



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

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Working Party on Aid Effectiveness and Donor Practices

**THIRD PROGRESS REPORT TO THE 2004 DAC HIGH LEVEL MEETING
ON IMPLEMENTING THE 2001 DAC RECOMMENDATION ON UNTYING ODA TO THE LDC**

Ex ante notifications

to be held in Paris on 12 March 2004

This document is submitted to the WP-EFF for CONSIDERATION at its meeting on 12 March 2004. The conclusions of Members' discussion on the issues raised in this note will guide the Secretariat in drafting the section on ex ante notification in the third progress report on implementing the 2001 DAC Recommendation that will be submitted for information to the 2004 DAC HLM.

Contact person: Frans Lammersen - Tel: (33-1) 45 24 89 88
Fax: (33-1) 44 30 63 33 - Email frans.lammersen@oecd.org

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EX ANTE NOTIFICATIONS

I Introduction

1. The 2001 DAC Recommendation on Untying ODA to the LDCs¹ sets out strong procedures for transparency and monitoring compliance. Ex ante notification to the DAC untied aid Bulletin Board² of aid offers covered by the Recommendation is a central element of these provisions.

2. Initially, progress by Members in the submission of ex ante notifications was disappointing. In the Second Progress Report³, covering 2002, it was concluded that this was mainly due to technical difficulties associated with creating the electronic notification system, the time required for Members to organise their submission of notifications and interpretation issues on what and when to notify.

3. This note will review compliance with the notification requirements during 2003 and is structured as follows:

- Section II recalls the rationale for the notification requirements of the Recommendation.
- Section III presents the volume of untied aid notified to the Bulletin Board in 2003.
- Section IV lists some of the issues Members have raised regarding adherence to the notification requirements.

4. The conclusions of Members' discussions on the issues raised in this note will guide the Secretariat in drafting the section on ex ante notification in the third progress report on implementing the 2001 DAC Recommendation that will be submitted for information to the 2004 DAC HLM.

II Notification requirements

5. In order to ensure transparency about the implementation of the Recommendation, Members agreed to notify, ex ante, untied aid offers covered by the Recommendation. These ex ante notifications provide basic information about the donor, the recipient, the project and the bidding regime. The notifications have to be submitted 30 days prior to the opening of the bidding process.

6. The information requirements are a scaled down version of the ex ante notification that Members also provide on tied aid offers in the context of the Arrangement on Officially Supported Export Credits. Following the entry into force of the DAC Recommendation, all Participants to the Arrangement, but one, have also agreed to use the DAC notification requirements for untied aid offers in the non-LDCs.

¹ DCD/DAC(2001) 12 FINAL

² <http://webdomino1.oecd.org/dcd/UntiedCWS.nsf>

³ DCD/DAC(2003)7/REV 1

III Bulletin Board use

7. As reported in the Second Progress Report, Members did not notify a large amount of their untied aid offers in 2002. In fact, only US\$ 1 billion out of a potential US\$ 3.7 billion was notified. In 2003, however, the total volume of aid notified increased to over US\$ 1.6 billion [see Table 1]. This substantial increase is mainly due to an increase in notifications from Members who already notified to the Bulletin Board in 2002. In this context, it is interesting to note that some of these Members have also started to post untied aid offers on the Bulletin Board that are not covered by the Recommendation, including technical co-operation projects and ODA to non LDCs.

Table 1. Ex ante notification of untied bilateral ODA

(reported under the coverage of the Recommendation)

	USD million		No. of transactions	
	2002	2003	2002	2003
Australia	..	..	..	..
Austria	..	..	..	..
Belgium	..	260	..	11
Canada	..	32	..	4
Denmark	113	15	25	7
Finland	8	..	3	..
France	237	213	11	23
Germany	223	211	26	26
Greece	..	..	..	..
Ireland	..	..	..	..
Italy	165	..	16	..
Japan	41	354	5	48
Luxembourg	..	..	..	..
Netherlands	100	314	7	19
New Zealand	0	..	1	..
Norway	8	142	2	20
Portugal	..	..	..	..
Spain	12	..	1	..
Sweden	..	2	..	2
Switzerland	13	16	3	1
United Kingdom	8	97	1	25
United States	40	..	1	..
EC	..	..	..	..
TOTAL	968	1 656	102	186

Source: Ex ante notification database

Notes: “..” implies no data available.
“0” amounts < US\$ 0.5 million.

8. In the previous Progress Report, Members’ performance in respect of ex ante notification was assessed in relation to a benchmark that was based on the average number of transaction Members had reported to the Credit Reporting System during 1999 – 2001. Thus, the limited number of notifications in 2002 compared to the benchmark in 1999 - 2001 led to the conclusion that Members were not fully adhering to their commitments. However with hindsight, this benchmark takes insufficient account of the recent trend from project aid to budget support, debt forgiveness and other programmes without direct links to procurement.

9. In assessing Members' use of the Bulletin Board it is important to note that the coverage of the Recommendation includes a number of aid categories where thus 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 [Table 2]. Although notification of these offers is required by the Recommendation, it appears that few Members actually submitted their aid offers to the Bulletin Board.

10. Table 2 compares the volume of untied ODA covered by the Recommendation and reported to the Credit Reported System [CRS] in 2002 with the volume of untied aid notified to the Bulletin Board in 2003⁴. This shows that 44 percent of the total volume of ODA covered by the Recommendation was notified in 2003. The main reason for the limited volume of total reported aid being captured by the ex ante notification is that Members notified only 13 percent of *non-procurement related* ODA in 2003.

Table 2. Untied ODA to the LDCs covered by the Recommendation

	Total Untied under Recommendation	Procurement Related	Non-Procurement Related	of which: Major categories of aid		
				Debt forgiveness	Structural Adjustment	Budget Support
CRS *	3 750	1 822	1 928	1 369	150	409
Notifications **	1 656	1 406	250	39	19	192
Coverage (%)	44.2	77.2	12.9	2.8	12.6	46.9

Source: CRS and ex ante notification database

* 2002 reporting in US\$ million.

** 2003 reporting in US\$ million.

11. On the other hand, comparing procurement related aid reported to the CRS with the volume of procurement related aid notified to the Bulletin Board reveals a different picture. Out of a potential US\$ 1.8 billion of procurement related ODA reported, US\$ 1.4 billion or 77 percent was actually notified to the Bulletin Board in 2003. Two years after the entry into force of the Recommendation, this seems to be an acceptable coverage.

IV Bulletin Board effectiveness

12. Belgium, in a letter to the Secretariat⁵, raised a number of issues concerning the effectiveness of the Bulletin Board, which are listed below:

13. Belgium notes that the number of capital good investment project that have been notified since the entry into force of the Recommendation appears to be smaller than the number of projects in this sector prior to the Recommendation. They suggest that this could either have been caused by donors failing to notify their untied capital goods investment projects to the Bulletin Board, or by fewer projects in this sector now that aid has been untied. The last explanation seems to concur with the trend amongst donors to reduce project aid in favour of budget support and recipients using ODA to strengthening social sectors in the context of their poverty reduction strategies.

⁴ Unfortunately, no CRS data are yet available for 2003. However, the ODA covered by the Recommendation has remained relatively stable at US\$ 3.7 billion during the period 1999 – 2002. There are no indications that this would change dramatically in 2003.

⁵ Letter by the Belgium Ministry of Finance, dated 19 - 09 – 2003, concerning follow-up of the DAC Recommendation on untying ODA to the LDCs

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)

14. Belgium pointed out that the information provided in the notifications is not always complete, in particular with respect to bid closing dates. In these cases the Recommendation explicitly provides Members with the possibility to request information on, or clarification of untied aid offers covered by the Recommendation. In order to facilitate these exchanges the Bulletin Board contains a facility to conduct electronic discussions, either bilateral or amongst all Members. Contrary to the Participants to Arrangement on Officially Supported Export Credits, who avail themselves frequently of this facility to obtain clarifications about ambiguities in notifications, this facility has hardly ever been used in the context of the Recommendation.

15. Finally, Belgium raised the issue concerning the criteria on which tenders are awarded. This issue is related to the quality or effectiveness of untied aid. It has been suggested that these and other aid effectiveness issues will be assessed in the context of the regular DAC peer review process [DCD/DAC(2004)6].