



**DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE**

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**IMPLEMENTING THE 2001 DAC RECOMMENDATION ON UNTYING OFFICIAL
DEVELOPMENT ASSISTANCE TO THE LEAST DEVELOPED COUNTRIES**

2004 PROGRESS REPORT

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TABLE OF CONTENTS

IMPLEMENTING THE 2001 DAC RECOMMENDATION ON UNTYING OFFICIAL DEVELOPMENT ASSISTANCE TO THE LEAST DEVELOPED COUNTRIES: 2004 PROGRESS REPORT		3
I.	Introduction and main findings	3
II.	Implementation of the coverage provisions of the Recommendation.....	4
III.	Impact of the Recommendation	4
IV.	Ex ante notifications	5
V.	Effort sharing	6
VI.	Members' policies concerning food aid	7
VII.	Strengthening partner country procurement capacities.....	8
VIII.	Broadening the scope of the Recommendation.....	8

Tables

Table 1.	Bilateral ODA commitments to the Least Developed Countries	10
Table 2.	DAC Members' positions in respect of the reference indicators matrix	11

IMPLEMENTING THE 2001 DAC RECOMMENDATION ON UNTYING OFFICIAL DEVELOPMENT ASSISTANCE TO THE LEAST DEVELOPED COUNTRIES

2004 PROGRESS REPORT

I. Introduction and main findings

1. The Recommendation¹ entered into force on 1 January 2002. Implementation is proceeding well, as shown by the following indicators, although some areas still require additional efforts or work to be completed.

- *Implementation of the coverage provisions:* The 2003 Progress Report² noted that almost all countries had fully implemented the coverage provisions, with only a few countries requiring further internal co-ordination. Since then, Australia, the European Commission and the United States have also taken steps like other countries before them to untie their bilateral ODA beyond the coverage of the Recommendation [Section II].
- *Impact of the Recommendation:* Both the volume of ODA to the LDCs and the LDCs' share of total bilateral ODA increased in 2002. Thus, the apprehension voiced at the time of the adoption of the Recommendation that it would result in diversion of ODA from the countries and activities it covers, is not borne out by the facts. However, the overall impact of the Recommendation in volume terms remains rather small, which is a direct consequence of its limited country and activity coverage [Section III].
- *Ex ante notifications of untied aid offers:* Considerable progress was made in 2003 with more than 75 percent of all procurement related untied aid offers being notified. However, there are still Members who do not notify any aid offers at all and in some other cases the information provided in the ex ante notification is incomplete [section IV].
- *Effort-sharing:* Effort-sharing improved in 2002. Both agreed indicators - the bilateral LDC untying ratio and the effort-sharing composite indicator - reached or surpassed their reference points. The effort sharing provisions of the Recommendation will be progressively implemented as trends become more established [Section V].
- *Members' policies concerning food aid:* The developmental effectiveness of food aid and the effects of its tying status are being assessed. A draft report will be presented to the DAC for discussion in 2004 [Section VI].
- *Procurement:* The Second Roundtable on Strengthening Procurement Capacities in Developing Countries took place in Uganda in February 2004. Progress with the agenda and its agreed products (on mainstreaming, capacity building, benchmarks and standards, and monitoring) is

¹ DCD/DAC(2001)12/FINAL

² DCD/DAC(2003)7/FINAL

being made. The results of the Roundtable process will be completed in time for their inclusion in the Second High Level Forum on Harmonisation and Donor Alignment in 2005 [Section VII].

- *Broadening the scope of the Recommendation over time:* Members took note of different options to broaden the scope of the Recommendation over time. They agreed to continue discussions on this subject on the basis of further studies, including in respect to the benefits of untying for partner countries [Section VIII].

II. Implementation of the coverage provisions of the Recommendation

2. As noted in the 2003 Progress Report Members' implementation of the coverage provisions of the Recommendation has, in general, been rapid and comprehensive:

- Almost all Members have by now untied all categories of ODA covered by paragraph 7i) of the Recommendation³. In the few remaining cases, full implementation of the coverage provisions still awaits the conclusion of the co-ordination process among the various implementing agencies.
- In addition, both prior to and since the Recommendation, numerous Members (e.g. Australia, Finland, France, Germany, Ireland, Japan, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom) have also untied ODA beyond the requirements of the Recommendation – e.g. commitments below the thresholds, technical co-operation, food aid and or ODA beyond the LDCs group of countries.
- Moreover, the Commission of the European Union, in accordance with its commitments, has introduced new provisions in favour of further untying, and has introduced the necessary elements to allow further untying of Community assistance⁴. The United States Congress has recently authorized creation of a new Millennium Challenge Corporation (MCC), the purpose of which is to provide additional foreign assistance in a manner that promotes economic growth and the elimination of extreme poverty while strengthening good governance, economic freedom and investments in people. The U.S. Congress appropriated just under US\$ 1 billion for the 2004 Fiscal Year. With no legislative preference expressed as to the tying status of MCC financing, these funds are currently untied.

III. Impact of the Recommendation⁵

3. In 2002, the volume of total bilateral ODA to the LDCs increased from the average of US\$ 8.4 billion during the period 1999 – 2001 to US\$ 11.1 billion in 2002 [Table 1]. The average share of bilateral ODA to the LDCs as a percentage of total bilateral ODA also increased 3.7 percentage points from the 1999 – 2001 baseline average to 22.4 percent in 2002.

4. Although no firm conclusions should be drawn from movements in countries' ODA flows on a year to year basis, it is reassuring to note that in 2002 the Recommendation did not seem to have had any

³ The following categories of ODA to the LDCs are covered in the paragraph 7i) of the Recommendation: balance of payments and structural adjustment support; debt forgiveness; sector and multi-sector programme assistance; investment project aid; import and commodity support; commercial services contracts, and ODA to Non-Governmental Organisations for procurement related activities.

⁴ Commission of the European Union [COM(2002)639 final].

⁵ See DCD/DAC/EFF(2004)5 for a more detailed analysis

negative repercussion on the volume of ODA flows to the LDCs or the share of aid going to the LDCs. There is, thus, no evidence of a reduction of ODA to the LDCs, nor of any aid diversion to non-LDCs as a result of the Recommendation. Members have requested further analysis of recent changes in the composition of LDCs ODA which will be undertaken in the next phase of work.

5. In 2002, total bilateral ODA to those categories of aid that are covered by paragraph 7i) of the Recommendation amounted to US\$ 4.2 billion, of which Members reported almost 90 percent as untied. Of the remaining US\$ 6.8 billion ODA to the LDCs outside the coverage of the Recommendation, one third was provided as untied. This raises the total share of untied aid in total bilateral aid to the LDCs to 60 percent.

6. The additionally of the Recommendation in terms of aid that is now provided untied is just a little over US\$ 0.5 billion. The relative modest impact of the Recommendation in volume terms is the result of its limited country and activity coverage (e.g. US\$ 3.5 billion of aid to the LDCs is provided either as food aid or as technical cooperation, both of which are not covered by the Recommendation). It should also be noted that almost one third of the LDCs are in conflict or in pre/post conflict situations, where aid delivery is extremely difficult and limited.

IV. Ex ante notifications⁶

7. In order to ensure transparency with the implementation of the Recommendation, Members agreed to provide ex ante notification of untied aid offers covered by the Recommendation. These notifications make available basic information about the donor, the recipient, the project and the bidding regime and have to be submitted 30 days prior to the opening of the bidding process. The total volume of aid notified ex ante increased to over US\$ 1.6 billion in 2003.

8. In assessing Members' use of the Bulletin Board⁷ it is important to note that the coverage of the Recommendation includes a number of aid categories where no direct link with project level procurement exists. This applies, in particular, to debt forgiveness, structural adjustment and budget support. Together, these categories without any direct procurement link amounted to US\$ 1.9 billion of ODA to the LDCs in 2002. Out of a potential US\$ 1.8 billion of procurement related ODA reported, 77 per cent was notified ex ante to the Bulletin Board in 2003.

9. Despite considerable improvement in the ex ante notification of procurement related LDC ODA, some Members still have to introduce a notification system. Several members have reported administrative and technical difficulties in setting up DAC ex-ante reporting systems, given their wide ranging and often decentralized procurement systems and the need for assigning some dedicated staff and developing special reporting for DAC purposes. Members are working to overcome these difficulties.

10. In addition, some notifications do not provide all the required information, in particular when partner countries are responsible for conducting the procurement process in the context of aid delivery modalities such as budget support and debt relief. The latter issue (complying with notification provisions while not overburdening partner countries' limited capacities) will be amongst the topics for further discussion in the Working Party on Aid Effectiveness and Donor Practises, which will also address the possibility of simplifying the notification procedures.

⁶ See DCD/DAC/EFF(2004)4 for a more detailed analysis

⁷ See [http://webdomino1.oecd.org/dcd/UntiedCWS.nsf/viewHtml/index/\\$FILE/Public_Index.htm](http://webdomino1.oecd.org/dcd/UntiedCWS.nsf/viewHtml/index/$FILE/Public_Index.htm)

V. Effort sharing⁸

11. The issue of balanced effort-sharing arises from the interplay of two factors – the coverage of the Recommendation and the variations in volume, structure and geographical orientations of Members' aid programmes. As a result, the implementation of the Recommendation produces differences between individual donors, both in the amount of aid that is covered by the Recommendation and the overall volume and share of their aid that is untied.

12. The Recommendation acknowledges that promoting a reasonable balance among Members in their efforts to implement the untying initiative is an integral part of the Recommendation. The initial positions of Members and their evolution over time with respect to agreed reference points are captured in a Reference Indicators Matrix [RIM]. It consists of Members' positions vis-à-vis two reference indicators; one for the bilateral untying ratio of ODA to the LDCs and one for the Effort-Sharing Composite Indicator.

- The bilateral LDC ODA untying ratio represents: untied bilateral ODA to the LDCs divided by total bilateral ODA to the LDCs (on a commitments basis). The reference point for this ratio was set at 0.60 for all Members.
- The effort-sharing composite indicator represents: [Bilateral LDC ODA/GNI times the bilateral LDC ODA untying ratio] plus multilateral LDC ODA/GNI⁹. The reference point for this ratio was set at 0.04 for all Members.

13. The following preliminary conclusions can be drawn from 2002 data in Table 2:

- The DAC average bilateral LDC ODA untying ratio increased from the 1999 – 2001 baseline of 0.53 to 0.60 in 2002 and now meets its reference point. The main reasons for this increase are that six DAC Members have fully untied (Ireland, Norway and the UK), or almost fully untied (Belgium, Finland, Switzerland) their LDC bilateral aid programmes. In addition, five other Members (Austria, Canada, France, Germany and Spain) significantly increased their untying ratios. Only for Japan¹⁰, the Netherlands¹¹, Portugal¹² and Sweden¹³ did the ratios decline.
- The DAC average Effort-Sharing Composite Indicator increased from the 1999 – 2001 baseline and reference point of 0.04 to 0.05 for 2002 and now surpasses its reference point. The effort-sharing composite indicator improved for most countries, but deteriorated for Australia¹⁴, Japan¹⁵, Portugal¹⁶ and Switzerland¹⁷.

⁸ See DCD/DAC/EFF(2004)6 for a more detailed analysis

⁹ Multilateral ODA is treated as untied, following DAC convention [DCD/DAC/FA/M(2002)2 PROV].

¹⁰ The decrease in the untying ratio of Japan is caused by a decline in the untying percentage of bilateral ODA to the LDCs combined with a decline in the total bilateral flows to the LDCs.

¹¹ The decrease in the untying ratio of the Netherlands is due to tied aid projects submitted in 2001 and committed in 2002.

¹² The decrease in the untying ratio of Portugal is due to the substantially reduced amount of debt relief after 2001.

¹³ The Swedish 2002 bilateral LDC ODA untying ratio has been recently revised. A similar exercise may be undertaken for the 1999-2001 average untying ratio when data become available.

¹⁴ The decline in the Effort-Sharing Composite indicator for Australia is due to a 19% decrease in its total ODA to the LDCs

14. On the basis of one year's data, not too much should be read into the extent that countries' positions (individually and collectively) have moved compared to the baselines. Nevertheless, it is reassuring to note that both the bilateral untying ratio and the composite indicator improved in 2002.

15. The effort-sharing provisions of the Recommendation will be progressively implemented as trends in effort-sharing become clearer. On that basis, Members will be invited to identify initial and medium term supplementary actions to promote more balanced effort sharing in accordance with the provisions set out in the Recommendation.

VI. Members' policies concerning food aid¹⁸

16. As part of implementation efforts, Members requested an assessment of the development effectiveness of food aid and the effects of its tying status¹⁹. In order to make the assessment as pertinent as possible, it was decided to focus on the development effectiveness of almost all food aid, leaving aside at this stage only the analysis of humanitarian assistance in immediate response to the first phase of a new emergency. Moreover, for practical reasons, the study is restricted to a representative selection of sixteen recipient countries.

17. The study will focus first, on the evidence on food aid performance and its consequences. This involves looking closely at how agencies assess, monitor and evaluate the relationship between their food aid objectives and outcomes - impacts and effects. Second, the study will review recent contributions to official and research literature on the effectiveness of food aid. This review will look for evidence that indicates areas and issues on which there is a need to reassess the performance of food aid.

18. Building on the broader evaluation, the study is looking closely at the resource transfer effectiveness of food aid from twenty donors to sixteen countries during 2002-2003. The assessment will analyse the resource transfer effectiveness of food aid provided in different ways, such as, aid tied to supplies from the donor's market; purchased locally in a recipient country; by restricted tender or contract in another developing country and transported to the recipient country (so-called triangular transactions) and open commercial international tender. The study will assess both direct, bilateral actions and those actions through intermediary agencies including the World Food Programme and non-governmental organisations, as well as food aid provided as programme aid for sale to generate funds in local currencies (counterpart funds).

19. The assessment is financed through generous voluntary contributions from Belgium, Germany, Sweden and the United Kingdom and undertaken by a team of external consultants. The first draft report will be ready for discussion by the DAC in the middle of 2004.

¹⁵ The decline in the Effort-Sharing Composite indicator for Japan is due to an 18% drop in its bilateral ODA flows to the LDCs combined with a decrease in the untying ratio.

¹⁶ The decline in the Effort-Sharing Composite indicator for Portugal is mainly due to 36% drop in its bilateral ODA flows to the LDCs combined with a significant decrease in the untying ratio [see also footnote 11].

¹⁷ The decline in the Effort-Sharing Composite Indicator for Switzerland is due to a 18% decrease in its total ODA to the LDCs, despite the more than one percentage point rise in the bilateral untying ratio.

¹⁸ See DCD/DAC/EFF(2004)7 for a more detailed report.

¹⁹ See DCD/DAC/EFF(2003)3/REV1 provides the terms of reference.

VII. Strengthening partner country procurement capacities²⁰

20. The objectives of the joint DAC – World Bank Initiative on Strengthening Procurement Capacities in Developing Countries are to strengthen partner country procurement systems and their ownership of the procurement process; and by moving towards harmonised international use of these systems, to improve aid effectiveness. The main instruments to achieve these objectives are to bring procurement issues into the mainstream of the development debate, carry out effective and sustainable procurement capacity building efforts, create clear standards against which the performance of procurement systems can be measured, and develop the tools to monitor and evaluate this performance. Ultimately, this process will allow developing countries to build and operate sound procurement systems, which will permit them together with donors to achieve common objectives of accountability and effectiveness and meet their respective procurement fiduciary requirements. The creation of these systems will provide donors with an opportunity to harmonise and align their procurement policies and procedures.

21. The Second Round Table was hosted by the Uganda Authority for Public Procurement and Disposal of Public Assets and opened by Mr. Isaac Muscumba, Minister of State for Finance. Some 60 participants from partner countries (Ghana, Indonesia, Madagascar, Tanzania, South Africa and Uganda) and from the bilateral and multilateral donor community attended the meeting, most of whom are experts involved full-time in procurement questions and issues.

22. The agenda for the Roundtable was designed to give participants the opportunity to (i) review the progress made by the subgroups working on the four core themes mentioned above,²¹ (ii) share important recent developments in partner and donor countries related to the core themes, (iii) rationalise and strengthen the linkages between and among these themes and the pilot projects related to each that are either already underway or under consideration, and (iv) through an intensive series of breakout sessions to develop concrete action plans for 2004 on each theme that will result in high quality results being produced in advance of the third and final Round Table meeting which is tentatively scheduled for December 2004, and the Paris High Level Forum on Harmonisation in 2005.

23. Participants expressed satisfaction with the progress made to date. They were generally optimistic that the intended results identified in the breakout sessions can be achieved and completed to a high standard by the time of the third Round Table meeting in December 2004. Furthermore, they underlined the importance of monitoring closely the process in order to achieve the expected results, which should also be communicated to the 2nd High Level Forum on Harmonisation. Finally, participants argued that an effort should be made to broaden the initiative to a wider group of partner countries.

VIII. Broadening the scope of the Recommendation

24. The Recommendation recognises that untying improves aid effectiveness through the positive effects on (i) co-ordinated and effective partnerships with developing countries, (ii) strengthened ownership and responsibility of partner countries in the development process, and (iii) improved value for money in aid procurement. The Recommendation invites Members to consider untying aid beyond its present coverage. Against that background and to increase the contribution of the Recommendation to the broader aid effectiveness objectives, Members exchanged views on issues associated with a possible

²⁰ See DCD/DAC/EFF(2004)8 for a more detailed report.

²¹ Given the fundamental link between themes of Benchmarks & Standards and Monitoring & Evaluation, it was decided to merge the Working Groups for these two themes.

broadening of the scope of the Recommendation. To facilitate this exchange a note²² was prepared, outlining four possible options, e.g.:

1. Maintaining the LDCs focus, while eliminating the exclusions for food aid, technical co-operation and thresholds.
2. Maintaining the exclusions and thresholds of the Recommendation, while broadening the country coverage, for instance to the Other Low Income Countries, or the Heavily Indebted Poor Countries, or countries with an agreed Poverty Reduction Strategy.
3. Maintaining the exclusions and thresholds, while broadening coverage to all developing countries in selected sectors, e.g. health, education, etc.
4. Agreement on the general principle that untying improves aid effectiveness and a best endeavours approach to move towards further untying.

25. The discussion suggested that, at present, priority attention should be on the implementation of the 2001 Recommendation, but that the issue of broadening its application should also remain on the aid untying/aid effectiveness agenda for further reflection²³. The next discussion of this issue will also consider lessons to be learned from the implementation of the 2001 Recommendation, in particular with respect to ownership, price reductions, development of local business sector as well as the potential benefits to partner countries and the feasibility of different scenarios for further aid untying.

²² See DCD/DAC/EFF(2003)6

²³ See DCD/DAC/EFF/M(2003)7/PROV

Table 1. Bilateral ODA commitments to the Least Developed Countries

	1999-2001 Average		2002	
	Bilateral LDC ODA	Bilateral LDC ODA as share of total bilateral ODA	Bilateral LDC ODA	Bilateral LDC ODA as share of total bilateral ODA
	US \$ million	per cent	US \$ million	per cent
Australia	131	14.2	111	17.0
Austria	64	13.5	134	29.3
Belgium	160	31.5	372	49.5
Canada	222	17.4	339	19.7
Denmark	380	43.2	370	43.8
Finland	66	26.6	92	29.7
France	924	23.8	1 280	27.0
Germany	677	18.7	939	20.4
Greece	2	1.8	10	9.1
Ireland	102	62.8	157	58.9
Italy	210	31.7	782	62.1
Japan	1 441	11.1	1 202	12.9
Luxembourg	33	34.2	51	45.9
Netherlands	571	24.3	858	19.2
New Zealand	24	26.4	27	27.5
Norway	361	35.6	465	42.2
Portugal	163	61.8	78	41.8
Spain	101	10.0	129	11.2
Sweden	261	20.3	322	25.5
Switzerland	166	22.1	152	19.4
United Kingdom	1 122	43.4	989	27.4
United States	1 265	12.7	2 309	19.0
DAC Countries	8 446	18.7	11 168	22.4

Source : OECD (DAC and Creditor Reporting Systems)

Table 2. DAC Members' positions in respect of the Reference Indicators Matrix

	Bilateral LDC ODA Untying Ratio (1) <i>(Reference point : 0.60)</i>		Effort-sharing Composite Indicator (2) <i>(Reference point : 0.04)</i>	
	<i>Base (1999-2001 ave.)</i>	<i>2002</i>	<i>Base (1999-2001 ave.)</i>	<i>2002</i>
Australia	0.49	0.48	0.04	0.03
Austria	0.36	0.62	0.04	0.06
Belgium (3)	0.49	0.97	0.07	0.19
Canada	0.40	0.63	0.03	0.05
Denmark (4)	0.78	0.80	0.27	0.28
Finland	0.69	0.98	0.07	0.13
France (4)	0.34	0.60	0.05	0.09
Germany (4)	0.43	0.57	0.04	0.05
Greece (5)	..	0.20	..	0.02
Ireland (6)	1.00	1.00	0.16	0.19
Italy (7)	0.30	..	0.03	..
Japan (4)	0.76	0.70	0.05	0.04
Luxembourg (8)
Netherlands (9)	0.91	0.84	0.22	0.24
New Zealand (10)
Norway	0.99	1.00	0.29	0.34
Portugal (4)	0.61	0.13	0.11	0.04
Spain	0.21	0.60	0.02	0.03
Sweden (11)	0.91	0.88	0.17	0.26
Switzerland	0.89	0.97	0.09	0.07
United Kingdom	0.53	1.00	0.07	0.08
United States (4) (12)	0.01	0.04	0.01	0.01
Total DAC (13)	0.53	0.60	0.04	0.05

Source : OECD (DAC and Creditor Reporting System)

Footnotes:

1. The Bilateral LDCs ODA untying ratio represents: Untied bilateral LDCs ODA divided by total bilateral LDC ODA (commitments basis).
2. The Effort-sharing composite indicator represents: (bilateral LDC ODA/GNI times the bilateral LDC ODA untying ratio) + multilateral LDC ODA/GNI. Following the DAC convention, multilateral ODA is treated as untied.
3. Belgium extended CRS reporting of tying status to include their grant programme from 2000. The figures shown are thus based on a two-year average (2000-2001).
4. Do not report the tying status of free standing technical co-operation (FTC). By convention, FTC amounts have been treated as tied.
5. Greece commenced reporting to the CRS as from 2002.
6. Ireland commenced reporting to the CRS in 2000. Their 1999-2001 average figures shown are thus based on a two-year average (2000-2001).

7. Detailed reporting for 2002 has been delayed for Italy.
8. Luxembourg does not report to the CRS.
9. Netherlands extended CRS reporting of tying status to include FTC from 2000. However, the ratios for 2002 cannot be calculated as these data are presently undergoing revision.
10. New Zealand commenced reporting to the CRS as from 2002. However the ratios for 2002 cannot be calculated as these data are presently undergoing revision.
11. The Swedish 2002 bilateral LDC ODA untying ratio has been recently revised. A similar exercise may be undertaken for the 1999-2001 average untying ratio when data become available.
12. The United States does not report tying status to the CRS. By convention, debt relief is treated as untied, the remainder as tied. Pursuant to further study of the matter, the United States has submitted the following comment:
QUOTE
The overall volume of the United States untied ODA has been significantly under-reported to the DAC. This is true both for the baseline reporting years (1999-2001 average) and 2002. In Fiscal Year 2003, over \$4 billion in ODA flowed to developing countries by way of assistance mechanisms, in addition to contract procurement. This grant assistance was by way of NGO and Public International Organization grants and cooperative agreements. These grants and cooperative agreements are almost uniformly competed on a worldwide basis, i.e. they are completely untied.
UNQUOTE
Together with these comments the United States has provided data on all grants and cooperative agreements awarded in Fiscal Year 2003, together with grant amounts and an overall total. On the basis of this and additional information the Secretariat and the United States, will commence a process to revise tying status data of the United States.
13. For the year 2002, the calculation of the bilateral LDCs ODA untying ratio for DAC countries does not take account of Italy, Luxembourg and New Zealand for reasons already mentioned in previous footnotes.