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**CONVERGED STATISTICAL REPORTING DIRECTIVES FOR THE CREDITOR REPORTING
SYSTEM (CRS) AND THE ANNUAL DAC QUESTIONNAIRE - ADDENDUM 2**

Annexes - modules D and E

These Converged Directives were approved by the DAC under the written procedure. They supersede the instructions in DCD/DAC(2010)40/REV1 and DCD/DAC(2007)39/FINAL; annexes are presented in two separate documents DCD/DAC(2013)15/ADD1/FINAL and DCD/DAC(2013)15/ADD2/FINAL.

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ANNEXES – MODULES D & E

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**MODULE D. GRANT ELEMENT AND
DAC RECOMMENDATIONS**

Annex 14. Grant element formulas and examples

The DAC has addressed the question of financial terms of ODA through a series of terms recommendations. The first dates from 1963 and the most recent, still valid, from 1978. In brief, the 1978 Terms Recommendation urged members to extend their ODA commitments with an average annual grant element of at least 86% overall. An additional, more demanding target was set for aid to Least Developed Countries (at least 86 per cent over three years for each country, or 90 per cent annually for the group). members' compliance with the Recommendation is assessed each year in the Statistical Annex of the Development Co-operation Report.

The grant element reflects the financial terms of a transaction: interest rate, maturity (interval to final repayment) and grace period (interval to first repayment of capital). It is a measure of the concessionality (softness) of a loan. It is calculated as the difference between the face value of a loan and the discounted present value of the service payments the borrower will make over the lifetime of the loan, expressed as a percentage of the face value.

Background:

The extent of concessionality can be measured either as the benefit to the borrower, or the opportunity cost to the lender. Both benefit and opportunity cost depend on the interest rate and duration of the loan. In a benefit calculation, concessionality would be calculated from the difference between the interest charged and the market rate of interest which the borrower would otherwise have had to pay. In an opportunity cost calculation, concessionality may be calculated from the difference between the interest charged and the return that the lender could otherwise have expected from the next most profitable means of investing the capital. DAC statistics generally measure costs to donors, and consideration of typical opportunity costs incurred at diverting resources from domestic investments to aid played an important part in determining a reference rate of interest for calculating grant elements. For practical purposes this was set as 10%.

Grant element formula and examples

The formulas below apply to three particular types of repayment: equal principal payments, annuity or lump sum repayment. In all other cases, the grant element calculation is based on the repayment schedule (see examples).

1. FORMULAS

Variables entering in the formulas:

M	= Maturity
G	= Grace period
A	= Number of repayments per year
INT	= Interval between the commitment date and the first repayment date minus the interval between two successive repayments = $G - 1/A$
DR	= Repayment duration = $M - INT$
I	= Discount rate (10% = 0.1)
R1	= Interest rate during grace period
R2	= Interest rate during repayment period
D	= Discount rate per period = $(1+I)^{(1/A)} - 1$
NR	= Total number of repayments = $A * DR$
C1	= $(1+I)^{INT}$
C2	= $(1+I)^{DR}$
GE	= Grant element

- **Equal principal payments**

General formula

$$GE = 100 * (1 - ZG - ZM - ZX)$$

where

$$ZG = R1 * (1 - 1/C1) / (A * D)$$

$$ZM = (1/NR) * (1/C1) * ((1 - 1/C2) / D)$$

$$ZX = (R2 / (A * NR)) * (1/C1) * ((1/C2) - 1 + D * NR) / (D * D)$$

Simplified formula when the interest rate is the same for the whole period: $R1 = R2 = R$

$$\left[1 - \frac{R/A}{D} \right] * \left[1 - \frac{\frac{1}{(1+D)^{A*INT}} - \frac{1}{(1+D)^{A*M}}}{(A*M - A*INT)*D} \right]$$

The first bracket corresponds to the difference between the interest rate and the discount rate; the second bracket takes into account the repayment profile.

- **Annuity**

$$GE = 100*(1-ZG-ZX)$$

where

$$ZG = R1 * (1 - 1/C1) / (A * D)$$

$$ZM = 1 / ((1 + R2/A)^{NR} - 1) + 1$$

$$ZX = (R2/A) * ZM * (1/C1) * ((1 - 1/C2) / D)$$

- **Lump sum repayment (principal and interest)**

$$GE = 100 * (1 - (1 + R2*G) / (1+I)^M)$$

2. EXAMPLES

A loan of 1000 units is committed and disbursed on 1 January 2001. Its duration is 10 years, and the interest rate is 2.5% p.a. The examples below cover the following repayment options:

- *Example 1:* 16 six-monthly repayments starting on 1 July 2003, the first eight of 75 units, the next six of 60 units and the last two of 20 units;
- *Example 2:* Equal principal repayments by six-monthly instalments, commencing on 1 July 2003;
- *Example 3:* Annuities: equal six-monthly repayments (principal and interest combined), commencing on 1 July 2003;
- *Example 4:* Single lump sum repayment of principal and interest on 1 July 2011.

In the first three options, it is assumed that interest only is paid six-monthly from 1 January 2001 to 30 June 2003.

Applying the formulas

The variables take the following values:

M	= 10
G	= 2.5
A	= 2
INT	= 2
DR	= 8
I	= 0.1
R1	= 0.025
R2	= 0.025

Applying the formulas leads to the following results:

- *Example 1*: not applicable (see below for calculation on the basis of the repayment schedule)
- *Example 2*: equal principal payments **GE = 32.4 %**
- *Example 3*: annuity **GE = 32.9 %**
- *Example 4*: lump sum repayment (principal and interest) **GE = 51.8 %**

Calculation on the basis of the repayment schedules

- *Example 1*

Date payment due	Period (p)	Principal outstanding	Future payments			Six-month factor at 10% p.a. (1.10) ^p	Present value of future payments
			Principal	Interest	Total		
01/01/2001							
01/07/2001	0.5	1000.0		12.5	12.5	1.05	11.9
01/01/2002	1	1000.0		12.5	12.5	1.10	11.4
01/07/2002	1.5	1000.0		12.5	12.5	1.15	10.8
01/01/2003	2	1000.0		12.5	12.5	1.21	10.3
01/07/2003	2.5	1000.0	75.0	12.5	87.5	1.27	68.9
01/01/2004	3	925.0	75.0	11.6	86.6	1.33	65.0
01/07/2004	3.5	850.0	75.0	10.6	85.6	1.40	61.3
01/01/2005	4	775.0	75.0	9.7	84.7	1.46	57.8
01/07/2005	4.5	700.0	75.0	8.8	83.8	1.54	54.5
01/01/2006	5	625.0	75.0	7.8	82.8	1.61	51.4
01/07/2006	5.5	550.0	75.0	6.9	81.9	1.69	48.5
01/01/2007	6	475.0	75.0	5.9	80.9	1.77	45.7
01/07/2007	6.5	400.0	60.0	5.0	65.0	1.86	35.0
01/01/2008	7	340.0	60.0	4.3	64.3	1.95	33.0
01/07/2008	7.5	280.0	60.0	3.5	63.5	2.04	31.1
01/01/2009	8	220.0	60.0	2.8	62.8	2.14	29.3
01/07/2009	8.5	160.0	60.0	2.0	62.0	2.25	27.6
01/01/2010	9	100.0	60.0	1.3	61.3	2.36	26.0
01/07/2010	9.5	40.0	20.0	0.5	20.5	2.47	8.3
01/01/2011	10	20.0	20.0	0.3	20.3	2.59	7.8
							sum = 695.7

$$GE = (1000 - 695.68)/1000 = \mathbf{30.4 \%}$$

- *Example 2: Equal principal payments*

	Date payment due	Period (p)	Principal outstanding	Future payments			Six-month factor at 10% p.a. (1.10) ^p	Present value of future payments
				Principal	Interest	Total		
Grace	01/01/2001							
	01/07/2001	0.5	1000.0		12.5	12.5	1.05	11.9
	01/01/2002	1	1000.0		12.5	12.5	1.10	11.4
	01/07/2002	1.5	1000.0		12.5	12.5	1.15	10.8
	01/01/2003	2	1000.0		12.5	12.5	1.21	10.3
	01/07/2003	2.5	1000.0		12.5	12.5	1.27	9.8
	01/01/2004	3	937.5	62.5	11.7	74.2	1.33	55.8
	01/07/2004	3.5	875.0	62.5	10.9	73.4	1.40	52.6
	01/01/2005	4	812.5	62.5	10.2	72.7	1.46	49.6
	01/07/2005	4.5	750.0	62.5	9.4	71.9	1.54	46.8
Maturity	01/01/2006	5	687.5	62.5	8.6	71.1	1.61	44.1
	01/07/2006	5.5	625.0	62.5	7.8	70.3	1.69	41.6
	01/01/2007	6	562.5	62.5	7.0	69.5	1.77	39.2
	01/07/2007	6.5	500.0	62.5	6.3	68.8	1.86	37.0
	01/01/2008	7	437.5	62.5	5.5	68.0	1.95	34.9
	01/07/2008	7.5	375.0	62.5	4.7	67.2	2.04	32.9
	01/01/2009	8	312.5	62.5	3.9	66.4	2.14	31.0
	01/07/2009	8.5	250.0	62.5	3.1	65.6	2.25	29.2
	01/01/2010	9	187.5	62.5	2.3	64.8	2.36	27.5
	01/07/2010	9.5	125.0	62.5	1.6	64.1	2.47	25.9
01/01/2011	10	62.5	62.5	0.8	63.3	2.59	24.4	
								sum = 676.1

$$GE = (1000 - 676.1)/1000 = 32.4 \%$$

- *Example 3: Annuity*

Date payment due	Period (p)	Principal outstanding	Future payments			Six-month factor at 10% p.a. (1.10) ^p	Present value of future payments	
			Principal	Interest	Total			
01/01/2001								
01/07/2001	0.5	1000.0		12.5	12.5	1.05	11.9	
01/01/2002	1	1000.0		12.5	12.5	1.10	11.4	
01/07/2002	1.5	1000.0		12.5	12.5	1.15	10.8	
01/01/2003	2	1000.0		12.5	12.5	1.21	10.3	
01/07/2003	2.5	1000.0	56.8	12.5	69.3	1.27	54.6	
01/01/2004	3	943.2	57.6	11.8	69.3	1.33	52.1	
01/07/2004	3.5	885.6	58.3	11.1	69.3	1.40	49.7	
01/01/2005	4	827.3	59.0	10.3	69.3	1.46	47.4	
01/07/2005	4.5	768.3	59.7	9.6	69.3	1.54	45.2	
01/01/2006	5	708.6	60.5	8.9	69.3	1.61	43.1	
01/07/2006	5.5	648.1	61.2	8.1	69.3	1.69	41.1	
01/01/2007	6	586.8	62.0	7.3	69.3	1.77	39.1	
01/07/2007	6.5	524.8	62.8	6.6	69.3	1.86	37.3	
01/01/2008	7	462.0	63.6	5.8	69.3	1.95	35.6	
01/07/2008	7.5	398.5	64.4	5.0	69.3	2.04	33.9	
01/01/2009	8	334.1	65.2	4.2	69.3	2.14	32.4	
01/07/2009	8.5	268.9	66.0	3.4	69.3	2.25	30.8	
01/01/2010	9	202.9	66.8	2.5	69.3	2.36	29.4	
01/07/2010	9.5	136.1	67.6	1.7	69.3	2.47	28.0	
01/01/2011	10	68.5	68.5	0.9	69.3	2.59	26.7	
								sum = 670.9

$$GE = (1000 - 670.9)/1000 = 32.9 \%$$

- *Example 4: Lump sum repayment (principal and interest)*

Date payment due	Period (p)	Principal outstanding	Future payments			Six-month factor at 10% p.a.(1.10) ^p	Present value of future payments
			Principal	Interest	Total		
01/01/2001							
01/07/2001	0.5	1000				1.05	
01/01/2002	1	1000				1.10	
01/07/2002	1.5	1000				1.15	
01/01/2003	2	1000				1.21	
01/07/2003	2.5	1000				1.27	
01/01/2004	3	1000				1.33	
01/07/2004	3.5	1000				1.40	
01/01/2005	4	1000				1.46	
01/07/2005	4.5	1000				1.54	
01/01/2006	5	1000				1.61	
01/07/2006	5.5	1000				1.69	
01/01/2007	6	1000				1.77	
01/07/2007	6.5	1000				1.86	
01/01/2008	7	1000				1.95	
01/07/2008	7.5	1000				2.04	
01/01/2009	8	1000				2.14	
01/07/2009	8.5	1000				2.25	
01/01/2010	9	1000				2.36	
01/07/2010	9.5	1000				2.47	
01/01/2011	10	1000	1000	250	1250	2.59	481.9

$$GE = (1000 - 481.9)/1000 = 51.8 \%$$

- *Reporting "Other" type of repayment: example form*

Reporting country	CRS Identification Number	Compilation date (DD/MM/YYYY)	Currency in which amounts reported	Date payment due		Estimated future payments	
				Month	Year	Principal	Interest
	991045	31/12/1999		6	2005	2500	525
	991045	31/12/1999		12	2005	2500	499
	991045	31/12/1999		6	2006	2500	472
	991045	31/12/1999		12	2006	2500	446

	991045	31/12/1999		6	2009	2500	315
	991045	31/12/1999		12	2009	2500	289
	991045	31/12/1999		6	2010	416	263
	991045	31/12/1999		12	2010	416	258
	991045	31/12/1999		6	2011	416	254
	991045	31/12/1999		12	2011	416	249

	991045	31/12/1999		6	2019	416	184
	991045	31/12/1999		12	2019	416	180
	991045	31/12/1999		6	2020	417	175
	991045	31/12/1999		12	2020	417	171
	991045	31/12/1999		6	2021	417	166
	991045	31/12/1999		12	2021	417	162

	991045	31/12/1999		6	2039	417	9
	991045	31/12/1999		12	2039	417	4

See Annex 13 for list of codes

See Annex 13 for list of codes

Annex 15. Recommendation on Terms and Conditions of Aid (1978)

(See the 1978 DAC Chair Report on Development Co-operation)

PREAMBLE

The Development Assistance Committee, having reviewed the Recommendation on Terms and Conditions of Aid adopted by the DAC at its High Level Meeting on 16th to 18th October, 1972,

Approving the progress made towards fulfilling or surpassing the objectives set out in this Recommendation, and noting the favourable average terms of aid provided by DAC Members as a group,

Recognising the desirability for further improvement in the financial terms of Members' programmes of Official Development Assistance, considered not only as a whole but also in their application to the specific needs of individual developing countries,

Reaffirming that equal attention must also be given to the provision of an adequate and sustained volume of Official Development Assistance,

Recognising that the continuing differences in the terms provided by Member countries impair the spirit of the common effort and render more difficult the maintenance of the most liberal standards of terms,

Bearing in mind the special needs of the least-developed countries,

Renewing its resolve to seek appropriate ways and means of advancing towards untying national aid programmes and urging its Members in the meantime to mitigate as much as possible the adverse effects of aid tying,

Adopts - one country having reserved its position¹ - the following Recommendation which supersedes that of 1972:

I. Coverage of the Terms Objectives

1. The objectives of this Recommendation apply to Official Development Assistance (ODA) commitments, made on and after the 1st of January, 1978. ODA is defined as those 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 tests:

- 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 element² of at least 25 %.

1. Italy lifts its reservation in 1993.

2. "Grant element" is the difference between the face value of a financial loan commitment and the discounted present value (using a 10% discount rate) of the service payments to be made by the borrower during the lifetime of the loan, expressed as a percentage of the face value.

II. Objectives for Financial Terms

2. In order to achieve a further softening of overall financial terms of ODA, Members should endeavour fully to maintain or achieve as soon as possible an average grant element in their ODA commitments of at least 86 per cent. In this connection the special value of grant assistance is recognised.

3. Countries whose ODA commitments as a percentage of GNP are significantly below the DAC average will not be considered as having met the terms target.

III. Recognition of Circumstances of Individual Recipient Countries and Harmonisation of Terms

4. Members should relate the terms of aid on a case-by-case basis to the circumstances of each developing country or group of countries. In particular, Members should provide a substantial part of the assistance given to developing countries with the severest economic problems in the form of grants or on very soft terms. Member countries which already extend a large proportion of their assistance on soft terms, but concentrate it on a limited number of recipients, should aim to grant increasingly soft terms also on their assistance to other recipients whose circumstances also call for soft terms.

5. The Development Assistance Committee will continue to review the current position and prospects regarding the income level, the development performance, the balance of payments, the debt servicing burden, etc. This should assist individual donors in formulating their terms policies and may provide the basis for a common view on the terms appropriate to individual developing countries or group of countries.

6. Members should make concerted efforts to harmonise terms at the level of the recipient country. They should make use of consortia, consultative groups or other concerted aid operations, where these exist, in co-operation as appropriate with the international bodies involved, in order to reach a common view as to the appropriate terms at which assistance should be provided. Where no such co-ordinating arrangements exist, terms harmonisation should be sought through an appropriate form of consultation, the nature of which might be the subject of an exchange of views in the DAC.

7. The absence of harmonisation of donors' aid terms is liable to be particularly harmful to poorer developing countries. In extending aid to such countries Members should not only take account of the circumstances of the country itself but also be guided by the terms of the donors extending their aid at soft terms to that country. Members who hitherto have provided funds on harder terms, should do their best to come as close as possible to the average terms of all bilateral DAC donors to the individual country.

IV. Special Terms for Least-Developed Countries

8. A group of least-developed countries has been identified by the UN for which, apart from any other special measures, the softest possible terms of aid are appropriate. Official Development Assistance to these countries should be essentially in the form of grants and, as a minimum, the average grant element of all commitments from a given donor should either be at least 86 per cent to each least-developed country over a period of three years, or at least 90 per cent annually for the least-developed countries as a group.

9. DAC Members should endeavour fully to extend their ODA commitments to other countries whose needs are the greatest on the best grant element possible.

V. Regular Review of Implementation

10. The achievements of individual Member countries in implementing the agreed objectives set out above will be regularly appraised in the DAC as part of the Aid Reviews. In addition, the DAC will review each year the progress under the various provisions of this Recommendation.

VI. Need for Non-Project Assistance and Local Cost Financing

11. While acknowledging the advantages of the project approach, Members recognise that it is necessary to consider the overall needs of the developing country as well as its balance of payments and other factors, and that it may be appropriate to provide aid to finance general import costs or local costs of development, or both. With respect to local cost financing, Members shall take into account the Guidelines on Local Cost Financing adopted by the DAC on 27th October, 1977.

VII. Review of Other Officially Extended or Supported Flows³

12. The objectives of the Recommendation apply to Official Development Assistance. In addition, however, other officially extended or supported flows are of continued importance as a source of finance. DAC Members, therefore, agree to review more fully, in consultation with other interested Committees of the OECD, their basic approaches to extending such flows to developing countries, and their relationship to aid and development considerations. Further, the DAC will keep itself informed of the incidence of other officially extended or supported flows and their geographic distribution, especially with respect to those developing countries with severe external debt situations.

3. Including officially extended and officially guaranteed private export credits as well as officially guaranteed private foreign investment.

Annex 16. Tied aid disciplines and untying recommendation

- **DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance (1987)**
- **New Measures in the Field of Tied Aid (1992)**
- **Recommendation on Untying Official Development Assistance to Least Developed Countries and Heavily Indebted Poor Countries (2001 and amendments in 2006 and 2008)**

DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance (1987)

(See the 1987 DAC Chair Report on Development Co-operation)

I. Preamble

1. Recognising the need to avoid the risk of distortion of aid and trade, DAC Members undertake to ensure that Associated Financing and Tied and Partially Untied Official Development Assistance will promote priority developmental objectives and are consistent with fair trade competition and to this end adopt the Guiding Principles set out below. Most of these principles constitute good practice for Official Development Assistance generally but they are particularly important where there may be a risk of aid and trade distortion.

II. Definitions

2. *Official Development Assistance* (ODA) is defined as those resources 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 tests:

- It is administered with the promotion of the economic development and welfare of developing countries as its main objective, and
- It is concessional in character and contains a grant element of at least 25 per cent. To calculate the grant element of an ODA transaction, a 10 per cent discount rate is used.

3. *Associated Financing* with developing countries associates in law or in fact two or more of the following:

- Official Development Assistance;
- Other Official Flows with a grant element of at least 25 per cent;
- Officially supported export credits, other official flows or other funds with a grant element of less than 25 per cent.

4. Associated Financing transactions may take various forms -- such as “mixed credit”, “mixed financing”, “joint financing”, “parallel financing” or single integrated transactions. Their main characteristic is that the concessional component is linked in law or in fact to the non-concessional component, that either the non-concessional or the concessional component or the whole financing package is in effect tied or partially untied and that the availability of concessional funds is conditional upon accepting the linked non-concessional component. In determining association or linkage “in fact” due consideration should be given to the existence of informal understandings between the recipient and the donor authority and the intention by the donor through the use of ODA to facilitate the acceptability of a financing package.

5. *Untied Official Development Assistance* is defined as loans or grants which are freely and fully available to finance procurement from substantially all developing countries and from OECD countries. Funds provided to finance the recipient's local costs are also defined as untied. *Partially Untied Official Development Assistance* is defined as loans or grants which are in effect tied to procurement of goods and services from the donor country and from a restricted number of countries which must include substantially all developing countries. For the purposes of these Guiding Principles *Tied Official Development Assistance* is defined as loans or grants which are either in effect tied to procurement of goods and services from the donor country or which are subject to procurement modalities implying limited geographic procurement eligibility other than those described above under Partially Untied.

6. A transaction is defined to be *in effect* tied or partially untied if:

- It is the subject of a formal or informal understanding to that effect between the recipient and the donor country, or
- It involves practices which the Development Assistance Committee and the Participants in the Arrangement on Guidelines for Officially Supported Export Credits may determine to result in such tying or partial untying. In cases of substantial doubt as to whether a certain financing practice falls within the scope of the above definition, the donor country shall furnish evidence in support of any claim that such a practice is untied or partially untied.

7. For a transaction to qualify as untied or partially untied, respectively, the donor has to inform the recipient, at the time of the aid offer, clearly and explicitly of the countries which are eligible for procurement. In accordance with the Memorandum of Understanding on Untying of Bilateral Development Loans in Favour of Procurement in Developing Countries, Members wishing to extend Partially Untied Official Development Assistance will notify the Chairman of the DAC, and through him other DAC Members, of those developing countries which are eligible for procurement.

III. Guiding Principles⁴

8. Members confirm that Associated Financing and Tied and Partially Untied Official Development Assistance should be the subject of greatest possible transparency.

9. Members will continue the mutual ex post examination of individual Associated Financing and Tied and Partially Untied Official Development Assistance transactions.

4. As regards Associated Financing, paragraphs 9 to 17 apply to transactions containing an element of Official Development Assistance.

10. Members will refrain from extending commitments of Associated Financing and Tied and Partially Untied ODA transactions which do not comply with the rules of the Arrangement on Guidelines for Officially-Supported Export Credits set out in the Appendix.^{5 6}

11. Members undertake to confine Associated Financing and Tied and Partially Untied Official Development Assistance to priority projects and programmes which are carefully appraised against developmental standards.

12. In implementation of these principles, Members undertake:

- To establish and make available, during 1987 and subsequently as required, to other DAC Members and the OECD Secretariat the criteria for the selection and design of projects and programmes financed by a) Associated Financing, b) Tied or Partially Untied ODA with a grant element of less than 50 per cent, and c) where different from b) above, Tied or Partially Untied ODA with a grant element of 50 per cent or more, including the exceptional conditions under which ODA is being used for “matching”;
- To conduct thorough ex post evaluations of representative selections of projects and programmes financed by Associated Financing and Tied and Partially Untied ODA, including the effects of tying on development effectiveness, and to make the results of the evaluations available for the regular DAC Associated Financing Reviews;
- In response to a request by Members of the Working Party on Financial Aspects of Development Assistance, to prepare thorough reports on individual projects and programmes financed by Associated Financing or Tied or Partially Untied ODA to determine possible aid or trade distortion. These reports shall be prepared in accordance with criteria established by the Working Party which shall include project selection and appraisal procedures. Such reports shall be prepared promptly after the request has been received and be made available for the regular DAC Associated Financing Reviews;
- A summary of the reports shall be submitted to the next DAC High-Level Meeting following the DAC Associated Financing Review at which they were considered.

13. The following considerations are important in examining the developmental priority of all projects and programmes financed with ODA. Members undertake to pay particular attention, when examining the developmental priority of a project or programme to be financed with Associated Financing or Tied and Partially Untied Official Development Assistance with a grant element of less than 50 per cent to these considerations:

- It is part of investment and public expenditure programmes already approved by the central financial and planning authorities of the recipient country;

5. The Arrangement rules concerning the minimum permissible concessionality level and its calculation affect neither the ODA definition nor the reporting of ODA disbursements and commitments: the threshold for ODA eligibility remains a grant element of 25 per cent, calculated with a discount rate of 10 per cent, and the grant element of ODA commitments continues to be calculated using a 10 per cent discount rate.

6. Associated Financing transactions whose Official Development Assistance component consists solely of technical co-operation are exempted from this rule, provided that the technical co-operation component remains below 3 per cent of the total value of the Associated Financing transaction or below \$1 million, whatever is lower.

- It has been the subject of review and general endorsement in such international aid co-ordination arrangements as may exist;
- It is being co-financed with an international development finance institution;
- Particular care will be applied in the examination of projects where evidence exists that they had been considered and rejected by an international development finance institution or another DAC Member on grounds of low developmental priority.

14. In conformity with the DAC Recommendation on Terms and Conditions of Aid, which stipulates that Members should relate the terms of aid on a case-by-case basis to the circumstances of each developing country or group of countries, Members undertake to tailor also the terms of Associated Financing to the economic situation, stage of development and debt servicing capacity of the recipient country.

15. In line with this general principle, to the extent that Associated Financing or Tied or Partially Untied ODA is provided to Least Developed Countries (as defined by the United Nations), Members will ensure that the transaction takes place on favourable terms. Members undertake to restrain the use of Tied and Partially Untied ODA and of ODA for Associated Financing in case of stronger developing countries, both as a proportion of the total ODA programme and, subject to paragraph 10, for individual transactions, apart from technical co-operation.

16. Members reconfirm the importance of the “Good Procurement Practices for Official Development Assistance” approved by the DAC and the undertakings contained therein.

17. In order to ensure full transparency in the proposed use of Associated Financing and Tied and Partially Untied Official Development Assistance, especially prior to contract decisions, Members will use the system of contact points in their administrations actively and respond fully and promptly to requests for information by other Members on aid offers for particular projects.

IV. Statistical Reporting Requirements

18. Members reaffirm their commitments to comply fully and promptly with the standard requirements of the Creditor Reporting System which includes Associated Financing and Tied and Partially Untied Official Development Assistance. In particular, Members will notify within two months of the signature date of the grant or loan agreement (specifying amounts, financial terms, tying status and purpose):

- Individual ODA grants and loans, specifying those used for Associated Financing;
- Individual OOF (“Other Official Flows”) grants and loans, specifying those used in Associated Financing; and
- Individual officially supported export credits used in Associated Financing.

Under the Creditor Reporting System, reporting of technical co-operation grants is voluntary unless they are used in Associated Financing. Low value grants (less than \$10 000) may be grouped for individual recipients.

V. Review and Appraisal

19. Members agree to review periodically, through the DAC Working Party on Financial Aspects of Development Assistance, their policies and practices concerning Associated Financing and Tied and

Partially Untied ODA against the Guiding Principles set out above. Members will provide information on policies and procedures as required for the review and will inform the DAC of any significant new policies adopted in this area. The Guiding Principles themselves will be the subject of review in the light of experience.

VI. Co-operation with the OECD Group on Export Credits and Credit Guarantees and with the Participants in the Export Credit Arrangement

20. The DAC Working Party on Financial Aspects of Development Assistance will follow closely relevant work of the Group on Export Credits and Credit Guarantees of the Trade Committee and the Participants in the Arrangement on Guidelines for Officially Supported Export Credits and co-operate with these Groups as required.

Appendix

First Stage

- a) The minimum concessionality level for tied and partially untied aid credits to Least Developed Countries will be increased to 50 per cent.

The minimum concessionality level for tied and partially untied aid credits to all other developing countries will be increased to 30 per cent.

- b) The discount rate for calculating the concessionality level will be related to the commercial interest reference rates (CIRR) for each currency and will be calculated as follows:

$$\text{CIRR} + 1/2 (10 - \text{CIRR})$$

- c) These measures will enter into force on 15th July 1987.

Second stage

- a) The minimum concessionality level for tied and partially untied aid credits will be increased to 35 per cent for developing countries other than Least Developed Countries.

- b) The discount rate for calculating the concessionality level will be calculated as follows:

$$\text{CIRR} + 1/4 (10 - \text{CIRR})$$

- c) The interest rate subsidies for importing countries in Category I of the matrix will be abolished. The matrix interest rates for importing countries in Categories II and III will be increased by 30 basis points.

- d) These measures will enter into force on 15th July 1988.

New Measures in the Field of Tied Aid (1992)

(See the Development Assistance Manual: DAC Principles for Effective Aid)

OECD Members are agreed on the following general principles

1. Policies for export credit and aid credit should be complementary: those for export credits should be based on open competition and the free play of market forces and those for tied aid credits should provide needed external resources to countries, sectors or projects with little or no access to market financing, ensure best value for money and minimise trade distortion and contribute to developmentally effective use of these resources.

Member countries of the Development Assistance Committee

- reaffirming the DAC Revised Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance of 1987 as well as the DAC Principles for Project Appraisal of 1988;

acknowledging the valuable role of untied aid for the development of recipient countries' economies and societies as well as for minimising trade distortions and thus encouraging each other to provide aid in this form wherever possible;

- recognising the importance of managing tied aid in a way that ensures obtaining best value for money and minimising trade distortion;
- emphasising the advantages of international competitive bidding for obtaining best value for money and minimising trade distortion;

Undertake to implement the following new measures:

I. Large projects

2. In respect of large projects with a value of more than SDR 50 million, financed by tied aid⁷ credits, with the exception of credits which according to the rules and definitions of the Arrangement on Guidelines for Officially Supported Export Credits have a concessionality level⁸ of 80 per cent or above, and consistent with the rules of the Arrangement on mandatory consultations in case of projects larger than SDR 50 million, the DAC agreed to the following:

Mutual appraisal

3. The principles for mutual appraisal set out below constitute good practice for all large projects but they are particularly important for tied aid credits where there may be a risk of aid and trade distortion.

7. Tied aid includes associated financing, tied ODA and partially untied ODA. For the purpose of this provision, technical co-operation, humanitarian and disaster relief action are excluded from tied aid. Untied ODA is defined as loans and grants which are freely and fully available to finance procurement from substantially all developing countries and from OECD countries. For transactions to qualify as untied or partially untied, respectively, the donor has to inform the recipient at the time of the aid offer, clearly and explicitly, of the countries which are eligible for procurement.

8. The Arrangement rules and definitions concerning the calculation of the concessionality level are used at the stage of notification of tied aid transactions. They do not affect the DAC ODA definition nor the reporting of ODA disbursements and commitments.

4. DAC Member countries recognise the value of the participation by the World Bank Group in the preparation and financing of large projects.

5. Where the World Bank Group does not participate, interested donors will seek to agree to co-ordinate with the World Bank, also using where appropriate contacts at local level, to ensure that the project is consistent with the objectives of the dialogue between it and the recipient government concerning policies and resource allocation in the sector concerned.

6. They also agree to co-ordinate with the recipient country and each other on project preparation and appraisal work, including a joint review of the project prior to finally committing aid funds, in keeping with the DAC Principles for Project Appraisal and the Checklist for Developmental Quality of Aid-Financed Projects which is based on these Principles (the Checklist is produced in the publication "Development Assistance Manual: DAC Principles for Effective Aid", paragraphs 444 to 452).

7. DAC Member countries will develop procedures which will facilitate such collaboration, including at the field level, among themselves and between them, the World Bank Group and the recipient country. These procedures should ensure also co-ordination with financing from untied sources.

Appropriate financing terms

8. Interested donors will consult, together with the recipient authorities, with a view to agreeing appropriate financing terms for a large project consistent with the economic situation of the recipient country concerned. However, donors would not be expected to harden the terms at which they normally extend assistance to the country concerned.

International competitive bidding

9. Offers of aid for large projects should be subject to the recipient authorities undertaking arrangements for international competitive bidding (ICB) in accordance with internationally accepted practice.⁹

10. Contracts financed by tied aid credits should be awarded to the lowest evaluated bidder, concerning both price and technical factors, before taking into account the financing terms. However, it is recognised that seriously resource-constrained poor countries, in awarding a contract, may need to take into account the availability of financial resources at concessional terms, provided the award goes to a supplier which ranked second or third in bid evaluation for price and quality or where the price margin is reasonable.

II. Limitations on use of tied aid credits

11. DAC Member countries recognise the importance for development of the productive sectors and economic infrastructure and of appropriate market oriented pricing policies. However, for projects in these areas market financing is often appropriate and available, especially in stronger developing countries. Official development assistance is therefore preferably used for other areas.

12. For these reasons, and consistent with the rules of the Arrangement, DAC Member countries will limit the extension of tied aid credits as follows, with the exception of credits with a value of less than SDR 2 million or which according to Arrangement rules and definitions have a concessionality level of 80 per cent or above or unless otherwise agreed under the provisions of the Arrangement.

9. DAC Members agreed Good Procurement Practices for Official Development Assistance in 1986, which include "Minimum Conditions for Effective International Competitive Bidding", and possible exceptions from ICB.

- a) Tied aid credits, except for credits to Least Developed Countries, shall not be extended to public and private projects that normally should be commercially viable if financed on market or Arrangement terms.

The key tests for such aid eligibility are:

- is the project financially non-viable, i.e. does it lack capacity with appropriate pricing determined on market principles, to generate cash flow sufficient to cover the project's operating costs and to service the capital employed; or
- is it reasonable to conclude, based on communications with other participants, that it is unlikely that the project can be financed on market or Arrangement terms?

The above tests are intended to describe how a project should be evaluated to test whether it should be financed with such aid or with export credits. Through the consultation process, a body of experience is expected to develop over time that will more precisely define, for both export credit and aid agencies, ex ante guidance as to the line between the two categories of projects.

- b) There shall be no tied aid credits to countries whose per capita GNP would make them ineligible for 17 or 20 year loans from the World Bank.¹⁰ If such credits which according to Arrangement rules and definitions have a concessionality level of 80 per cent or above are extended to these countries, they might be used mainly for exceptional balance-of-payments support and for financing of projects in such areas as the social field, environment, good governance and emergency aid.

13. The DAC recognises the importance of all the provisions in the Arrangement; in case of consultations, DAC Member countries will co-operate with Participants.

III. Further work

14. Member countries agree to pursue work in the following areas:

- a) monitor Member countries' compliance with the new measures above, as well as with the DAC Guiding Principles for Associated Financing and Tied and Partially Untied ODA;
- b) work on a more precise definition on tied ODA and monitor Member countries' practices in the use of tied ODA;
- c) work on a more precise definition of untied and partially untied ODA and monitor Member countries' practices, including procurement results, and work further towards greater use of untied ODA;
- d) harmonise and improve further definitions and procedures contained in the Good Procurement Practices for Official Development Assistance;

10. Currently GNP/capita over \$2 465 in 1990. A country will only be moved to, or from, this income category after its World Bank income category has remained unchanged for two consecutive years. The list of countries in this category is subject to automatic, annual revision. Notwithstanding classifications of countries ineligible or eligible to receive tied aid, tied aid policy for Bulgaria, CSFR, Hungary, Poland and Romania is covered by the Participants' agreement, as long as such agreement is in force, to try to avoid such credits other than outright grants, food aid and humanitarian aid. The OECD Ministers endorsed this policy in June 1991.

- e) monitor Member countries' ODA terms performance, with particular emphasis on terms for tied aid, including associated financing;
- f) the DAC will take stock of progress made in the above areas by the end of 1993.

DAC Recommendation on Untying ODA to the Least Developed Countries and Heavily Indebted Poor Countries

[25 April 2001 – DCD/DAC(2001)12/FINAL] amended on [15 March 2006 – DCD/DAC(2006)25 & DCD/DAC/M(2006)3/FINAL] and [25 July 2008 – DCD/DAC(2007)41/REV1 & DCD/DAC/M(2008)5]

I. Objectives and Principles

1. Members of the OECD's Development Assistance Committee (DAC) agree to the objective of untying their bilateral official development assistance (ODA) to the Least Developed Countries (LDCs) and Highly Indebted Poor Countries (HIPCs) as a means to:

- foster co-ordinated, efficient and effective partnerships with developing countries;
- strengthen the ownership and responsibility of partner countries in the development process;
- demonstrate responsiveness to the requests from partner countries and others to increase the use of untied aid in order to promote aid effectiveness; and
- contribute to broader efforts with partner countries to promote their integration into the global economy.

2. This Recommendation reflects the results of discussions in the DAC to respond to the Mandate provided at its 1998 High Level Meeting (see Appendix III), and the decision in principle by the DAC of 21 May 2008 to extend the coverage of this Recommendation to include the non-LDC HIPCs, to introduce provisions inviting non-DAC donors to untie their aid in parallel with DAC members and inviting those responsible for procurement to promote respect for internationally agreed principles of corporate social and environmental responsibility. The shared intentions of DAC members are to:

- untie their ODA to the LDCs and HIPCs to the greatest extent possible;
- promote and sustain adequate flows of ODA in terms of quality, volume and direction, in particular to the LDCs and HIPCs and ensure that ODA to these countries will not decline over time as a result of the implementation of this Recommendation;
- achieve balanced efforts among DAC members.

3. The report "Shaping the 21st Century: the Contribution of Development Co-operation", set out the relative dependence of LDCs on aid and their relative need for accelerated progress towards the International Development Goals. However, HIPCs not part of the LDC group are also aid dependent and need to make progress towards these same goals. Therefore, this initiative aims to capture, for all these countries, the benefits of open procurement markets.

4. In promoting the above objectives, DAC members consider that reinforcing partner country responsibility for procurement, with appropriate guarantees for effectiveness, accountability, probity and transparency is intrinsic to this initiative. Similarly, promoting local and regional procurement in partner countries is a shared goal. DAC members will work with partner countries to identify needs and to support efforts in both areas.

5. This Recommendation does not restrict the prerogative of DAC members to untie ODA to a greater extent than set out herein. DAC members are invited to continue to provide untied ODA in areas not covered by the Recommendation when they already do so, and to study the possibilities of extending untied aid in such areas. Neither does this Recommendation pre-empt positions that DAC members may take in discussions on related issues in other fora.

6. Promoting effort-sharing among members is an integral part of this Recommendation. Variations in the structures and geographical orientations of members' aid programmes, together with the coverage provisions of this Recommendation, can result in sizeable differences in the extent to which their ODA to the LDCs and HIPC's is presently untied, and in respect of their aid performance in these countries more generally.

7. This Recommendation sets out objectives, principles and procedures for DAC members untying aid in order to increase the effectiveness of that aid. In a global market for procuring aid funded goods, services and works, these good practices have a broader applicability and interest beyond DAC members and have reference for all other countries providing aid to the developing countries. Accordingly, non DAC donors are also invited to consider the provisions concerning untied aid set out in this Recommendation and to take them into the fullest account possible in their aid relations with developing countries.

II. Implementation

a) Coverage

8. Untying is a complex process. Different approaches are required for different categories of ODA, and actions by members to implement the Recommendation will vary in coverage and timing. Bearing this in mind, DAC members will untie their ODA to the LDCs and HIPC's to the greatest extent possible and in accordance with the criteria and procedures set out in this Recommendation:

- i) DAC members agree to untie, ODA -- to the Least Developed Countries by 1 January 2002, and to non-LDC Heavily Indebted Poor Countries by 1 October 2008 -- in the following areas: 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.
- ii) In respect of investment-related technical co-operation and free-standing technical co-operation, it is recognised that DAC members' policies may be guided by the importance of maintaining a basic sense of national involvement in donor countries alongside the objective of calling upon partner countries' expertise, bearing in mind the objectives and principles of this Recommendation. Free-standing technical co-operation is excluded from the coverage of the Recommendation.
- iii) In respect of food aid, it is recognised that DAC members' policies may be guided by the discussions and agreements in other international fora governing the provision of food aid, bearing in mind the objectives and principles of this Recommendation.

b) Effort-Sharing

9. Promoting a more balanced effort-sharing among members is a necessary process. Pursuant to paragraphs 2, 5, and 6 of this Recommendation, members agree to undertake their best endeavours to identify and implement supplementary effort-sharing actions in accordance with the mechanism set out below.

Mechanism

10. To this end, members should apply the following reference indicators matrix and procedures:

- Reference indicators matrix

11. The situations of members and their evolution over time with respect to initial positions and reference points will be set out in a reference indicators matrix (see Appendix I). The elements of this matrix will be used in conjunction with member performance profiles (see below) to monitor and assess the progress made by DAC members towards more balanced effort-sharing.

- Member performance profiles

12. Members will prepare annual country profiles setting out their positions in respect of the reference indicators matrix and, on that basis, identify initial and medium-term supplementary actions to promote effort-sharing. Peer review of these profiles by the DAC will be used to help members identify and undertake supplementary actions in furtherance of a more balanced effort-sharing in respect of the reference indicators matrix.

13. The implementation of this part of the Recommendation will be assessed as part of the annual reports covering all aspects of this Recommendation. These reports will be considered by the DAC High Level Meeting, which may recommend further actions, as well as in the peer reviews of individual members' development co-operation policies. An overall review of the effort-sharing mechanism and procedures will be conducted in 2009. On the basis of the DAC's assessment of the progress of members towards a more balanced effort-sharing, this part of the Recommendation will be open to review with the objective of improving members' performance towards a more balanced effort-sharing.

c) Procurement regime

14. The procurement of goods and services covered by this Recommendation should follow the DAC's Good Procurement Practices.

15. In conducting procurement of aid-supported goods and services, and in partnership with developing countries, DAC members should apply relevant commitments and guidance such as:

- The 1996 DAC Recommendation on Anti-Corruption Proposals for Aid-Funded Procurement;
- The 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

16. Those responsible for procurement should promote respect from suppliers with agreed international standards of corporate social and environmental behaviour. This could be done through reference to environmental and social considerations in tendering procedures.

d) Transparency

17. For untied aid offers covered by this Recommendation, DAC members should, and in collaboration with developing country partners as appropriate, provide or ensure ex ante notification. This provision does not apply to activities with a value of less than SDR 700 000 (SDR 130 000 in case of investment-related technical co-operation).

18. DAC members should respond promptly and fully to requests by other members for further information on, or clarification concerning untied aid offers covered by this Recommendation.

19. DAC members should ensure that the DAC will be provided with information on contract awards pertaining to the untied aid offers covered by this Recommendation.

e) Derogation

20. For individual aid offers, DAC members may, in exceptional circumstances, take measures inconsistent with the terms of this Recommendation, in situations where they believe it to be justified on the basis of overriding, non-trade related, development interests. Derogations are to be justified in a letter to the Secretary-General of the OECD and to the DAC Chair and will be followed up in review procedures.

f) Monitoring and evaluation

21. The DAC will monitor all aspects of this Recommendation through a combination of different mechanisms:

- Annual reports covering all aspects of the Recommendation, as well as the experience in delivering its objectives. These reports, which will be reviewed by the DAC in time for its annual High Level Meeting, will, *inter alia*:
 - assess the impact of the Recommendation on the volume, quality and directions of ODA flows;
 - set out members' policies in respect of investment-related technical co-operation and food aid;
 - review the implementation of this Recommendation with respect to promoting effort-sharing among members in accordance with the mechanism set out in section II b above;
 - review DAC members' procurement practices and patterns for untied aid offers;
 - assess progress towards strengthening partner countries' local procurement capacities and improving the access of partner countries' enterprises to aid funded procurement;
 - address, in addition to the provisions for bilateral consultations set out above, specific concerns that may be raised by individual DAC members in respect of the Recommendation.
- The annual reports will also provide input for the peer reviews of individual DAC member's development co-operation programmes.
- A comprehensive evaluation of its implementation and impact will be carried out by the High Level Meeting in 2009. This evaluation will also pay particular attention to the implementation of this Recommendation with respect to achieving a balance of efforts among DAC members and promoting and sustaining ODA flows to the LDCs and HIPC.
- A review of the extension of the coverage of the Recommendation to non-LDC HIPC will be undertaken before 1 October 2013. A DAC member may decide, after that date, to use tied aid as

part of its ODA to a non-LDC HIPC, in which case it is required to notify the country/ies concerned and the DAC Chair of its decision to do so.

22. DAC members will work with stakeholders, particularly developing country partners, to ensure the Recommendation delivers its objectives.

Appendix I

Operational Procedures and Understandings

23. This Appendix forms an integral part of the Recommendation on untying ODA to the Least Developed Countries and Heavily Indebted Poor Countries. It details, where necessary, provisions concerning operational procedures and understandings related to the coverage and implementation of this Recommendation.

I. Definitions and coverage

24. Untied ODA refers to loans or grants which are freely and fully available to finance procurement from substantially all aid recipient countries and from OECD countries. Members which have rules of origin, or minimum national content rules, should take any steps necessary to ensure that ODA untied in accordance with this Recommendation is both *de jure* and *de facto* untied.

25. This Recommendation applies to DAC members' bilateral ODA to the LDCs and HIPC. The list of these countries (as may be periodically modified respectively by the United Nations and the World Bank and IMF) is set out in Appendix II.

26. Definitions of the ODA categories addressed in this Recommendation are as set out in the DAC's Statistical Reporting Directives. Further work will be undertaken as a matter of priority to operationalise the definitions of investment-related technical co-operation (including its component activities) and food aid to ensure an effective implementation of the Recommendation.

Commercial services contracts

27. For the purposes of this Recommendation, commercial services contracts are defined as contracts let on a commercial basis to a company for the running or management of a utility or distribution network.

ODA provided for NGO activities

28. ODA provided for NGO activities is covered by this Recommendation only to the extent that NGOs are involved in procurement-related activities included in its coverage. Grants for the core support of development NGOs or their programmes are excluded.

Management services arrangements

29. Management services arrangements (i.e. "technical co-operation" provided by donors primarily for the purpose of carrying out the administration of their own aid projects and programmes) are excluded from the coverage of this Recommendation.

II. Transparency

30. DAC members recognise that efforts to promote partner country responsibility for procurement are intrinsic to this untying initiative. In situations where partner countries have responsibility for conducting procurement, some of the information requirements set out below may be available in the first instance from partner countries or their procurement agents. Members should report in a timely manner the information required by the following provisions, or should work effectively with partner countries to do so.

i) Ex ante notification

31. Untied aid offers covered by this Recommendation which are above SDR 700,000 or SDR 130,000 in case of investment related technical co-operation, are to be notified *ex ante*. These notifications should include the following information:

- Notifying member, agency and contact point;
- Recipient country;
- Project description;
- Sector/activity and DAC purpose code;
- Project value (in donor currency and SDR);
- Bidding period (start and closing dates);
- Procurement regime (if not International Competitive Bidding, state regime and justification);
- Details of agency responsible for procurement and from which further information or details (e.g. bidding periods, procurement regime, bidding documentation) can be requested,

and all other information that the Member deems appropriate.

32. Notifications should be made to the Secretariat not less than 30 calendar days prior to the opening of the bidding period.

33. Bidding periods should ensure sufficient time to all suppliers to prepare and submit bids, while taking account of the circumstances of the procurement agent. Bearing this in mind, bidding periods should normally be not less than 45 calendar days, except for large projects (with a value of, or exceeding, SDR 50 million), where bidding periods should normally be not less than 90 calendar days.

34. Notifications should be made available to DAC members and to potential suppliers through the DAC's Internet bulletin board. DAC members may also, in addition, wish to use their own facilities to publicise the aid offers contained in notifications.

ii) Exchange of information procedures

35. DAC members which have received an enquiry from another member concerning individual untied aid offers covered by this Recommendation should respond promptly (i.e. within 14 calendar days) and fully, providing all information relevant to the request, including information concerning donor financing of services related to the design and implementation of the notified project. Such enquiries and responses should use electronic means of communication. The DAC members concerned should, together, take all possible steps to clarify or resolve issues arising.

36. Where that latter is not possible, a DAC member may, if it so wishes, broaden the initial bilateral exchange of information to other DAC members, in order to solicit views on issues pertaining to the implementation of the Recommendation.

37. The periodic reviews of the implementation of the Recommendation will also address experience with these procedures.

iii) Information on contract awards

38. DAC members should provide the Secretariat with information on contract awards pertaining to individual *ex ante* notifications. This information should include the name, address and country of incorporation of the firm awarded the contract (or the prime contractor, where a syndicate of firms is concerned). The above information should be provided on an annual basis and be reviewed in the context of the overall review procedures.

39. For activities with a value of less than SDR 700 000 or SDR 130 000 in case of investment related technical co-operation DAC members should provide the Secretariat with annual aggregated overviews of the number and value of contract awards in their country, in other OECD Member countries, in developing countries and in least developed countries.

III. Reference Indicators Matrix

Members' positions¹	Reference point	Index²
I. Bilateral LDC-HIPC ODA untying ratio	0.60	
II. Effort-sharing composite indicator ³	0.04	

1. 5-year average.

2. Members' positions as ratios of reference points.

3. Calculated according to standing DAC practices, pending future work on the definition of multilateral ODA and its tying status, as follows: (bilateral LDC-HIPC ODA/GNI times bilateral LDC-HIPC untying ratio) + multilateral LDC-HIPC ODA/GNI. The presentation of the composite indicator and the reference indicators matrix more generally, will set out in full their component elements.

Appendix II

Least Developed Countries (as at 1 January 2008)

Afghanistan; Angola; Bangladesh; Benin; Bhutan; Burkina Faso; Burundi; Cambodia; Central African Republic; Chad; Comoros; Congo, Dem. Rep.; Djibouti; Equatorial Guinea; Eritrea; Ethiopia; Gambia; Guinea; Guinea-Bissau; Haiti; Kiribati; Laos; Lesotho; Liberia; Madagascar; Malawi; Maldives; Mali; Mauritania; Mozambique; Myanmar; Nepal; Niger; Rwanda; Samoa; São Tomé and Príncipe; Senegal; Sierra Leone; Solomon Islands; Somalia; Sudan; Tanzania; Timor-Leste; Togo; Tuvalu; Uganda; Vanuatu; Yemen; Zambia.

Non LDC, Heavily Indebted Poor Countries (as at 1 January 2008)

Bolivia; Cameroon; Côte d'Ivoire; Ghana; Guyana; Honduras; Nicaragua; Republic of Congo.

Appendix III

Aid Procurement Liberalisation: 1998 DAC HLM Mandate

40. HLM participants mandate the Working Party on Financial Aspects to work on a Recommendation on untying ODA to the Least Developed Countries (LDCs), including the relevant implementation issues, with a view to presenting a proposed text to the HLM in 1999. A status report should be presented to the Senior Level Meeting (SLM) of the DAC in December 1998.

41. Participants recognised that in order to arrive at an agreed text, the following issues, in particular, will have to be satisfactorily addressed:

- The need for effective donor co-ordination and partnerships with developing countries that reflect responsiveness, efficiency and effectiveness of development co-operation.
- Assessment of potential effects on the quality, volume and direction of ODA flows.
- Helping develop the capacities of the private sector and procurement systems in partner countries.
- The importance of maintaining a basic sense of national involvement in donor countries (especially in certain forms of technical co-operation) alongside the objective of calling upon partner countries' expertise.
- The need to take into account differences in the structures and starting points of members' programmes with respect to volume, ODA/GNP ratio, distribution and existing untying of aid.
- Initiatives to enlist the understanding and involvement of the business community in Member countries and promote wide public information and support.
- The impact of further procurement liberalisation on regional arrangements such as the Lomé Convention.
- Thorough examination of the modalities involved in the untying initiative, including:

- appropriate procurement modalities (including safeguards against corruption);
- manageable thresholds, coverage and exclusions (including with respect to technical co-operation and promotion of procurement from local and regional sources in developing partner countries);
- definitions and reporting arrangements on the tying status of ODA;
- mechanisms for confidence building and transparency, including provision of relevant statistical information;
- monitoring and peer review.

MODULE E. POLICY OBJECTIVES

Annex 17: Policy markers

Reporting on the Policy Objectives of Aid: The DAC policy marker system

1. The marker system facilitates monitoring and co-ordination of members' activities in support of DAC policy objectives for aid, including key elements of the Millennium Development Goals (MDGs). These cover the areas of economic well-being, social development, environment sustainability and regeneration and democratic accountability, protection of human rights and the rule of law.
2. Some of the MDGs are clearly sector-focused (e.g. universal primary education, reduction of maternal mortality rate), and the CRS sector classification gives the necessary detail to collect data on aid activities in these fields. Certain aspects of environmental sustainability can likewise be captured through purpose codes (e.g. specific activities for environmental policy and planning, biosphere protection, biodiversity conservation and hazardous waste management). However, activities across all economic sectors can be targeted to environmental sustainability. Gender equality measures are applied in various sectors. To identify these activities, the following markers have been defined: **gender equality, aid to environment, and participatory development/good governance (PD/GG)**.
3. In addition, to satisfy donors' needs for transparency with regard to their "Aid for Trade" and to provide the Millennium Development Goal indicator relating to trade capacity building (of which trade development is a part), the **trade development** marker identifies trade development within the "building productive capacity" category.
4. A large majority of activities targeting the objectives of the Rio Conventions – United Nations Convention on Biological Diversity, United Nations Framework Convention on Climate Change, United Nations Convention to Combat Desertification – fall under the DAC definition of "aid to environment". Four Rio markers permit their specific identification: **biodiversity, climate change mitigation, climate change adaptation, and desertification**.
5. Policy marker data are **descriptive** rather than quantitative. The system allows for the identification of activities targeted to a policy objective. It gives information on the degree to which members implement the agreed policies in their aid programmes.

Reporting directives

6. Data collection on the policy objectives of aid is based on a marking system with three values:
 - principal objective;
 - significant objective;
 - not targeted to the policy objective.
7. **Principal** (primary) policy objectives are those which can be identified as being fundamental in the design and impact of the activity and which are an explicit objective of the activity. They may be selected by answering the question "would the activity have been undertaken without this objective?".
8. **Significant** (secondary) policy objectives are those which, although important, are not one of the principal reasons for undertaking the activity.

9. The score **not targeted** means that the activity has been screened against, but was found not be targeted to, the policy objective.

10. An activity can have more than one principal or significant policy objective. To qualify for a score “principal” or “significant”, the objective has to be explicitly promoted in project documentation. Avoiding negative impact is not a sufficient criterion.

11. It is important to note that the same activity could score differently depending on the level of focus on the policy objective - it is important to examine whether the policy is the main objective or a subsidiary objective.

12. For data processing purposes, the scores are given numeric values: “2” for principal, “1” for significant and “0” for not targeted. An **empty** field indicates that the activity has not been marked (not screened against the objective).

Coverage

13. Policy objective markers except Rio markers should be applied to all bilateral aid excluding administrative costs. In other words, they will cover both sector-allocable and non sector-allocable aid. Similarly, they cover all forms of aid (e.g. investment projects, technical co-operation).

14. Rio markers should be applied to all bilateral ODA excluding general budget support (type of aid A01), imputed student costs (E02), debt relief (F01) except debt swaps, administrative costs (G01), development awareness (H01) and refugees in donor countries (H02). They should also be applied to non-export credit OOF though this is not mandatory.

Definitions

15. The definitions are given below.

GENDER EQUALITY

DEFINITION

An activity should be classified as gender equality focused (score Principal or Significant) if:

It is intended to advance gender equality and women's empowerment or reduce discrimination and inequalities based on sex.

CRITERIA FOR ELIGIBILITY

Gender equality is explicitly promoted in activity documentation through specific measures which:

- a) Reduce social, economic or political power inequalities between women and men, girls and boys, ensure that women benefit equally with men from the activity, or compensate for past discrimination; **or**
- b) Develop or strengthen gender equality or anti-discrimination policies, legislation or institutions.

This approach requires analysing gender inequalities either separately or as an integral part of agencies' standard procedures.

See also FAQ on gender analysis in the Appendix.

EXAMPLES OF TYPICAL ACTIVITIES

- Examples of activities that could be marked as **principal** objective:
 - legal literacy for women and girls;
 - male networks against gender violence;
 - a social safety net project which focuses specifically on assisting women and girls as a particularly disadvantaged group in a society;
 - capacity building of Ministries of Finance and Planning to incorporate gender equality objectives in national poverty reduction or comparable strategies.

Such activities can target women specifically, men specifically or both women and men.

- Examples of activities that could be marked as **significant** objective:
 - activity which has as its principal objective to provide drinking water to a district or community while at the same time ensuring that women and girls have safe and easy access to the facilities;
 - a social safety net project which focuses on the community as a whole and ensures that women and girls benefit equally with men and boys.

See FAQs in the Appendix for further examples.

N.B. Support to women's equality organisations and institutions (CRS sector code 15170) scores, by definition, **principal** objective.

Appendix

GENDER EQUALITY: FREQUENTLY ASKED QUESTIONS

FAQ 1. What is gender analysis?

Gender analysis examines the differences in men's and women's lives, including those that lead to social and economic inequalities and applies this understanding to programme and policy development and to service delivery.

Gender analysis should lead to the inclusion of explicit measures in the activity design which:

- incorporate gender specific strategies in the activity budget;
- overcome barriers to women's full participation in the activity;
- ensure that women and men have equitable control over the activity;
- ensure that women and men, girls and boys benefit equitably from the activity's results;
- use gender specific and/or sex-disaggregated indicators, including impact indicators, for monitoring and evaluation.

FAQ 2. Is qualifying for a marker for gender equality as a principal objective "better" than qualifying as a significant objective?

No, if mainstreaming is systematically practised, gender equality will often be a significant objective, integrated into projects, across the range of sectors. A principal mark is given where the activity would *not* have been undertaken *without* a gender equality objective.

The following two approaches to an agricultural extension project distinguish between principal and significant marks:

- *The gender analysis shows that the majority of farmers in a particular area are women who have been neglected by extension services. An agricultural extension project aims to hire and train substantial numbers of women to increase women's access to extension services. This project would be marked with gender equality as a **principal objective** (i.e. "2").*
- *An agricultural extension project is planned with the aim of increasing crop production in a particular area. During the pre-design phase a gender analysis pointed to the need to carry out specific actions to involve and empower women-headed households. Alongside other measures and as part of the overall project, a specific lending and credit facility was established for them to purchase agricultural inputs such as pesticides or fertilisers. This project would be marked with gender equality as a **significant objective** (i.e. "1").*

Note that a *gender mainstreaming project* would be marked with gender equality as a **principal objective** (i.e. "2").

FAQ 3. Should activities that target women or girls specifically be assigned the gender equality marker?

Mostly "yes" but not necessarily - the marker focuses on gender equality as an objective rather than on women or girls as a target group. Therefore the scoring follows the same principles of the definition and the list of eligibility criteria.

Examples of activities that target women and that are not gender equality focused:

- *Women targeted to plant tree seedlings for the purpose of reforestation without economic or any other benefit for them;*
- *Women targeted for repairing roads because men are not available (migrant labourers). By contrast, if the project also involves women in community planning, it would be considered as gender equality focused.*

FAQ 4. Are maternal health clinics focussed on gender equality by definition?

Yes, as they improve the status of women by providing health care services responding to their needs.

- *The project would be marked with gender equality as a **significant objective** (i.e. “1”) if services are limited to safe motherhood without an empowerment perspective.*
- *The project would be marked with gender equality as a **principal objective** (i.e. “2”) if the maternal health clinic provides also information and services which strengthen women’s reproductive rights.*

FAQ 5. Can activities that target men and boys specifically be assigned the gender equality marker?

Yes. Each of the examples listed below addresses inequalities between men and women, boys and girls:

- *Training for male judges or police officers on women’s human rights;*
- *Male adolescents who receive training in sexual and reproductive rights;*
- *Men’s groups who meet for activities to combat violence against women.*

FAQ 6. Can the gender equality marker apply to capital projects as well?

Yes.

Example

- *The construction of a school respects the special needs of girls regarding hygiene, privacy, and safety by building toilets for boys and girls in separated areas.*

FAQ 7. When to use the CRS purpose code “15170 – Women’s equality organisations and institutions”?

The use of purpose code 15170 is restricted to the reporting of contributions to these organisations. Any other activity targeted to gender equality should be coded under the relevant CRS purpose code, and marked for gender equality. A women’s equality programme with several dimensions should also be marked for gender equality, and be either coded under the purpose code best summarising the overall objective of the programme, or split into several main components each of which is reported under relevant purpose codes.

Examples

- *Support for an association of women’s lawyers should be coded under “15130 – Legal and judicial development” and marked for gender equality.*

- *Multisectoral approach: a programme addressing gender based violence which includes policing, legislative reforms, care, social welfare and support for non governmental organisations should be either reported as a whole under e.g. “15160 – Human rights” or it should be split into components e.g. “15130 – Legal and judicial development”, “16010 – Social/welfare services”, etc. and marked for gender equality.*

FAQ 8. What is the distinction between the value “0” and the value “blank”?

The gender equality marker, as other markers, can take three values: “0” for not targeted, “1” for significant and “2” for principal. However, the “0” value can be assigned only to activities that have been screened against the gender equality marker, and that were found as not targeted to the objective.

For activities that have not been screened, the “0” value should not be used, but the marker field should be left empty. This way, there is no confusion between activities that do not target the objective (marker =“0”), and activities for which the answer is not known (marker=”null”).

AID TO ENVIRONMENT	
<p>DEFINITION</p> <p>An activity should be classified as environment-oriented (score Principal or Significant) if:</p>	<p>a) It is intended to produce an improvement, or something that is diagnosed as an improvement, in the physical and/or biological environment of the recipient country, area or target group concerned; or</p> <p>b) It includes specific action to integrate environmental concerns with a range of development objectives through institution building and/or capacity development.</p>
<p>CRITERIA FOR ELIGIBILITY</p>	<p>a) The objective is explicitly promoted in activity documentation; and</p> <p>b) The activity contains specific measures to protect or enhance the physical and/or biological environment it affects, or to remedy existing environmental damage; or</p> <p>c) The activity contains specific measures to develop or strengthen environmental policies, legislation and administration or other organisations responsible for environmental protection.</p>
<p>EXAMPLES OF TYPICAL ACTIVITIES</p> <p>The list is not exhaustive. The activities may be scored against the objective only if the above criteria for eligibility are fulfilled.</p>	<ul style="list-style-type: none"> – Social infrastructure and services: Water resources protection; water resources policies and water management that take into account environmental and socio-economic constraints, sanitation or waste management practices that bring environmental benefits. – Economic infrastructure and services: Infrastructure projects designed with comprehensive and integrated environmental protection and management components; activities promoting sustainable use of energy resources (power generation from renewable sources of energy); energy conservation. – Production sectors: Sustainable management of agricultural land and water resources; sustainable forest management programmes, combating land degradation and deforestation; sustainable management of sea resources; adoption and promotion of cleaner and more efficient technologies in production processes; measures to suppress or reduce pollution in land, water and air (e.g. filters); increasing energy efficiency in industries; sustainable use of sensitive environmental areas for tourism. (Sustainable natural resources management is a combination of management practices that have been planned and selected on the basis of interdisciplinary and participatory assessment of ecological, social and economic impacts of alternative management options, and resolution of possible conflicts or disputes concerning the significance and acceptability of the impacts of the proposed management alternatives.)

N.B. Activities that can be assigned the sector code “**general environmental protection**” i.e. environmental policy and administrative management, biosphere protection, bio-diversity, site preservation, flood prevention/control, environmental education/training, environmental research **score**, by definition, **principal** objective.

PARTICIPATORY DEVELOPMENT/GOOD GOVERNANCE (PD/GG)

DEFINITION

An activity should be classified as PD/GG-oriented (score Principal or Significant) if:

It is intended to enhance elements of participatory development, democratisation, good governance and the respect of human rights.

CRITERIA FOR ELIGIBILITY

(a) The objectives are explicitly promoted in activity documentation; **and**
 (b) The activity contains specific measures to promote one or several of the PD/GG aspects defined as follows:

- Participatory development, i.e. establishing new systems, structures or institutions through which groups, communities or people in a country can play an active and influential role in shaping decisions that affect their lives.
- Democratisation, which integrates participation and pluralism, including the right of opposition, into the political life of the country and provides a basis for legitimacy of the government.
- Good governance, i.e. the accountability, efficiency, and effectiveness of the official sector, an independent judiciary as well as the rule of law, and effective, responsible and equitable administration at all levels of government.
- Human rights, i.e. actions specifically designed to strengthen the respect for, and to facilitate the implementation of, internationally agreed human rights.

EXAMPLES OF TYPICAL ACTIVITIES

The list is not exhaustive. The activities may be scored against the objective only if the above criteria for eligibility are fulfilled.

- Civil service reform; support to labour unions, workers' education programmes, combating child labour; support to police forces, customs.
- Education and training programmes; decentralisation programmes.

NB: Activities that can be assigned one of the following sector codes score, by definition, principal objective: public finance management (CRS sector code 15111), decentralisation and support to subnational government (15112), anti-corruption organisations and institutions (15113), legal and judicial development (15130), democratic participation and civil society (15150), elections (15151), legislatures and political parties (15152), media and free flow of information (15153), human rights (15160), security system management and reform (15210), civilian peace-building, conflict prevention and resolution (15220), participation in international peacekeeping operations (15230), reintegration and SALW control (15240), child soldiers (prevention and demobilisation) (15261).

TRADE DEVELOPMENT	
<p>DEFINITION</p> <p>An activity should be classified as trade development-oriented (score Principal or Significant) if:</p>	<p>It is intended to enhance the ability of the recipient country to:</p> <p>a) formulate and implement a trade development strategy and create an enabling environment for increasing the volume and value-added of exports, diversifying export products and markets and increasing foreign investment to generate jobs and trade; or</p> <p>b) stimulate trade by domestic firms and encourage investment in trade-oriented industries.</p>
<p>CRITERIA FOR ELIGIBILITY</p>	<p>a) The objective is explicitly promoted in activity documentation; and</p> <p>b) The activity contains specific measures to promote one or several of the trade development aspects below, at the institutional and enterprise level:</p> <ul style="list-style-type: none"> - business support services and institutions; - access to trade finance; - trade promotion and market development in the production and service sectors.
<p>EXAMPLES OF TYPICAL ACTIVITIES</p>	<ul style="list-style-type: none"> - Business support services and institutions: establishment of business partnerships; investment climate assessments; assisting exporters in developing countries in locating potential importers worldwide; training package providing tools and materials regarding operational legal aspects of e-commerce. - Trade finance: Feasibility study on a pilot export development fund, innovative trade-related finance for SMEs. - Production and service sectors: support to fruit and vegetable marketing; increase the international competitiveness of SMEs active in textile and clothing sector, through increase of their productivity.

N.B. The trade development marker is not defined to cover all aspects of “Aid for Trade”. It is restricted to activities recorded under codes 240xx Banking and financial services, 25010 Business support services and institutions (score principal by definition), 311xx Agriculture, 312xx Forestry, 313xx Fishing, 321xx Industry, 322xx Mineral resources and mining and 33210 Tourism. Other components of “Aid for Trade” are captured separately through a number of sector codes.

Annex 18. Rio markers

AID TARGETING THE OBJECTIVES OF THE CONVENTION ON BIOLOGICAL DIVERSITY	
DEFINITION An activity should be classified as bio-diversity-related (score Principal or Significant) if:	It promotes at least one of the three objectives of the Convention: the conservation of bio-diversity, sustainable use of its components (ecosystems, species or genetic resources), or fair and equitable sharing of the benefits of the utilisation of genetic resources.
CRITERIA FOR ELIGIBILITY	<p>The activity contributes to</p> <ol style="list-style-type: none"> protection or enhancing ecosystems, species or genetic resources through in-situ or ex-situ conservation, or remedying existing environmental damage; or integration of bio-diversity and ecosystem services concerns within recipient countries' development objectives and economic decision making, through institution building, capacity development, strengthening the regulatory and policy framework, or research; or developing countries' efforts to meet their obligations under the Convention <p>The activity will score "principal objective" if it directly and explicitly aims to achieve one or more of the above three criteria.</p>
EXAMPLES OF TYPICAL ACTIVITIES	
1. Typical activities take place in the sectors of:	
<i>Water and sanitation</i> <i>Agriculture</i> <i>Forestry</i> <i>Fishing</i> <i>Tourism</i>	<ul style="list-style-type: none"> Integration of biological diversity concerns into sectoral policy, planning and programmes; e.g. <ul style="list-style-type: none"> Water resources protection and rehabilitation; integrated watershed, catchment and river basin protection and management; Sustainable agricultural and farming practices including substitution of damaging uses and extractions by out-of-area plantations, alternative cultivation or equivalent substances; integrated pest management strategies; soil conservation; in-situ conservation of genetic resources; alternative livelihoods; Combating deforestation and land degradation while maintaining or enhancing biodiversity in the affected areas; Promotion of sustainable marine, coastal and inland fishing; Sustainable use of sensitive environmental areas for tourism.
2. Typical non-sector specific activities are:	
<i>Environmental policy and administrative management</i> <i>Biosphere and bio-diversity protection</i> <i>Environmental education/training</i> <i>Environmental research</i>	<ul style="list-style-type: none"> Preparation of national bio-diversity plans, strategies and programmes; bio-diversity inventories and assessments; development of legislation and regulations to protect threatened species; development of incentives, impact assessments, and policy and legislation on equitable access to the benefits of genetic resources. Establishment of protected areas, environmentally oriented zoning, land use and regional development planning. Protecting endangered or vulnerable species and their habitats, e.g. by promoting traditional animal husbandry or formerly cultivated/collected plants or ex-situ conservation (e.g. seed banks, zoological gardens). Capacity building in taxonomy, bio-diversity assessment and information management of biodiversity data; education, training and awareness-raising on bio-diversity. Research on ecological, socio-economic and policy issues related to bio-diversity, including research on and application of knowledge of indigenous people. Supporting development and use of approaches, methods and tools for assessment, valuation and sustaining of ecosystem services.
N.B. Biodiversity (CRS sector code 41030) scores, by definition, principal objective .	

AID TARGETING THE OBJECTIVES OF THE FRAMEWORK CONVENTION ON CLIMATE CHANGE

Climate change mitigation

<p>DEFINITION An activity should be classified as climate-change-mitigation related (score Principal or Significant) if:</p> <p>CRITERIA FOR ELIGIBILITY</p> <p>EXAMPLES OF TYPICAL ACTIVITIES</p> <p>1. Typical activities take place in the sectors of: <i>Water and sanitation</i> <i>Transport</i> <i>Energy</i> <i>Agriculture</i> <i>Forestry</i> <i>Industry</i></p> <p>2. Typical non-sector specific activities are: <i>Environmental policy and administrative management</i> <i>Biosphere protection</i> <i>Biodiversity</i> <i>Env. education/training</i> <i>Environmental research</i></p>	<p>It contributes to the objective of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration.</p> <p>The activity contributes to</p> <ol style="list-style-type: none"> a) the mitigation of climate change by limiting anthropogenic emissions of GHGs, including gases regulated by the Montreal Protocol; or b) the protection and/or enhancement of GHG sinks and reservoirs; or c) the integration of climate change concerns with the recipient countries' development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research; or d) developing countries' efforts to meet their obligations under the Convention. <p>The activity will score "principal objective" if it directly and explicitly aims to achieve one or more of the above four criteria.</p> <ul style="list-style-type: none"> • GHG emission reductions or stabilisation in the energy, transport, industry and agricultural sectors through application of new and renewable forms of energy, measures to improve the energy efficiency of existing generators, machines and equipment, or demand side management. • Methane emission reductions through waste management or sewage treatment. • Development, transfer and promotion of technologies and know-how as well as building of capacities that control, reduce or prevent anthropogenic emissions of GHGs, in particular in waste management, transport, energy, agriculture and industry. • Protection and enhancement of sinks and reservoirs of GHGs through sustainable forest management, afforestation and reforestation, rehabilitation of areas affected by drought and desertification. • Protection and enhancement of sinks and reservoirs through sustainable management and conservation of oceans and other marine and coastal ecosystems, wetlands, wilderness areas and other ecosystems. • Preparation of national inventories of greenhouse gases (emissions by sources and removals by sinks); climate change related policy and economic analysis and instruments, including national plans to mitigate climate change; development of climate-change-related legislation; climate technology needs surveys and assessments; institutional capacity building. • Education, training and public awareness related to climate change. • Climate-change-mitigation related research and monitoring. • Oceanographic and atmospheric research and monitoring.
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AID TARGETING THE OBJECTIVES OF THE FRAMEWORK CONVENTION ON CLIMATE CHANGE
Climate Change Adaptation

<p>DEFINITION</p> <p>An activity should be classified as adaptation-related (score Principal or Significant) if:</p>	<p>It intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience.</p> <p>This encompasses a range of activities from information and knowledge generation, to capacity development, planning and the implementation of climate change adaptation actions.</p>
<p>CRITERIA FOR ELIGIBILITY</p> <p>An activity is eligible for the climate change adaptation marker if:</p>	<p>a) the climate change adaptation objective is explicitly indicated in the activity documentation; and</p> <p>b) the activity contains specific measures targeting the definition above.</p> <p>Carrying out a climate change adaptation analysis, either separately or as an integral part of agencies' standard procedures, facilitates this approach.</p>
<p>EXAMPLES OF TYPICAL ACTIVITIES</p> <p>1. Examples of typical enabling activities for adaptation</p> <p><i>Environmental policy and administrative management (sector 41010)</i></p> <p><i>Environmental education / training (sector 41081)</i></p> <p><i>Environmental research (sector 41082)</i></p> <p>2. Examples of typical sectoral activities</p> <p><i>Health (Sector 120)</i></p> <p><i>Water and sanitation (Sector 140)</i></p> <p><i>Agriculture (Sector 311)</i></p> <p><i>Forestry (Sector 312)</i></p> <p><i>Fishing (Sector 313)</i></p> <p><i>Flood prevention/control (Sector 41050 - under General environmental protection)</i></p> <p><i>Disaster prevention and preparedness (Sector 740)</i></p>	<p><i>The list is not exhaustive. The activities may be scored against the objective only if the above criteria for eligibility are fulfilled.</i></p> <ul style="list-style-type: none"> • Supporting the integration of climate change adaptation into national and international policy, plans and programmes. • Improving regulations and legislation to provide incentives to adapt. • Education, training and public awareness raising related to the causes and impacts of climate change and the role of adaptation. • Adaptation-related climate research including meteorological and hydrological observation and forecasting, impact and vulnerability assessments, early warning systems, etc. • Implementing measures to control malaria in areas threatened by increased incidence of diseases due to climate change. • Promoting water conservation in areas where enhanced water stress due to climate change is anticipated. • Promoting heat and drought resistant crops and water saving irrigation methods to withstand climate change. • Promoting a diverse mix of forest management practices and species to provide a buffer against uncertainties of climate change. • Promoting changes in fishing practices to adapt to changes in stocks and target species. Introducing flexibility in the gear that is used, the species that are fished, the fishing areas to be managed, and the allocations that are harvested. • Implementing measures for flood prevention and management such as watershed management, reforestation or wetland restoration. • Developing emergency prevention and preparedness measures including insurance schemes to cope with potential climatic disasters. • Implementing measures to respond to glacial lake outburst flood risk, such as the creation or improvement of early warning systems and widening or deepening of glacial lake outlet channels.

AID TARGETING THE OBJECTIVES OF THE CONVENTION TO COMBAT DESERTIFICATION	
DEFINITION An activity should be classified as desertification-related (score Principal or Significant) if:	<p>It aims at combating desertification or mitigating the effects of drought in arid, semi arid and dry sub-humid areas through prevention and/or reduction of land degradation, rehabilitation of partly degraded land, or reclamation of desertified land.</p>
CRITERIA FOR ELIGIBILITY	<p>The activity contributes to</p> <ol style="list-style-type: none"> a) protecting or enhancing dryland ecosystems or remedying existing environmental damage; or b) integration of desertification concerns with recipient countries' development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research; or c) developing countries' efforts to meet their obligations under the Convention. <p>The activity will score "principal objective" if it directly and explicitly relates to one or more of the above criteria, including in the context of the realisation of national, sub-regional or regional action programmes.</p>
EXAMPLES OF TYPICAL ACTIVITIES 1. Typical activities take place in the sectors of: <i>Water and sanitation</i> <i>Agriculture</i> <i>Forestry</i>	<ul style="list-style-type: none"> • Integration of action to combat desertification and land degradation into sectoral policy, planning and programmes (e.g. agricultural and rural development policy, plans and programmes); <ul style="list-style-type: none"> • Rehabilitation of land, vegetation cover, forests and water resources, conservation and sustainable management of land and water resources; • Sustainable irrigation for both crops and livestock to reduce pressure on threatened land; alternative livelihood projects; • Development and transfer of environmentally sound traditional and local technologies, knowledge, know-how and practices to combat desertification, e.g. methods of conserving water, wood (for fuel or construction) and soil in dry areas.
2. Typical non-sector specific activities are: <i>Environmental policy and administrative management</i> <i>Env. education/training</i> <i>Environmental research</i>	<ul style="list-style-type: none"> • Preparation of strategies and action programmes to combat desertification and mitigate the effects of drought; establishment of drought early warning systems; strengthening of drought preparedness and management; observation and assessment of CCD implementation, including monitoring and evaluation of impact indicators; • Measures to promote the participation of affected populations in planning and implementing sustainable resource management or improving security of land tenure; • Support for population/migration policies to reduce population pressure on land; • Capacity building in desertification monitoring and assessment; education, training and public awareness programmes related to desertification and land degradation; • Research on desertification and land degradation.

Background information on the Rio Conventions

CONVENTION ON BIOLOGICAL DIVERSITY (CBD) [HTTP://WWW.BIODIV.ORG/](http://www.biodiv.org/)

A. Key terms and Concepts

1. **Biological diversity** refers to the number and variety of living organisms on the planet. It is defined in terms of genes, species, and ecosystems which are the outcome of over 3,000 million years of evolution. To date, an estimated 1.7 million species have been identified. The exact number of the Earth's existing species, however, is still unknown. Estimates vary from a low of 5 million to a high of 100 million.

2. **Species extinction** is a natural part of the evolutionary process. However, species and ecosystems are more threatened by human activities than ever before in recorded history. The losses are taking place all over the world, primarily in tropical forests -- where 50 - 90 per cent of identified species live -- as well as in rivers and lakes, deserts and temperate forests, and on mountains and islands. The most recent estimates predict that some two to eight per cent of the Earth's species will disappear over the next 25 years. **Species extinction therefore has important implications for economic and social development.** At least 40 per cent of the world's economy and 80 per cent of the needs of the poor are derived from biological resources. In addition, the richer the diversity of life, the greater the opportunity for medical discoveries, economic development, and adaptive responses to such new challenges as climate change.

3. **Main causes of species extinction** include deforestation -whether accidental or due to the conversion of forests to other uses, such as mono-crop agriculture, and land degradation due to pollution, drought, and over-exploitation. Main causes of marine biodiversity loss include pollution and over-harvesting of marine species (corals, fish etc). The degradation or conversion of wetlands is an important cause of biodiversity loss. The deliberate or accidental introduction of foreign species is another cause of species extinction.

B. Key features of the Convention

4. The **Biodiversity Convention** aims towards the conservation of biological diversity, the sustainable use of its components and the fair and equitable sharing of the benefits arising out of the utilisation of genetic resources. It addresses all aspects of biological diversity: genetic resources, species, and ecosystems. It also recognises the need to reconcile conservation and socio-economic development needs. Parties are thus requested to develop or adapt national strategies, plans or programmes for the conservation and sustainable use of biological diversity and to integrate the conservation and sustainable use of biological diversity into relevant sectoral or cross-sectoral plans, programmes and policies.

5. Means to support developing countries implement the Convention include scientific and technical co-operation, access to financial and genetic resources, and the transfer of ecologically sound technologies.

6. To this end, the Convention provides for a financial “mechanism” (the GEF) and a subsidiary body on scientific, technical and technological advice.

7. A “**Clearing House for Technical and Scientific Co-operation**” is also established to provide a means for identifying and disseminating information relevant to the implementation of the Convention. This includes providing data for decision-making; supporting access to existing knowledge, generating

new knowledge and more generally to promote technical and scientific communication and avoid duplication of efforts.

8. The Conferences of the Parties have defined “**Thematic Work Programmes**” on **Coastal Biodiversity, Forests, Freshwater, Agricultural Biodiversity, Traditional Knowledge, and Biosafety**. These “work programmes” outline the priorities for implementation of the Convention, each related to a specific ecosystem or theme. Each work programme also identifies specific areas where research is required in support of implementation objectives. [In the forest area, for example, these include the relationship between forest biodiversity and forest products and services; the impact of climate change on biodiversity, especially related to forests, and research on indigenous knowledge of conservation of forest resources].

C. Examples of activities to conserve biodiversity (see also the marker’s definition sheet)

Direct measures: In -situ Conservation

- Protection of ecosystems and natural habitats; development of legislation for the protection of threatened species and populations.
- Rehabilitation of degraded ecosystems; support to local populations to develop and implement remedial action in degraded areas.
- Controlling risks associated with biotechnology (living modified organisms).
- Sustainable wildlife management.
- Identification of components of biological diversity important for its conservation and sustainable use; monitoring these components through sampling and other techniques (including databases).
- Identification and promotion indigenous knowledge related to biodiversity use and conservation, and Assistance for indigenous group to participate in relevant meetings at national and international levels. Support for developing countries’ participation in the expert-level discussions held to clarify the key technical and scientific issues relevant to the implementation of the Convention.

Direct measures: Ex-situ conservation

- Establishment and maintenance of ex-situ conservation facilities in developing countries (e.g. botanical gardens, gene banks etc).
- Establishment of facilities for ex-situ research on, plants, animals and micro-organisms.
- Assistance related to the Clearing House Mechanism: access to relevant scientific information networks and databases, including notably through Internet and capacity development in relevant disciplines.
- Support for improved access to or transfer of technologies that are relevant to the conservation and sustainable use of biological diversity or make use of genetic resources.

Capacity development and enabling environment

Integration of biodiversity in national planning and policy making

- Identification of processes and activities which have, or are likely to have, a significant adverse impact on the conservation and sustainable use of biological diversity; systematic environmental impact assessments.
- Development of appropriate legislative frameworks, for example in the area of biosafety.

Education, training, research

- Legislative, administrative and policy measures on access to genetic resources for environmentally sound uses;
- Facilitate access to, and transfer of technology.
- Capacity to identify, acquire, develop and apply necessary technologies to ensure sustainable use of biological resources; and to comply with reporting requirements.
- Exchange of information relevant to the conservation and sustainable use of biological diversity.
- Establishment of national assessment and monitoring systems and assistance for technical and policy-formulation efforts relevant to each of the “thematic work programmes”.

UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE (UNFCCC)

<http://www.unfccc.int>

A. Key Terms and Concepts

1. **Climate change** is due to increasing concentrations of certain gases in the atmosphere. There are many uncertainties about the scale and impacts of climate change. Because of the delaying effect of the oceans in absorbing or emitting GreenHouse Gases (GHGs), surface temperatures do not respond immediately. However, the balance of the evidence suggests that the climate may have already started to change.

2. **GHGs** control the flow of natural energy through the atmosphere by absorbing infrared radiation. The overall concentration of GHGs in the atmosphere depends on the balance between the release of GHG into the atmosphere and their re-absorption back from the atmosphere. Principal GHGs include Carbon Dioxide, Methane, Nitrous Oxide, a range of artificial chemicals (CFCs, HCFCs and Sulphur Hexafluoride)¹¹, Ozone. While many GHGs are released by natural processes, human activities contribute to the build-up of GHG in the atmosphere by releasing GHGs (anthropogenic GHG sources) and by interfering with natural GHG “sinks”.

3. **GHG sources** are processes that lead to the release of GHGs into the atmosphere. Examples include burning fossil fuels and cattle raising. **GHG sinks** remove GHGs from the atmosphere. For example, a growing tree takes carbon dioxide from the atmosphere, uses the carbon to create wooden matter, and releases oxygen. (This is called photosynthesis.) Converting a forest to other uses stops this “sink” function. Because considerable amounts of carbon are captured in the sub-soil, land degradation leads to the emission of carbon back into the atmosphere.

4. **Carbon dioxide** (CO₂) is produced when fossil fuels are used (e.g. coal, petroleum) to generate energy¹² and when forests are converted to other uses. These are probably the first and second largest sources of GHGs emissions from human activities. **Methane** (CH₄) and **Nitrous Oxide** (N₂O) are emitted from agricultural activities, changes in land use and the decomposition of organic wastes in landfills. Extracting, processing, transporting, and distributing fossil fuels also release greenhouse gases. This happens when natural gas is flared or vented from oil wells, emitting mostly carbon dioxide and methane, respectively but also from accidents, poor maintenance, and small leaks in well heads, pipe fittings, and

11 . Although they are important greenhouse gases, CFCs and HCFCs are better known for their role in damaging the earth's ozone layer. Their production is regulated by another treaty, the Montreal Protocol. Hydrofluorocarbons (HFCs) and perfluorocarbons (PFCs) are used as replacements for CFCs and HCFCs in some applications, as they do not deplete the ozone layer. However, as they are greenhouse gases, HFCs and PFCs are covered by the Climate Change Convention and are also included in the six greenhouse gases subject to emission targets under the Kyoto Protocol.

12 . Because combustion is often incomplete, carbon monoxide and other pollutants are also produced. When fuel is burned completely, the only by-product containing carbon is carbon dioxide.

pipelines. **Ozone** in the lower atmosphere is generated indirectly by automobile exhaust fumes¹³. **Artificial chemicals** (CFCs, HCFCs, PFCs) and other long-lived gases such as sulphur hexafluoride (SF₆) are released by industrial processes.

B. Global climate change: impacts and remedies

5. **Climate change is likely to have a significant impact on the global environment.** In general, the faster the climate changes, the greater will be the risk of damage. The mean sea level is expected to rise, causing **flooding of low-lying areas** and other damage. Climatic zones (and thus ecosystems and agricultural zones) could shift towards the poles, forests, deserts, rangelands, and other unmanaged ecosystems would face new climatic stresses and individual species will become extinct. Risks of more extreme weather events and of changes in the Gulf Stream will increase.

6. **Human society will face new risks and pressures.** Some regions are likely to experience food shortages and hunger. Water resources will be affected as precipitation and evaporation patterns change around the world. Physical infrastructure will be damaged, particularly by sea-level rise and by extreme weather events. Economic activities, human settlements, and human health will experience many direct and indirect effects. **The poor and disadvantaged are the most vulnerable to the negative consequences of climate change.**

C. Key features of the Convention and Protocol

7. **The UN Framework Convention on Climate Change** sets an “ultimate objective” of stabilising atmospheric concentrations of greenhouse gases at a “safe” level, namely a level that would prevent dangerous anthropogenic interference with the climate system. This should be achieved within a time frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner. To achieve this objective, all countries have a general commitment to address climate change, adapt to its effects, and report on the action they are taking to implement the Convention.

8. **The Convention divides countries into two groups: Annex I Parties** are the industrialised countries that have historically contributed the most to climate change and countries with economies in transition¹⁴. The principles of equity and “**common but differentiated responsibilities**” enshrined in the Convention require Annex I Parties to take the lead in modifying longer-term trends in emissions. Annex I Parties are committed to adopting national policies and measures with the (non-legally binding) aim of returning their greenhouse gas emissions to 1990 levels. Other countries, basically, the developing countries are referred to as **non-Annex I Parties**.

13. At ground level Ozone is a pollutant harmful to human health. At the level of the stratosphere, however, Ozone plays a role in filtering harmful radiations from the sun. The Vienna Convention and Montreal Protocol aim to combat the depletion of the stratospheric ozone layer.

14. They are: Australia, Austria, Belarus, Belgium, Bulgaria, Canada, Croatia, Czech Republic, Denmark, Estonia, European Community, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, Monaco, Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Russian Federation, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, UK and USA. The OECD members of Annex I are also listed in the Convention's Annex II. They have a special obligation to provide "new and additional financial resources" to developing countries to help them tackle climate change, as well as to facilitate the transfer of climate-friendly technologies to both developing countries and economies in transition. Much of this assistance is provided through the Convention's financial mechanism, the Global Environment Facility.

9. **The Convention commits all Parties to** *i)* develop and submit “national communications” containing inventories of greenhouse-gas emissions by sources and greenhouse-gas removals by “sinks”; *ii)* adopt national programmes for mitigating climate change and develop strategies for adapting to its impacts; *iii)* promote technology transfer and the sustainable management, conservation, and enhancement of greenhouse gas “sinks” and “reservoirs” (such as forests and oceans); *iv)* take climate change into account in their social, economic, and environmental policies; *v)* co-operate in scientific, technical, and educational matters; and *vi)* promote education, public awareness, and the exchange of information related to climate change.

10. **The 1997 Kyoto Protocol** will require stronger action in the post-2000 period. The Parties to the Convention have agreed by consensus that developed countries will have a legally binding commitment to reduce their collective emissions of six greenhouse gases by at least 5% below 1990 levels in the period 2008-2012. The Protocol also establishes an emission trading regime and a “clean development mechanism (CDM)”.

D. Examples of concrete measures to implement the climate change Convention (see also the marker’s definition sheet):

Collection and exchange of information related to climate change

- Scientific, technological, technical, socio-economic and other research, systematic observation and development of data archives related to the climate system (causes, effects, magnitude and timing of climate change; economic and social consequences of various response strategies).
- Exchange of scientific, technical, socio-economic information related to climate change.

Capacity Development and Enabling Environment

11. Cultural, educational, institutional, legal, and regulatory practices are all very important to effective mitigation of climate change. Examples of relevant activities in this area include:

- Formulation of measures to foster the incorporation of climate change concerns into social, economic and environmental policies and actions.
- Impact assessments of sectoral policies on GHG emissions and removals. Relevant sectors include energy, transport, water management, agriculture, forestry and others. This includes measures to take into account potential climate change impact when designing infrastructure.
- Establishment of policies and regulatory frameworks to encourage GHG reduction by consumers, investors and producers. This includes taxes, regulatory standards, tradable emissions permits, voluntary programmes, and the phase-out of counterproductive subsidies, etc.

Measures to contain GHG emissions and enhance GHG absorption

12. The avenues for limiting GHG emissions are many and varied. They include encouraging energy efficiency and the limitation of GHG emissions in industry, power generation, transport, housing, waste management and agriculture. Specific examples include:

- Development, application and diffusion, including transfer, of technologies, practices and processes that control, reduce or prevent GHG emissions.

- Sustainable management of forests, wetlands, drylands, etc.
- Improved agriculture and livestock management.
- Programmes to improve urban management (reducing congestion, urban sprawl, etc).
- Activities to reduce the release of GHGs in the extraction and processing of fossil fuels (e.g. by reducing leaks or recovering methane).

13. Many of these measures will have direct socio-economic benefits apart from climate change relevant benefits.

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION (UNCCD)

<http://www.unccd.int>

A. Key terms and Concepts

1. **“Desertification”** means land degradation in arid, semi-arid and dry sub-humid areas. While land degradation occurs everywhere, it is only defined as “desertification” when it occurs in those areas. Desertification affects seventy percent of the world's drylands, amounting to one fourth of the world's land surface.
2. **Land degradation** means reduction or loss, of the biological or economic productivity and complexity of rainfed cropland, irrigated cropland, or range, pasture, forest and woodlands. Land degradation is often linked with food insecurity and poverty, in a cause-effect relationship.
3. **Causes of land degradation** include natural hazards – droughts, floods– combined with human activities – notably over-tilling and overgrazing, deforestation and poor irrigation practices (leading to salinization). Fertilisers, pesticides, and contamination by heavy metals, and the introduction of exotic (invasive) plant species also lead to soil degradation.
4. **Actions to combat desertification** includes activities aimed at preventing and/or reducing land degradation; rehabilitating partly degraded land and reclaiming desertified land.
5. **Actions to mitigate the effects of drought** include activities related to the prediction of drought and intended to reduce the vulnerability of society and natural systems to drought as it relates to combating desertification.

B. Key features of the Convention

6. **The Convention to Combat Desertification** aims to combat desertification and mitigate the effects of drought in affected countries, particularly in Africa, with a view to contributing to the achievement of sustainable development. It recognises that achieving this objective will involve long term integrated strategies aimed at improving the productivity of land and rehabilitating, conservation and management of land and water resources, with a view to improving living conditions, especially at the community level. Under the Convention, *affected country parties* undertake to give due priority to combating desertification and allocate adequate resources, address the underlying causes of desertification, with special attention to socio-economic factors providing an enabling policy and legislative environment, and promoting increased awareness and facilitating the participation of local populations and NGOs in efforts to combat desertification and mitigating the effects of draught. *Developed country parties* are committed to promote the mobilisation of financial and other resources to combat desertification, encourage the mobilisation of private sector and non-governmental sources.
7. Under the Convention, affected developing country parties¹⁵ are required to prepare **National Action Programmes** to combat Desertification. These plans elaborate long-term policies and strategies to combat desertification; mitigate the effects of drought; prevent the degradation of land not yet affected. These plans should be formulated within the broader context of national policies

15. An up-to date list of Parties to the Conventions and ratification status is found at <http://www.unccd.int/Convention/ratif/doesif.php>

for sustainable development. Action Plans to combat desertification can be developed at the national, sub-regional or regional levels as appropriate.

C. Examples of activities to combat desertification and mitigate the effect of drought (see also the marker's definition sheet)

Direct measures

- Food security systems.
- Fixation of shifting sand dunes; erosion control; biodiversity conservation.
- Strengthening agricultural extension services, training rural organisations.
- Development and dissemination of efficient use of alternative energy sources and technologies.
- Water resources management for arid-land agriculture.
- Integrated management of international river, lake, and hydrogeological basins.
- Alternative livelihoods, (e.g.: eco-tourism).

8. These activities are often integrated as part of broader socio-economic development projects, including Integrated Local Area Development Programmes (LADPs).

Capacity development and enabling environment

- Research on the processes leading to desertification and drought and on the impact of natural and human causal factors; collection and exchange of information related to desertification.
- Strengthening hydrological and meteorological services.
- Development of environmentally sound technology relevant to combating desertification.
- Adaptation of traditional methods of agriculture to modern socio-economic conditions.
- Identification of policy and institutional factors which may hamper the fight against desertification (e.g. in the area of agriculture, water management etc).
- Strengthening of institutional and legal frameworks; including the regimes for tenure and resource harmonisation of policy and legislation.

FREQUENTLY ASKED QUESTIONS ON RIO MARKERS

1. FAQs on general features of Rio markers

FAQ 1. What are the Rio Conventions?

The United Nations Framework Convention on Climate Change (UNFCCC), the United Nations Convention on Biological Diversity (UNCBD) and the United Nations Convention to Combat Desertification (UNCCD) were conceived in the run-up to the 1992 Rio Conference – and therefore known collectively as the ‘Rio Conventions’ – as responses to environmental threats that governments considered global in scale. They reflect the commitment of signatory countries to incorporate the principles of sustainable development and global environmental concerns into their national development agendas, while providing developing countries with financial and technical resources for this purpose.

FAQ 2. What are the Rio markers?

The developed country signatories of the three Rio Conventions have committed themselves to assist developing countries in the implementation of these Conventions. Since 1998, the DAC has monitored aid targeting the objectives of the Rio Conventions through its Creditor Reporting System (CRS) and the so-called “Rio markers”. Every aid activity reported to the CRS should be screened and marked as either targeting the Conventions as a “principal objective” (score “2”¹⁶) or a “significant objective” (score “1”); or as not targeting the objective (score “0”).

Originally there were three Rio markers: biodiversity, climate change mitigation, and desertification. In 2009, an additional marker was created to capture aid flows for climate change adaptation. It was implemented in reporting on 2010 flows.

FAQ 3. When does an activity qualify for a Rio marker?

Scores are assigned “1” or “2” for a Rio marker if the activity in question contributes to meeting the objectives of the corresponding Rio Convention(s). For example, if an activity is designed to improve the capacity of a healthcare system to cope with increased incidence of water and vector borne diseases, due to the impacts of climate change, the marker CAN be applied (principal or significant to be decided – see FAQs on scoring). However, if the objective is to improve the capacity of a healthcare system to treat diseases including water and vector-borne diseases, with no reference to climate change, the marker CANNOT be applied as climate change is not a factor driving the design of the project.

FAQ 4. The adaptation marker states that the climate change adaptation objective should be explicitly indicated in the activity documentation. What does “activity documentation” consist of?

Activity documentation refers primarily to the written material which forms the basis for the donor’s decision to provide funding. This may be the actual project or programme document, or a proposal for funding an action which is outlined in a partner country document such as national programme, sectoral strategy, climate change strategy or PRSP. The emphasis here is the donor’s reasons for providing support for the activity in question.

Example: a donor contributes to a basket fund that supports a partner country programme in the forestry sector because of its links to climate change adaptation.

16 . Or “3” in the case of desertification.

The specific motivation for contributing to the basket fund should be made clear in the activity documentation, i.e. in the programme document and in the donor's supporting documentation: the donor, through its contribution to the basket fund, **intends to address climate change adaptation**. It is not enough simply to reference a whole PRSP or sector programme which may have an element of climate change adaptation.

FAQ 5. Can the same activity qualify for more than one Rio marker?

Yes. The Conventions often complement and reinforce each other. In some cases, the same policies or measures can simultaneously address climate change, biodiversity and desertification objectives. The most obvious examples relate to the sustainable management of natural resources. For example, a sustainable forest management project can contribute to biodiversity conservation, to capturing carbon (climate change mitigation) and to reducing climate risk (climate change adaptation). In drylands such a project can also help to combat desertification.

Therefore, in certain cases, the same activity can obtain more than one principal or significant objective score (i.e. score "2" for biodiversity and score "2" for climate change mitigation; or "2" for biodiversity and "1" for climate change mitigation).

2. FAQs on the scoring system

FAQ 6: What is the distinction between the value "0" and the value "blank"?

The Rio markers, as other markers, can show three values: "0" for not targeted, "1" for significant and "2" for principal (and "3" for desertification). However, the "0" value can only be assigned to activities that have been examined against the Rio markers and that were found as not targeted to the objectives.

For activities that have not been assessed with the Rio markers in mind, the "0" value should not be used, but rather the marker field should be left empty. This way, there is no confusion between activities that do not target the objective (score="0"), and activities for which the answer is not known (score="null").

This important distinction has implications for statistical presentations of Rio marker data.

FAQ 7. What is the distinction between significant ("1") and not targeted ("0")?

"Not targeted/0" means the activity does not explicitly target the Convention objectives (see also FAQ 6) while in the case of "significant/1", it does. "Significant" implies that contributing to the Rio Convention's objectives is a secondary objective of the activity.

Example: a water supply and sanitation project that includes provision for the recovery and use of methane for energy generation can be scored significant ("1") for the climate change mitigation marker, as methane capture reduces greenhouse gas emissions. The same project without measures to capture methane would score a "0" as the Rio Conventions are not targeted. This is a standard water and sanitation project which does not include climate change mitigation as a driver in its design.

FAQ 8: When should an activity be marked as "principal objective", when as "significant objective"?

A **principal objective score** should be given when promoting the objectives of the Conventions is stated in the activity documentation to be one of the principal reasons for undertaking the activity, in other words the activity would *not* have been undertaken in this particular way without this objective.

Example: a project to increase local income generating opportunities through improved management and sustainable use of biodiversity would be marked for the biodiversity marker as a principal

objective. However, if a similar project aimed to increase local income generating opportunities through a number of activities including, for example, livestock rearing, food processing, vegetable gardening, and the management and use of biodiversity, then the principal objective would not apply, although the significant score could be considered.

A **significant objective score** should be assigned when promoting the objectives of the Conventions is an important aspect, but is not one of the principal drivers of the design of the project or programme.

Example: a programme addressing food insecurity which also builds capacity to cope with the impacts of climate change on food production could be marked as “significant”. In this example the principal objective is food security and a “significant” objective is adaptation to climate change.

Activities should be marked according to their stated objectives. Below are two examples of typical activities in the energy sector that further clarify the difference between principal and significant objective:

A *The first activity aims to **limit anthropogenic greenhouse gas emissions** through switching from a coal-fired power plant to cleaner energy sources including a mix of geothermal, hydro-electric and solar power.* In this example climate change mitigation is a primary motivation for undertaking this activity and it should be marked with climate change (mitigation) as a principal objective (i.e. “2”).

B *The second activity aims at **improving access to safe and reliable energy services** as a means of achieving social and economic development, especially for the poor. One component of the activity is to support end users in obtaining access to reliable and cleaner energy services by switching to improved stoves and to liquefied petroleum gas.* In this case, energy provision is the primary objective, with cleaner energy resulting in reduced emissions (i.e. climate change mitigation) as a secondary objective. It should be marked with climate change (mitigation) as significant objective (i.e. “1”).

FAQ 9: If the objectives of the Rio Conventions have been mainstreamed into an aid activity, should it be scored as “principal objective”?

Not necessarily. If mainstreaming is systematically practiced, the Rio Conventions’ objectives will be integrated to projects across a wide range of sectors, and the activities will often qualify to be marked against the Conventions but will be likely to obtain the “significant objective” score (the activities should be assessed to see if the “significant” score should be awarded). However, mainstreaming can in some cases transform the activity to the point that it deserves to be scored “principal objective”. For example, if mainstreaming has led to the redesign of a traditional power project to now rely on renewable energy and energy savings, the entire activity can be considered as having climate change mitigation as its principal objective. If the transformation is more limited, a “significant objective” score should be awarded.

It is also worth noting that an activity that facilitates mainstreaming can qualify for a principal score. For example, an activity that is primarily designed to build capacity and develop tools to integrate biodiversity, climate change or land degradation into national and sub-national policies, planning and investment frameworks, should obtain the “principal objective” score.

FAQ 10. Should an activity arising from a national action plan linked to a Rio Convention be assigned the score “principal objective”?

Yes. The Rio Conventions call upon Parties to formulate action plans or strategies to implement the Conventions. An activity arising from such an action plan or strategy (e.g. National Biodiversity

Strategy and Action Plan under the CBD; NAPAs or NAMAs¹⁷ under the UNFCCC; and National Action Plans under the CCD) automatically qualifies as principal objective¹⁸, as the Conventions provide the motivation for the design of the activity.

3. FAQs on scoring by default

FAQ 11. Do activities in the forestry sector target loss of biodiversity and climate change mitigation by definition?

No. For example, a monocrop forest plantation with important economic and social benefits might have negative or neutral impacts on biodiversity. The climate change mitigation benefits of such a project will depend on how the trees grown are utilised after they are cut. If they are used for energy production (i.e. turned into charcoal for fuel) there are no net carbon sequestration benefits. Forestry projects need to be examined on a case-by-case basis to determine how they should be marked.

FAQ 12. Do water projects automatically qualify for the biodiversity marker?

No. Water activities do not necessarily have links with biodiversity. Activities which manage water resources so as to contribute to biodiversity conservation can be marked. For example, watershed management projects which result in natural regeneration, tree planting and restoration of the water table contribute positively to protecting biological diversity. However, many water supply projects will not have an impact on biodiversity as the focus will be on providing the water supply infrastructure. Some sanitation and waste management activities can contribute to protecting valuable biodiversity by avoiding pollution.

As a general rule, activities in the water sector should be examined on a case by case basis to determine whether or not the biodiversity marker is to be awarded.

FAQ 13. Do disaster prevention and preparedness activities automatically qualify for the adaptation marker?

No. Aid activities for disaster prevention and preparedness do not necessarily qualify for the adaptation marker. However, activities which enhance disaster prevention and preparedness in such a way that it contributes to climate change adaptation can be marked. Examples include:

- Developing emergency preparedness plans and disaster risk reduction strategies in order to protect key infrastructure assets from the impacts of climate change; this includes setting up early warning systems, addressing governance issues and promoting awareness.
- Promoting disaster preparedness and the links to climate change adaptation at various levels of government as well as at community level.
- Developing, testing and building capacity for emergency preparedness plans at various levels, in collaboration with other relevant authorities, to improve the handling of extreme weather events.

17. NAPAs: National Adaptation Programmes of Action; NAMAs: Nationally Appropriate Mitigation Actions.

18. In other words, score “2”. In the case of the Rio marker on desertification, activities arising from National Action Plans under the CCD should be assigned score “3”.

FAQ 14. Does flood prevention/control automatically qualify for the adaptation marker?

No. Aid activities for flood prevention/control do not necessarily qualify for the adaptation marker. However, activities which enhance flood prevention/control in such a way that it contributes specifically to climate change adaptation can be marked. Examples include:

- Restoring the function of floodplains in combination with sound land-use planning of watersheds and wetlands thereby reducing the exposure to floods and improving water availability in areas affected by water scarcity and /or variable rainfall patterns.
- Flood control measures in areas which are becoming increasingly flood-sensitive (e.g. closing of estuaries, building of dikes and sea defences) – with due consideration for the potential environmental impacts of such measures.

FAQ 15. When should the CRS purpose code “41030 Biodiversity” be used?

The use of purpose code 41030 is restricted to the following activities: “natural reserves and actions in the surrounding areas; other measures to protect endangered or vulnerable species and their habitats (e.g. wetlands preservation)”. Any activity conducted in another identified sector but still addressing biodiversity concerns should be coded under the relevant CRS purpose code and marked for biodiversity.

Examples:

- A. Water resource management projects integrating biodiversity protection concerns should be coded under the purpose code “water resources protection” [14015] and be assigned the score “significant objective” (i.e. “1”) under the Rio marker on biodiversity.
- B. Similarly, sustainable forest management activities with specific biodiversity conservation components should be coded under the purpose code “Forestry development” [31220] and be assigned the score “significant objective” (i.e. “1”) under the Rio marker on biodiversity.

Annex 19. Programme-based approaches: examples

Ghana

Financial Sector Reform Programme

1. Is the host country or organisation exercising leadership over the programme supported by donors?

YES. Designated government staff co-lead and co-ordinate the donor funded activities through the Private Sector Development Working Group and the Financial Sector Sub-Group. Activities (whether project activity or budget support) are detailed and governed in MoUs between the donor community and the Government.

2. Is a single comprehensive programme and budget framework used?

YES. The Programme has a budget framework that captures the Government and donor input. For PSD and Financial Sector activities, the framework is connected to specific strategic outcomes and is used as a management tool. Majority of the donors provide some project activity support – all of these activities are incorporated in the framework.

3. Is there a formal process for donor co-ordination and harmonisation of donor procedures for reporting budgeting, financial management and procurement?

YES. Both the PSD and Financial sector processes fulfil all four functions.

4. Does your support to the programme use at least two of the following local systems: (i) programme design, (ii) programme implementation, (iii) financial management and (iv) monitoring and evaluation?

YES, IT USES 2 SYSTEMS. USAID uses local system for programme design and participates in design of other donor's activities. USAID activities are implemented with various GoG agencies / ministries / departments (e.g. technical assistance to farmers is designed with and then provided by local GoG agricultural workers). USAID also gives money to local institutions to implement activities. As USAID does not provide pooled funding or sector budget support, USAID does not use local financial management and M & E Systems.

Source: USAID.

Tanzania

Health SWAp

1. Is the host country or organisation exercising leadership over the programme supported by donors?

YES. Basket funding is managed by the Ministry of Health and Social Welfare (MOHSW) which its Chief Medical Officer chairs the Health SWAp Technical Working Group. The technical working group is comprised of a subset of invited partners from government, donors, CSOs and private sector.

2. Is a single comprehensive programme and budget framework used?

YES. A Mid-Term Economic Framework budgets all health funds at the district and above levels. Funds include government revenue, General Budget Support and the Health Basket. Progress is being made to include projectised donations into the MTEF.

3. Is there a formal process for donor co-ordination and harmonisation of donor procedures for reporting budgeting, financial management and procurement?

YES. A very active Donor Partner Group for Health meets monthly and has sub-groups for basket funding, M & E and other topics which cover all four areas.

4. Does your support to the programme use at least two of the following local systems: (i) programme design, (ii) programme implementation, (iii) financial management and (iv) monitoring and evaluation?

Yes. Programme implementation uses the SWAp Technical Working Group. Financial management is done through the basket subcommittee of Donor Partner Group on Health reviews and comments on the MTEF. Monitoring and evaluation is done through the Joint Assistance Strategy for Tanzania Review.

Source: USAID.

Afghanistan

Afghan Reconstruction Trust Fund (ARTF)

1. Is the host country or organisation exercising leadership over the programme supported by donors?

Yes. ARTF funding only goes to public sector activities that have been defined in Government of Afghanistan's budget, the National Development Framework and its National Priority Programme. It provides funding in support of 11 National Priority Programmes which are based on the NDF.

2. Is a single comprehensive programme and budget framework used?

Yes. The ARTF has one framework and programme consisting of two windows – for recurrent expenditure and investment. This means that there is one source of funding for the recurrent budget. Further, all proposals for activities that are to receive ARTF funding come from the Ministry of Finance. Whilst these can in principle come from any line ministry of the Government, it must be accompanied by a justification in terms of importance to the Government of Afghanistan's NDF and NPPs.

3. Is there a formal process for donor co-ordination and harmonisation of donor procedures for reporting budgeting, financial management and procurement?

Yes. The ARTF is overseen by a Management Committee (MC) consisting of representatives from the Asian Development Bank, the Islamic Development Bank, UNDP and the World Bank. The MC is responsible for reviewing progress and taking key decisions, including the approval of investment projects proposed for ARTF financing. Donors participate in a Steering Committee that meets quarterly, focusing on administrative and performance issues.

4. Does your support to the programme use at least two of the following local systems: (i) programme design, (ii) programme implementation, (iii) financial management and (iv) monitoring and evaluation?

Yes. By working through reimbursements, which are verified by the Monitoring Agent, ARTF provides an incentive to improve financial management and accountability. In addition, the World Bank (which manages the ARTF) is providing technical assistance to the Ministry of Finance to enable increased use of government systems. The recent Public Expenditure Review demonstrated that strong progress has been made in the Government's fiscal discipline and budget planning and information on budget execution.

Source: DFID and Assessment, Afghanistan Reconstruction Trust Fund (ARTF), March 2005.