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

**2006 Progress Report to the High Level Meeting**

**DAC Meeting, 15 March 2006**

*This document is submitted for APPROVAL to the 15 March 2006 meeting of the DAC under item 8 of the agenda [DCD/DAC/A(2006)3]. The final report will be tabled for INFORMATION at the 5 April 2006 DAC High Level Meeting.*

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

### 2006 HLM PROGRESS REPORT

#### 1. Introduction and main findings

1. The 2001 DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries entered into force on 1 January 2002.<sup>1</sup> Earlier HLM progress reports concluded that implementation was proceeding well, although some areas were identified that required additional efforts or work to be completed.<sup>2</sup>

2. In 2005, implementation of the Recommendation continued to proceed well, as is shown by the following indicators:

- *Implementation of the coverage provisions:* All Members have implemented the coverage provisions of the Recommendation and many Members have untied their aid beyond its coverage. In 2005, the European Community has adopted two regulations regarding access to EC external assistance by non--EU Members [section 2.1].
- *ODA flows to the LDCs:* Both the volume of ODA to the LDCs and the share of aid going to the LDCs continued to increase in 2004. Thus, *prima facie*, the Recommendation did not have any negative repercussions on either [section 2.2].
- *Impact:* In 2004, the volume of ODA to the categories covered by the Recommendation decreased by USD 1 billion, mainly because of the significant drop in the volume of debt forgiveness which is reported as untied aid for statistical purposes [section 2.3].
- *Effort-sharing:* In 2004, effort sharing amongst Members remained high [section 2.4].
- *Ex ante notifications:* In 2005, 311 ex ante notifications with a total volume of USD 9.5 billion were posted on the untying website; a continuation of the increasing trend in both the volume and number of transactions [section 2.6].
- *Contract awards:* In 2004, almost 64% of all reported contracts pertaining to notifications were awarded to companies located outside the donor territory and almost 27% went to developing countries. These results are congruent with the objectives of the Recommendation to promote local and regional procurement [section 2.7].
- *Adherence to transparency provision:* Members judged adherence to the transparency provisions overall satisfactory, although further efforts to strengthen, in particular, ex post reporting on contract awards is necessary to enhanced transparency [section 2.8].

- *Further untying*: Participants to the 2005 SLM agreed to: (i) abolish the coverage threshold, subject to agreement on ex post reporting of contracts awarded<sup>3</sup>; (ii) promote local and regional procurement and develop more detailed proposals to provide recognition of Members' policies and efforts in this area; (iii) discuss the tying status of procurement related technical co-operation, once the Working Party on Statistics has completed its work to disaggregate technical co-operation; and (iv) continue discussions on broadening of the country coverage of the 2001 Recommendation [section 3].

## 2. Implementation Review

### 2.1 Implementation of the coverage provisions

3. Previous progress reports noted that Members' implementation of the coverage provisions of the Recommendation had, in general, been rapid and comprehensive. In addition, both prior to and since its entry into force, most Members have untied their aid beyond the requirements of the Recommendation – e.g. below the threshold, technical co-operation, food aid and/or aid beyond the LDC group.

4. In 2005, the European Community adopted two regulations on access to EC external assistance. In the new regulations, all aid to the LDCs will be untied. In addition, all expertise, e.g. technical cooperation) will be untied and based only on the dual criteria of quality and price. Food aid will also be untied. The remaining part of EC aid will be open to other donors on the basis of reciprocity.

### 2.2 ODA flows to the LDCs

5. In 2004, the volume of total bilateral ODA to the LDCs increased from an average of USD 9 billion during the base period 1999 – 2001 to USD 18 billion on commitment basis. The share of bilateral ODA to the LDCs as a percentage of total bilateral ODA also increased 4.5 percentage points from the 1999 – 2001 baseline average to 24 per cent in 2004. It is reassuring to note that in 2004, as was the case in earlier years, the Recommendation did not seem to have any negative repercussions, either on the volume of ODA to the LDCs, or on the share of aid going to the LDCs.

### 2.3 Impact of the Recommendation

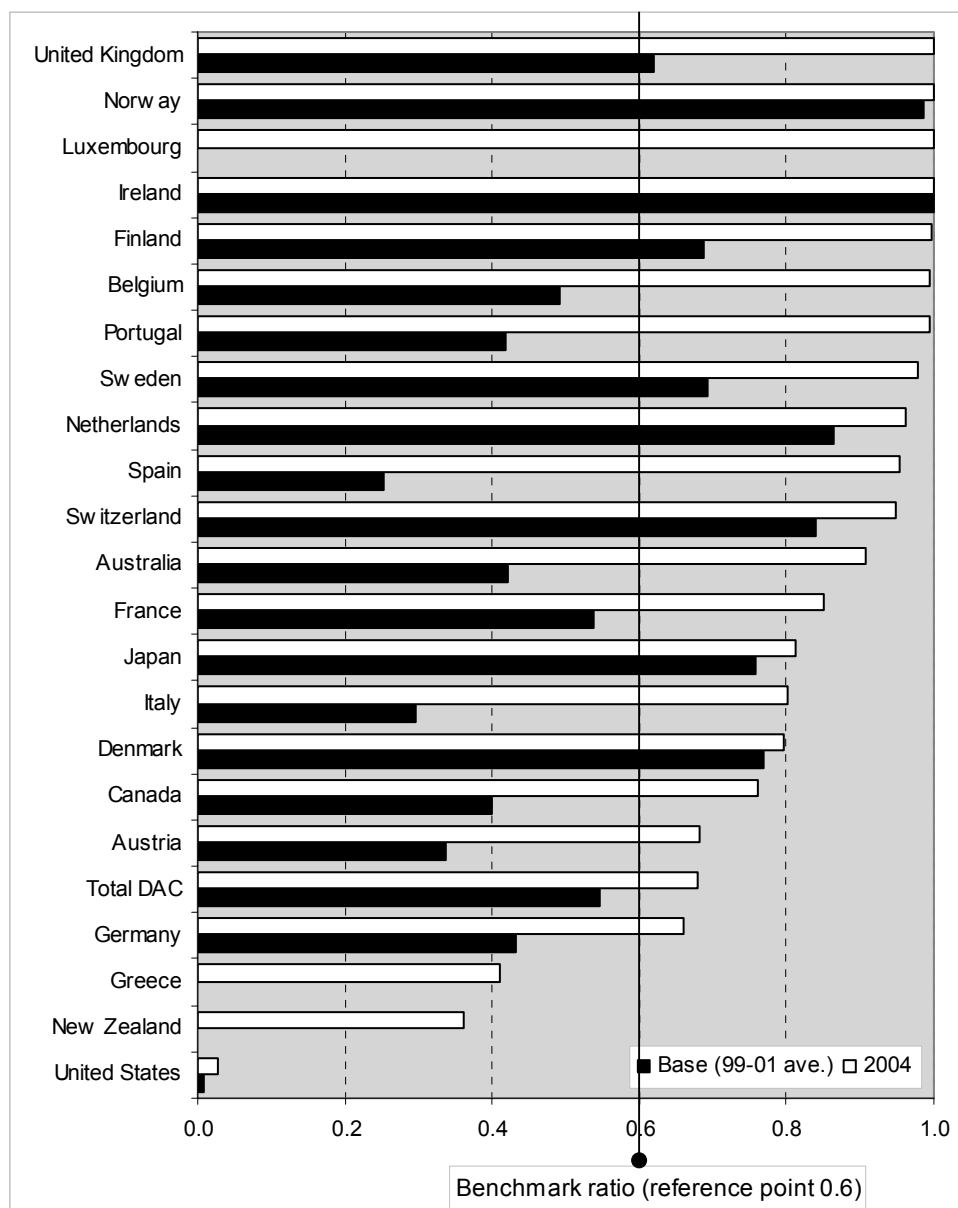
6. In 2004, the volume of total bilateral ODA to those categories of aid that are covered by paragraph 7 i) of the Recommendation dropped by USD 1 billion to USD 7.4 billion.<sup>4</sup> The main reason for this is the decline in the volume of debt relief, which is recorded as untied aid. If debt forgiveness amounts were excluded, total bilateral LDC ODA would show a steady upward trend [see annex 1]. Nevertheless, the impact of the Recommendation in volume terms remains relatively modest (e.g. it covers 10% of total bilateral ODA in 2004) as a result of its limited country and activity coverage.

### 2.4 Effort-sharing

7. Promoting a reasonable balance among Members in their efforts to untie aid 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. It consists of Members' positions vis-à-vis two reference indicators; one for the bilateral untying ratio of ODA to the LDCs<sup>5</sup> and one for the Effort-Sharing Composite Indicator<sup>6</sup>.

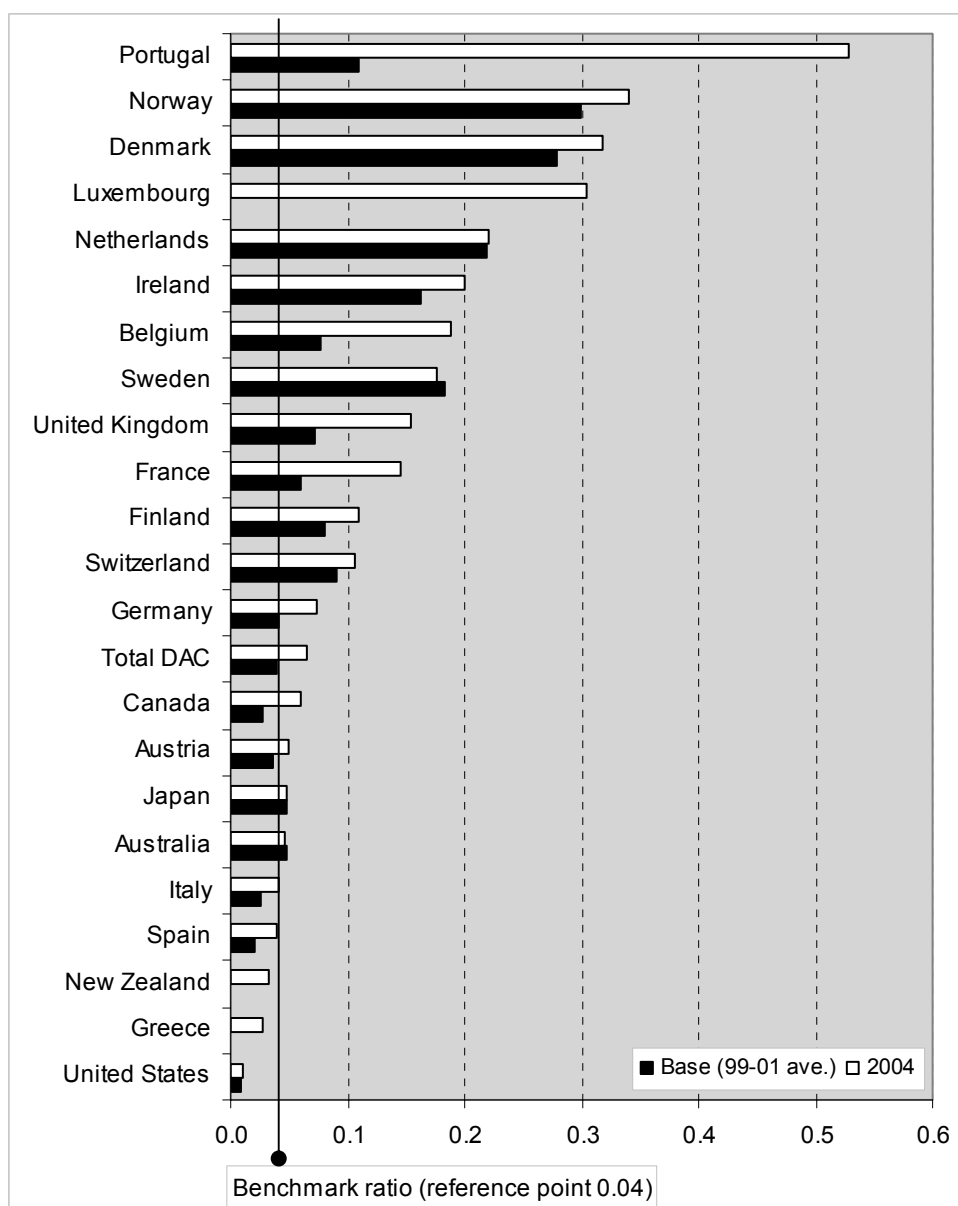
8. In 2004, the DAC average bilateral LDC ODA untying ratio increased from the 1999 – 2001 baseline of 0.55 to 0.68, e.g. significantly above the 0.6 reference point. [see Chart 1 and Table 2].

**Chart 1. DAC Member countries' positions: bilateral LDC ODA untying ratio**



Source: Creditor Reporting System  
 Note: Please refer to the footnotes of Table 2 in the Annex.

9. The DAC average Effort-Sharing Composite Indicator remained steady in 2004 at 0.06, up from 0.04, the 1999–2001 baseline and reference point [see Chart 2 and Table 2].

**Chart 2. DAC Member countries' positions: Effort-sharing composite indicator**

Source: Creditor Reporting System.

Note: Please refer to the footnotes of Table 2 in Annex.

10. Thus, the indicators of effort sharing continue to remain well above the reference points that were set out when the Recommendation was adopted in 2001.

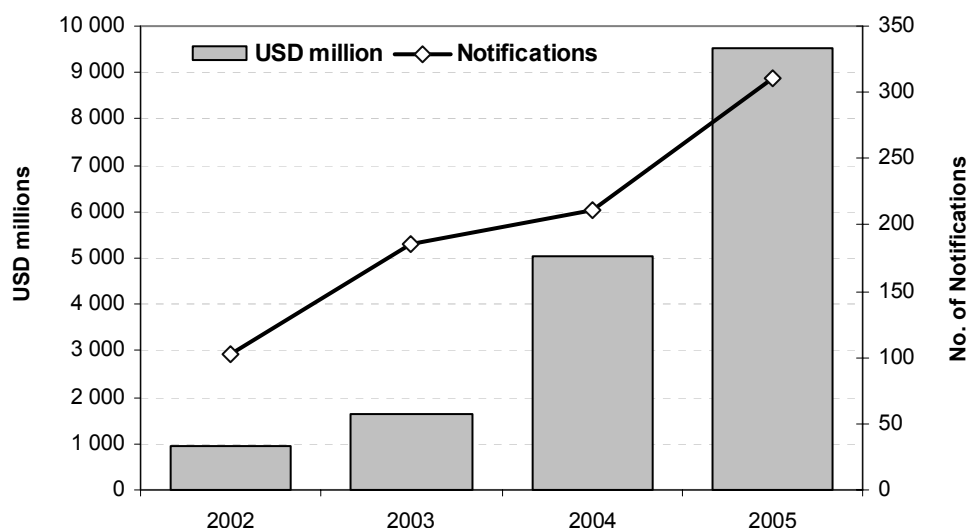
### 2.5 *Transparency*

11. The Recommendation contains detailed procedures and provisions for transparency through ex ante notifications of untied aid offers and ex post reporting on contracts awarded.

## 2.6 *Ex ante notifications*

12. In 2005, 311 ex ante notifications were posted on the bulletin board with a total volume of USD 9.5 billion [chart 3]. Thus the trend of improved reporting also continued in 2005, such that more or less all ODA covered by the Recommendations is ex ante notified.

**Chart 3. Ex ante notifications: volume and number (2002 - 2005)**



Source: Ex ante notification database.

## 2.7 *Contracts awarded in 2004*

13. Ex post reporting on contract awards is required under the provisions for transparency and monitoring of the Recommendation. Almost 61% of all 2004 contracts were awarded to companies located outside the donor territory, of which 42% went to companies located in developing countries in value terms. The volume of contracts reported in 2004 amounted to approximately USD 323 million. Of that amount just over half of the procurement value was awarded to companies outside the donor territory. Although it remains difficult to obtain more comprehensive information on contract awards, the data does indicate that the overall pattern of contract awards is compatible with the broader objectives of the Recommendation to promote local and regional procurement.

## 2.8 *Adherence to transparency provisions*

14. The DAC assessed Members' adherence to the transparency provisions of the 2001 DAC Recommendation in response to some Members' perceptions that these were not implemented satisfactorily. The DAC concluded that adherence should be judged as overall satisfactory, although further efforts to strengthen ex post reporting on contract awards are particularly needed and will contribute to enhanced transparency [table 1].<sup>7</sup>

**Table 1. Members' adherence to the transparency requirements of the 2001 Recommendation on Untying, (2002 - 2005)**

	Submission of ex ante Notifications (1)				Reporting on ex post contract awards	
	2002	2003	2004	2005	2003	2004
Australia			✓	✓		✓
Belgium		✓	✓	✓		✓
Canada		✓		✓	✓	✓
Denmark	✓	✓				
Finland	✓					✓
France	✓	✓	✓	✓	✓	✓
Germany	✓	✓	✓	✓	✓	✓
Italy	✓		✓			
Japan	✓	✓	✓	✓	✓	
Netherlands	✓	✓	✓	✓	✓	✓
New Zealand	✓		✓			✓
Norway	✓	✓		✓		
Portugal				✓	✓	✓
Spain	✓		✓	✓		✓
Sweden		✓	✓		✓	✓
Switzerland	✓	✓	✓	✓		✓
United Kingdom	✓	✓	✓	✓	✓	✓
United States	✓		✓	✓		✓

Source: Source: Ex ante notification data base

1. Austria, Greece, Ireland and Luxembourg are excluded from the table as these donors do not provide ODA covered by the 2001 Recommendation.

### 3. Untying: next steps

15. In response to the Paris Declaration and calls from major international conferences to increase the share of aid that is untied, the DAC has discussed approaches to extend the benefits of untied aid, especially in terms of improved aid effectiveness and greater value for money.<sup>8</sup> Two criteria were selected to identify promising ways forward: (i) the magnitude of the potential benefits, and (ii) the likelihood of arriving at a consensus.<sup>9</sup> On that basis the 2005 Senior Level Meeting approved the following proposals:<sup>10</sup>

#### 1. Elimination of the coverage thresholds of the 2001 Recommendation.

16. Members considered that eliminating the coverage thresholds of the 2001 Recommendation i.e. SDR 700 000 (SDR 130 000 for investment related technical co-operation) offered some early gains with a reasonable scale of benefits, in particular, for local and regional companies in partner countries. This step, in addition, will also address the fact that some donors are *de facto* not affected by the Recommendation, because their aid programmes consist of activities with transaction values below these thresholds. Consequently, eliminating the thresholds will improve effort-sharing among donors. The provisions will enter into force on 1 July 2006 subject to agreement on ex post reporting for small contract awards.<sup>11</sup>

*2. Promote and strengthen local and regional procurement of aid funded activities.*

17. Members support initiatives that broaden procurement eligibility for local and regional suppliers in developing countries, which will increase the benefits to partner countries. These initiatives are not necessarily fully compatible with the DAC definition of untied aid. Consequently, Members would like to see more public recognition of the fact that their aid is increasingly being used to procure goods and services in developing countries. On that basis, SLM participants asked the DAC to develop proposals for promoting and reporting on local and regional procurement. Such proposals will be submitted to the DAC at a latter date.

*3. Study the possibilities for untying procurement related technical co-operation, once the Working Party on Statistics has disaggregated technical co-operation into its component elements.*

18. Free-standing technical co-operation, which amounted to USD 5.9 billion, or almost one-third of total bilateral ODA to the LDCs in 2004, is excluded from the coverage of the 2001 Recommendation. Identifying possible categories where untying could fulfil the two selection criteria for promising approaches (i.e. likelihood of consensus and magnitude of potential benefits) will be facilitated by the present work of the WP-STAT to disaggregate technical cooperation into its component parts. On that basis, SLM participants requested the DAC to study the possibilities for untying procurement related technical co-operation., Proposal to that extent will be submitted to the DAC once the WP-STAT has completed that work.

*4. Continue discussions of options to expand the country coverage of the 2001 Recommendation.*

19. The 2001 Recommendation is targeted at the Least Developed Countries because these countries face the greatest challenges in achieving the Millennium Development Goals and can ill afford to bear the additional costs and inefficiencies that are associated with tied aid. Most Members consider that extending the country coverage of the Recommendation to the other low income countries (OLICs) is a logical way forward. A few Members, however, flagged that they are unable to support these proposals at this time.

20. Against this background, Members considered possible alternatives for extending the country coverage of the Recommendation, such as aid dependent countries (e.g. those with a high ODA/GNI ratio) and heavily indebted poor countries (HIPCs) as alternatives that would satisfy the poverty focus of the Recommendation. SLM participants requested the DAC to continue discussions on different approaches to expand the country coverage of the 2001 Recommendation, and to bring proposal to the DAC at an appropriate time.

**4. Graduation of Cape Verde and Maldives to the OLIC income group.**

21. In 2004, the United Nations General Assembly took note of the Recommendation of the Committee for Development Policy that Cape Verde and the Maldives be graduated from the group of Least Developed Countries.<sup>12</sup> Graduation will become effective three years after the General Assembly's decision, i.e. in 2007. During the three year transition period, both countries will remain on the list of LDCs and will maintain the advantages associated with membership of that country classification.

22. In this context, the DAC Chair proposed that for the three year transition period both Cape Verde and the Maldives continue to be covered under the scope of the 2001 DAC Recommendation and that thereafter both continue to benefit from its advantages.<sup>13</sup> Portugal informed the DAC Chair that it could not join the, otherwise consensus support for his proposal.



## 5. Conclusions

23. The conclusions adopted in earlier progress reports to the HLM have been confirmed in 2005. In particular, since the entry into force of the Recommendation:

- Both the volume of ODA to the LDCs and the LDCs' share of total bilateral ODA have increased substantially, especially when significant year-to-year debt relief fluctuations are taken into account. Furthermore, no causal shift into activities not covered by the Recommendation has occurred.
- Effort-sharing amongst Members improved significantly, and both indicators largely surpassed their reference points. With few exceptions, Members increased the share of untied aid in their bilateral aid to the LDCs and have untied their aid beyond the requirements of the Recommendation.
- Conclusions on contract awards pertaining to ex ante notifications show that the results are compatible with the broader objectives of the Recommendation to promote local and regional procurement. However, there is a need for improved reporting on contract awards, particularly in relation to the volume of ex ante notifications.
- No Member has invoked the derogation clause to take measures inconsistent with the terms of the Recommendation in situations where it considers it to be justified on the basis of overriding, non-trade related, development interests.
- Progress has been made concerning efforts to increase the coverage of the Recommendation and its contribution to effectiveness and further possibilities are under investigation.

## ANNEX I

Table 2. DAC Member countries' positions in respect of the reference indicators matrix

	Bilateral LDC ODA Untying Ratio (1) (Reference point : 0.60)		Effort-sharing Composite Indicator (2) (Reference point : 0.04)	
	Base (99-01 ave.)	2004	Base (99-01 ave.)	2004
Australia	0.42	0.91	0.05	0.05
Austria (3)	0.34	0.68	0.04	0.05
Belgium (4)	0.49	0.99	0.08	0.19
Canada	0.40	0.76	0.03	0.06
Denmark (5)	0.77	0.80	0.28	0.32
Finland	0.69	1.00	0.08	0.11
France (5)	0.54	0.85	0.06	0.14
Germany (5)	0.43	0.66	0.04	0.07
Greece (6)	..	0.41	..	0.03
Ireland (7)	1.00	1.00	0.16	0.20
Italy	0.30	0.80	0.03	0.04
Japan (5)	0.76	0.81	0.05	0.05
Luxembourg (8)	..	1.00	..	0.31
Netherlands (9)	0.86	0.96	0.22	0.22
New Zealand (10)	..	0.36	..	0.03
Norway	0.99	1.00	0.30	0.34
Portugal (5)	0.42	0.99	0.11	0.53
Spain	0.25	0.95	0.02	0.04
Sweden	0.69	0.98	0.18	0.18
Switzerland	0.84	0.95	0.09	0.11
United Kingdom	0.62	1.00	0.07	0.15
United States (5) (11)	0.01	0.03	0.01	0.01
<b>Total DAC</b>	<b>0.55</b>	<b>0.68</b>	<b>0.04</b>	<b>0.06</b>

Source: OECD (DAC and CRS reporting systems)

- 1 The Bilateral LDC ODA untying ratio represents : Untied bilateral LDC 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 The tying status of Austria's technical co-operation is estimated for 2004.
- 4 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).
- 5 Did not report the tying status of free standing technical co-operation (FTC). By convention, FTC amounts have been treated as tied. However in the case of Germany and Portugal the tying status of technical co-operation projects have been notified for 2003 reporting.
- 6 Greece commenced reporting to the CRS as from 2002.
- 7 Ireland commenced reporting to the CRS in 2000. The 1999-2001 average figures shown are thus based on a two-year average (2000-2001).
- 8 Luxembourg commenced the reporting of tying status as from 2003.
- 9 Netherlands extended CRS reporting of tying status to include FTC only from 2000. The 1999-2001 figures shown are thus based on a two-year average (2000-2001).
- 10 New Zealand commenced reporting to the CRS as from 2002.
- 11 The US does not report tying status to the CRS. By convention, debt relief is treated as untied, the remainder as tied.

Note: The above table is based on the group of least developed countries shown on the DAC List of Aid Recipients as at 01.01.2003.

### The effects of debt relief on bilateral LDC ODA trends.

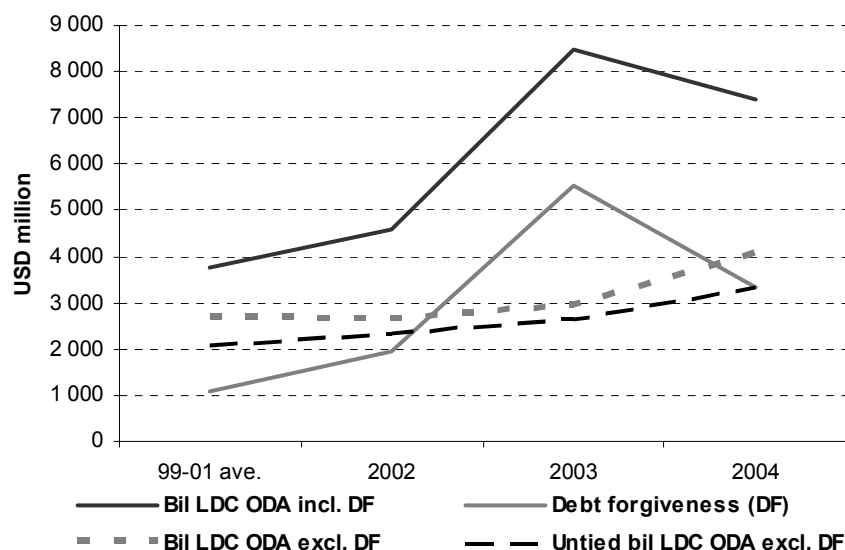
24. Debt relief, whether in the form of debt forgiveness or rescheduling/ refinancing significantly affects the volume of ODA commitments going to the LDCs. Under the DAC Statistical Reporting Directives, debt relief is reported as untied aid for statistical purposes. In 2004, debt relief accounted for almost a quarter of total bilateral LDC ODA. The see-saw effect of debt relief on the annual ODA volume to the LDCs distorts trends in Members' positions vis-à-vis the reference indicators matrix. This is in particular the case for countries with small programmes and important debt relief components. For example, in 2003 Portugal's commitments to LDCs amounted to USD 156 million. In 2004, it more than quadrupled to USD 815 million, of which 86% can be attributed to debt relief.

### Debt forgiveness and its impact on the Recommendation

25. In 2003, the volume of bilateral ODA destined for the LDCs and covered by the Recommendation almost doubled from USD 4.6 billion in 2002 to USD 8.5 billion. This increase was in no small part due to debt forgiveness totalling USD 5.5 billion, up from USD 2 billion from the previous year. In 2004, however, bilateral LDC ODA (covered by the Recommendation) declined again to USD 7.4 billion. A corresponding drop in debt forgiveness to USD 3.3 billion accounted for a major part of this decrease.

26. To analyse the impact of the Recommendation, to produce a more meaningful trend, debt forgiveness can be excluded from total bilateral LDC ODA. Doing so shows a steady increase by 52% in 2004 from the 1999 – 2001 baseline [Chart 4].

**Chart 4. Bilateral LDC ODA covered by the Recommendation : The effect of debt forgiveness**  
(1990-01 ave. - 2004)



Source: Creditor Reporting System

## ENDNOTES

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1. CD/DAC(2001)12/FINAL
  2. CD/DAC(2003)7/REV1, DCD/DAC(2004)15, DCD/DAC(2005)5/REV1
  3. DCD/DAC(2006)25
  4. The following categories of ODA are covered by 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.
  5. 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.
  6. The effort-sharing composite indicator represents: [Bilateral LDC ODA/GNI times the bilateral LDC ODA untying ratio] plus multilateral LDC ODA/GNI6. The reference point for this ratio was set at 0.04 for all Members. [Multilateral ODA is treated as untied, following the DAC convention, see DCD/DAC/FA/M(2002)2/PROV.
  7. DCD/DAC(2005)44 and Corrigendum 1, DCD/DAC/M(2005)10/FINAL
  8. DAC/CHAIR(2005)11, DCD/DAC/M(2005)8/PROV
  9. DCD/DAC(2005)30, DCD/DAC(2005)34, DCD/DAC(2005)44.
  10. DCD/DAC(2005)49/REV1 and DCD/DAC/M(2005)13/FINAL
  11. DCD/DAC(2006)25
  12. United Nations A/RES/59/210 (2004)
  13. RM (05)46