the need to work coherently with other policy communities, at home and abroad), donors are gearing up and changing their behaviour to ensure their central contribution to the global partnership for development.

- ii) **Economic growth** is fundamental for long term and sustainable poverty reduction. Yet, despite unprecedented growth in Africa until the global recession, that growth has not been sufficiently pro-poor to achieve the MDG1 target of halving the proportion of poor people by 2015, particularly in the poorest countries. Economic, fuel and food crises have worsened the situation and reemphasised the vulnerability of poor households. Reducing inequality and making globalisation more inclusive are key challenges. Pro-poor growth needs to be promoted (looking at both the pace and the pattern of growth), by underpinning growth in areas where the poor earn their livelihoods (e.g. agriculture, rural areas) and by helping poor people to connect more successfully to growth processes through a variety of actions in areas such as infrastructure provision (e.g. rural roads), through better health care and education (including vocational training), ‘active’ social protection to help in adopting poverty reducing livelihood strategies, and so on.
- iii) **Women** represent the largest share of poor people and reducing women’s poverty is even more difficult because of particular gender-related barriers to their involvement in society and the economy. Without progress on this front, meeting many of the MDGs will be that much harder. Weak empowerment is a central dimension of poverty, and we must promote women’s empowerment as a central dimension of the pro-poor growth needed to deliver MDG1.
- iv) Effective **capacity development** is imperative to turn donor political and funding support into effective resource use, with sustainable impacts. Weak capacities (both institutional and individual) are often at the heart of underperformance and explain why apparently appropriate measures have often disappointing results. Capacity development is essential for building the developing country ownership and the local leadership of development strategies needed to graduate from aid. Effectively implementing the principles developed in this area is a key challenge in meeting the MDGs.
- v) Sustainable poverty reduction is even more difficult to achieve in countries suffering from **conflict and fragility**, and a large proportion of the poor live in such countries. It is, simply put, harder to make policies work effectively in such situations, so there is an urgent need to find ways to make the MDGs work in situations of conflict and fragility. State building thus becomes essential to all efforts to meet the MDGs.
- vi) **Environmental degradation and climate change** can reverse progress made in reducing poverty and hamper achievement of the MDGs. In particular, they affect the poorest countries and people who are highly dependent on climate sensitive activities (notably subsistence agriculture and agroforestry). For poor countries, low carbon growth strategies are only as good as they help to reduce poverty. What are the appropriate policies, institutions and incentives structures needed to manage possible trade-offs between growth, green growth and pro-poor growth?
- vii) There are numerous other possible themes that might be incorporated, either as ‘stand alone’ or to be inserted into others, e.g. employment, empowerment, policy coherence, GPGs, health and so on.

7. Some of the above issues (e.g. climate change, conflict and fragility, state building) might also be used to ‘set out the stall’ for the debate on the MDGs post 2015, highlighting some of the key issues (including as yet under-discussed ones) DAC feels are critical to progress towards and post 2015. The objective in this respect would be to signal the shape of a future DAC agenda on this theme, rather than provide answers when the focus should centre on what we can still do to maximise progress towards the MDGs by 2015.

III. Nature of the report

8. It is suggested the report should be succinct and synthetic (around 20 pages), meant for senior policy makers and a UN audience. It should focus on the politics, policies and implementation challenges of building and managing the partnerships needed for progress towards the MDGs, being organised around successful DAC initiatives and resulting key policy messages. It should avoid technical debates/issues.

9. It is possible that the DAC report could also be used as background for one of the Round Tables which might be organised around the event and/or in a side event dedicated to this theme, for which a donor sponsor would be required.

IV. Timelines

- It is proposed a consultant be engaged to assist in the preparation of this report. The ToR for that work will be finalised immediately after the DAC 12 February meeting.
- The draft report will be tabled at the DAC SLM meeting on 14/15 April, which means a version will need to go to the DAC, POVNET and other appropriate subsidiary body meetings by March. A first draft will thus be required for the beginning of March, at the latest. Members would then be invited to use that draft for their own internal preparations as well as in their efforts to get key messages included in the draft Declaration under preparation for the September UNGA event.