



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

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

2007 Progress Report to the HLM

DAC High-Level Meeting, 3-4 April 2007

This document is circulated FOR INFORMATION to the High-level meeting of 3-4 April 2007. See also DCD/DAC(2007)12/REV 2 for details of the proposal to extend the coverage of the Recommendation to include non-LCD HIPCs.

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

PROGRESS REPORT TO THE 2007 HLM

1. Introduction and main findings

1. The 2001 DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries entered into force on 1 January 2002.¹ Earlier HLM progress reports concluded that implementation was proceeding well, although some areas were identified that required additional efforts or work to be completed.²

2. In 2005, implementation of the Recommendation continued to proceed well, as is shown by the following indicators. However, further efforts are required to improve reporting on contract awards and the country distribution of those awards should be discussed in DAC.

- *Implementation of the coverage provisions:* All Members have implemented the coverage provisions of the Recommendation and many Members have untied their aid beyond its coverage. For example, in 2006, Australia decided to untie its aid. [section 2.2].
- *ODA flows to the LDCs:* Both the volume and share of ODA to the LDCs continued to increase in 2005. Thus, *prima facie*, the Recommendation did not have any negative repercussions on either [section 2.3].
- *ODA Coverage:* In 2005, the volume of ODA to the categories covered by the Recommendation increased by USD 1 billion in real terms [section 2.4].
- *Effort-sharing:* In 2005, effort sharing amongst Members remained high and continued to improve [section 2.5].
- *Ex ante notifications:* In 2006, 346 *ex ante* notifications with a total volume of USD 8.5 billion were posted on the untying website; a continuation of the increasing trend in the number of transactions notified to the bulletin board [section 2.6].
- *Contract awards:* For a variety of reasons, including difficulties in getting information from partner countries, reporting on contract awards still needs to be strengthened to cover a larger share of *ex ante* notifications. In 2005, and continuing a pattern since 2003, 60% of all reported contracts pertaining to notifications were awarded to companies located in the donor country, with a further 18% procured in other OECD countries. Only 22% of contracts were procured in developing countries. While not necessarily incompatible with the Recommendation, the pattern and trend in the distribution of contract awards needs to be kept under review and should be addressed by the DAC [section 2.6].

- *Adherence to transparency provision:* Adherence to the transparency provisions overall is satisfactory, although further efforts to strengthen, in particular, *ex post* reporting on contract awards is necessary to enhance transparency [section 2.6].
- *Further untying:*
 - The 2005 Senior Level Meeting agreed to abolish the coverage thresholds of the 2001 Recommendation (below which untying was not required)³. This provision entered into force on 1 July 2006.
 - The DAC has been invited to agree to a proposal to extend the coverage of the Recommendation to HIPC's not already covered [see DCD/DAC(2007)12].
 - The DAC is also invited to agree on work to develop proposals on donors increasing their use of partner countries' procurement systems and to support local/regional procurement in line with the 2006 SLM discussion.
 - Proposals on possible untying of certain types of technical co-operation will be put forward once the Working Party on Statistics has completed its work to disaggregate technical co-operation.
 - Other possible avenues, including OLICs and food aid, do not presently meet the agreed criteria that guide discussions on further untying (likelihood of consensus and magnitude of benefits).

2. Implementation Review

2.1 Reporting on the tying status of ODA

3. Verification of 2005 reporting is still ongoing at the time this note is drafted. Any amendments to the data will be reflected as soon as possible and prior to submitting the note to the HLM. In addition, it should be noted that there are some gaps in Members' reporting on the tying status of their ODA. In respect of 2005 reporting to the CRS, we do not know the tying status of about 36% of ODA to LDCs.

2.2 Implementation of the coverage provisions

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

5. Since the last implementation report, the following developments can be mentioned.

- i) Australia:* In April 2006, the Minister for Foreign Affairs announced that the Australian Government's Overseas Aid Program has been untied. The relatively small Australia Indonesia Partnership for Reconstruction and Development (AIPRD) funded programmes, which are due for completion in 2010, remain an exception. Prior to this announcement Australia had already taken significant steps in untying parts of the Australian Aid Program. Most recently this included allowing local firms in any recipient country to tender for work under the bilateral aid programme in that particular country. Going to the next step of completely untying aid is widely accepted as a way of

further improving aid effectiveness and efficiency. Australia thus joins that group of DAC Members whose aid programmes are fully or essentially untied.

- ii) *EU reciprocity*: In 2005, the European Community adopted two regulations on access to EC external assistance. In the new regulations, all aid to the LDCs is to be untied. In addition, all expertise (e.g. technical cooperation) will be untied and based only on the dual criteria of quality and price. Food aid will also be untied. EC budgetised aid will be open to other donors on the basis of reciprocity. In this respect, the offer of the European Commission to untie aid on a reciprocal basis has been followed up by Canada, Australia, and Switzerland. These countries are in the process of preparing formal requests for reciprocal untying. Norway, Lichtenstein and Iceland have been granted the EU treatment already in the regulations as part of the European Economic Area agreement, which means that they already have the same access as any EU Member state.
- iii) *Denmark*: The government of Denmark has untied all aid as of November 2006 and for food aid from 2008 onwards. The mixed credit scheme with an annual budget of DDK 300 million (which equals Euro 40 million) will remain tied to companies registered in Denmark, although there is no requirement to the origins of good and services. This programme also operates in a number of LDCs. Denmark considers that this exception to the Recommendation is covered by the remarks made at the time of the adoption of the Recommendation, which stated that Denmark's possible underperformance in applying the Recommendation is to be assessed against its overall performance on the effort sharing matrix. Denmark scores high on both indicators in the matrix (see Table 2). Nevertheless, the secretariat suggests that Denmark reconsiders its exception in light of the Paris Declaration on effective aid and the improved overall performance of DAC Members' with respect to effort sharing.
- iv) Information from the participants notification data base suggests that some other DAC Members may be undertaking tied aid projects in LDCs. The Secretariat is presently seeking clarification on this matter with the countries concerned.

2.3 ODA flows to the LDCs

6. In 2005, the volume of total bilateral ODA to the LDCs increased to USD 21.4 billion (at constant 2004 prices – see Table 1). This compared to an average of USD 11.5 billion during the base period 1999 – 2001. The share of bilateral ODA to the LDCs as a percentage of total bilateral ODA also increased 3 percentage points from the 1999 – 2001 baseline average to 23 per cent in 2005. It is reassuring to note that in 2005, as was the case in earlier years, the Recommendation does not appear, *a priori*, to have had any negative repercussions, either on the volume or share of ODA to the LDCs.

Table 1. Total ODA commitments to the least developed countries, 2005

	Volume of ODA to least developed countries (LDCs) USD million (2004 constant prices and exchange rates)				GNI (USD bn. constant)	LDC ODA as % of GNI		
	Total	Multilateral (1)	Bilateral	Bilateral Untied		Total	Multilateral (1)	Bilateral
Australia	380	82	298	146	629	0.06	0.01	0.05
Austria	252	128	125	104	295	0.09	0.04	0.04
Belgium	763	253	510	507	366	0.21	0.07	0.14
Canada	1 004	296	709	466	1 010	0.10	0.03	0.07
Denmark (2)	1 076	257	819	771	256	0.42	0.10	0.32
Finland	308	105	203	193	191	0.16	0.05	0.11
France	2 704	1 167	1 537	1 270	2 089	0.13	0.06	0.07
Germany	1 969	846	1 123	773	2 779	0.07	0.03	0.04
Greece	77	54	23	6	217	0.04	0.02	0.01
Ireland	345	75	270	270	167	0.21	0.04	0.16
Italy (3)	1 537	1 086	451	..	1 710	0.09	0.06	0.03
Japan	3 680	1 045	2 635	2 250	4 813	0.08	0.02	0.05
Luxembourg	101	22	79	79	30	0.33	0.07	0.26
Netherlands	2 008	572	1 436	1 363	615	0.33	0.09	0.23
New Zealand	89	11	78	23	93	0.10	0.01	0.08
Norway	1 060	283	777	772	266	0.40	0.11	0.29
Portugal	258	52	206	144	176	0.15	0.03	0.12
Spain (4)	843	398	445	269	1 071	0.08	0.04	0.04
Sweden	1 156	464	693	691	358	0.32	0.13	0.19
Switzerland	374	159	214	196	397	0.09	0.04	0.05
United Kingdom	3 982	947	3 035	3 035	2 252	0.18	0.04	0.13
United States (5)	6 610	884	5 726	3 037	12 030	0.05	0.01	0.05
Total DAC	30 575	9 185	21 390	16 367	31 810	0.10	0.03	0.07

Source: OECD (DAC and Creditor Reporting Systems)

1. Imputed multilateral ODA disbursements to least developed countries (DAC Table 2a).
2. Denmark has indicated errors in its 2005 reporting. Pending revisions to the CRS, the bilateral untied amount shown has been calculated from the untying ratio of 0.942 provided by Denmark.
3. Italy did not report tying status or its grant programme to the CRS for 2005. Data shown are from DAC aggregate statistics.
4. Verification of Spain's 2005 loans programme is ongoing.
5. The United States do not report tying status to the CRS. The bilateral untied amount shown in this table has been estimated on the basis of untied ODA solicitations (calls for tender), reported to the Untied Aid Bulletin Board in 2005. Added to this are debt relief amounts reported to the CRS which are untied by convention.

Note: Where CRS reporting is incomplete bilateral LDC ODA commitments from DAC statistics have been taken.

2.4 ODA Coverage of the Recommendation

7. In 2005 the volume of total bilateral ODA to those categories of aid that are covered by paragraph 7i) of the Recommendation increased by USD 1 billion to USD 9 billion.⁴ In a coverage sense, the impact of the Recommendation in volume terms remains relatively modest (*i.e.* it covered 10% of total bilateral ODA in 2005) as a result of its limited country and activity coverage. However, total bilateral untied aid to the LDCs in 2005 stood at USD 15.5 billion, *i.e.* 72% of LDC bilateral aid was untied. This shows that many donors untie their LDC aid well beyond the requirements of the Recommendation, as invited by the Recommendation.

2.5 Effort-sharing

8. Promoting a reasonable balance among Members in their efforts to untie aid is an integral part of the Recommendation. The initial positions of Members and their evolution over time with respect to

agreed reference points are captured in a Reference Indicators Matrix. It consists of Members' positions *vis-à-vis* two reference indicators; one for the bilateral untying ratio of ODA to the LDCs⁵ and one for the Effort-Sharing Composite Indicator⁶.

9. In 2005, the DAC average bilateral LDC ODA untying ratio reached 0.72 compared with the 1999 – 2001 baseline of 0.55. This maintained the untying ratio above the 0.6 reference point [see Table 2]. Most of the increase compared to the baseline was due to the estimate of US untying, which offset a fall in France's debt relief to the LDCs in 2005 from previous years.

10. The DAC average Effort-Sharing Composite Indicator increased in 2005 to 0.08, up from 0.04, the 1999–2001 baseline and reference point [see Table 2]. It should be noted that effort sharing positions can vary according to movement in any of the variables making up the indicators (*e.g.* for the composite indicator, following a sharp change in the amount of debt relief recorded in a given year (for example, as in the case of France for 2005). Also, the effort sharing position of Members who do not provide comprehensive reporting to the CRS is not well reflected in the indicator. In such cases, other information, such as that concerning notifications to the bulletin board, provide a supplementary indicator, *e.g.* as for the United States (see Table 3).

11. Overall, the indicators of effort sharing continue to show progress and are well above the reference points that were set out when the Recommendation was adopted in 2001.

2.6 Transparency

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

a) Ex ante notifications

13. In 2005, 346 *ex ante* notifications were posted on the bulletin board with a total volume of USD 8.5 billion [see Table 3 and Figure 1]. Thus the trend towards comprehensive reporting also continued in 2005, as more or less all procurement related ODA covered by the Recommendations is *ex ante* notified.

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

	Bilateral LDC ODA Untying Ratio (1) (Reference point : 0.60)		Effort-sharing Composite Indicator (2) (Reference point : 0.04)	
	Base (99-01 ave.)	2005	Base (99-01 ave.)	2005
Australia	0.42	0.49	0.05	0.04
Austria	0.34	0.83	0.04	0.08
Belgium (3)	0.49	0.99	0.08	0.21
Canada	0.40	0.66	0.03	0.08
Denmark (4)	0.77	0.94	0.28	0.40
Finland	0.69	0.95	0.08	0.16
France (5)	0.54	0.83	0.06	0.12
Germany (5)	0.43	0.69	0.04	0.06
Greece (6)	..	0.25	..	0.03
Ireland (7)	1.00	1.00	0.17	0.21
Italy (8)	0.30	..	0.03	..
Japan (5)	0.76	0.86	0.05	0.07
Luxembourg (9)	..	0.98	..	0.33
Netherlands (10)	0.86	0.95	0.22	0.31
New Zealand (11)	..	0.30	..	0.04
Norway	0.99	0.99	0.30	0.40
Portugal (5)	0.42	0.70	0.11	0.11
Spain (12)	0.25	0.60	0.02	0.06
Sweden	0.69	1.00	0.18	0.32
Switzerland	0.84	0.92	0.09	0.09
United Kingdom	0.63	1.00	0.07	0.18
United States (4) (13)	0.01	0.53	0.01	0.03
Total DAC	0.55	0.76	0.04	0.08

Source: OECD (DAC and CRS reporting systems).

1. The bilateral LDC ODA untying ratio represents: untied bilateral LDC ODA divided by total bilateral LDC ODA (commitments basis).
2. The effort-sharing composite indicator represents: (bilateral LDC ODA/GNI times the bilateral LDC ODA untying ratio) + multilateral LDC ODA/GNI. Following the DAC convention, multilateral ODA is treated as untied.
3. Belgium extended CRS reporting of tying status to include its grant programme as from 2000. The figures shown are thus based on a two-year average (2000-2001).
4. Denmark has indicated errors in its 2005 reporting. The untying and composite indicator ratios for 2005 have been provided by Denmark pending revisions to CRS reporting.
5. Did not report the tying status of free standing technical co-operation (FTC). By convention, FTC amounts have been treated as tied. However in the case of Germany and Portugal the tying status of technical co-operation projects has been notified only as from 2003 reporting.
6. Greece commenced reporting to the CRS as from 2002.
7. Ireland commenced reporting to the CRS in 2000. The 1999-2001 average figures shown are thus based on a two-year average (2000-2001).
8. Italy did not report tying status or its grant programme to the CRS for 2005.
9. Luxembourg commenced the reporting of tying status as from 2003.
10. Netherlands extended CRS reporting of tying status to include FTC only from 2000. The 1999-2001 figures shown are thus based on a two-year average (2000-2001).
11. New Zealand commenced reporting to the CRS as from 2002.
12. Verification of Spain's 2005 loans programme is ongoing.
13. The United States do not report tying status to the CRS. The untied bilateral LDC ODA amount (used to calculate 2005 ratios) has been estimated on the basis of untied ODA solicitations (calls for tender), reported to the Untied Aid Bulletin Board. Added to this are debt relief amounts reported to the CRS which are untied by convention.

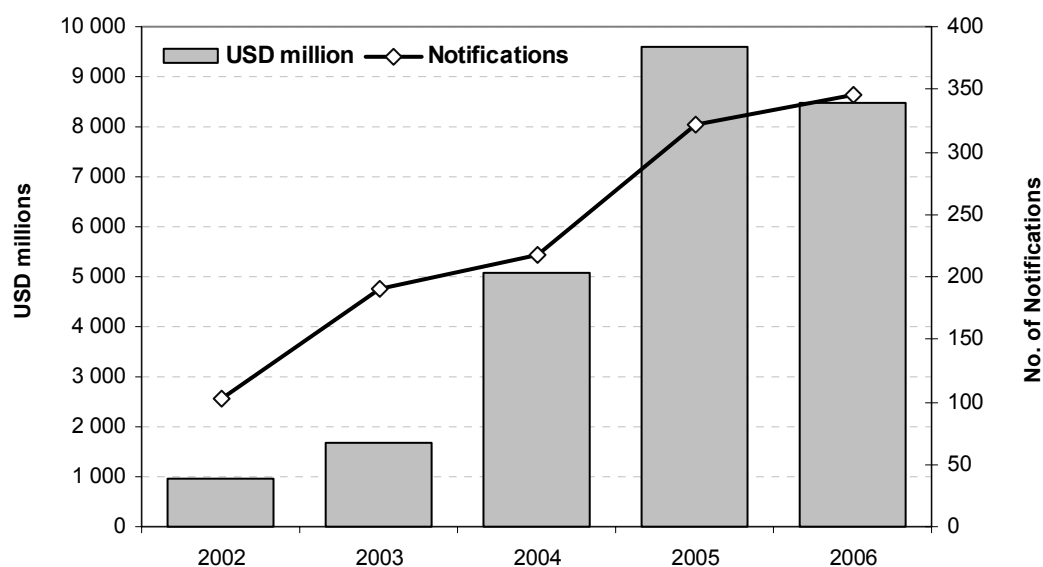
Note: Verification of 2005 reporting was not finalised prior to the issue of this paper. Any amendments to the data will be included before submission to the High Level Meeting in April.

Table 3. Ex ante notifications : volume and number of transactions
(reported under the coverage of the Recommendation)

	USD million					Number of Notificatons				
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
Australia (1)	..	..	68	81	335	..	..	3	6	23
Austria (2)	..	..	..	..	..	..	..	..	..	..
Belgium	..	260	4	882	912	..	11	6	12	25
Canada	..	32	..	19	3	..	4	..	2	1
Denmark	113	15	..	..	2	25	7	..	..	2
Finland (3)	8	25	38	69	..	3	4	6	11	..
France	237	213	671	1 066	1 173	11	23	46	39	58
Germany	223	211	519	563	275	26	26	35	49	31
Greece (2)	..	..	..	..	..	..	..	..	..	..
Ireland (2)	..	..	..	..	..	..	..	..	..	..
Italy	165	..	531	..	..	16	..	3	..	..
Japan	41	354	338	732	334	5	48	60	88	59
Luxembourg (2)	..	..	..	..	..	..	..	..	..	..
Netherlands (1)	100	314	3	0	..	7	19	2	1	..
New Zealand (1)	0	..	0	..	..	1	..	2	..	..
Norway	8	142	..	40	1 295	2	20	..	8	6
Portugal	..	..	..	1	..	..	..	..	1	..
Spain	12	..	9	10	30	1	..	1	2	3
Sweden (1)	..	2	13	..	..	..	2	2	..	..
Switzerland	13	16	76	13	..	3	1	10	1	..
United Kingdom	8	97	599	1 146	614	1	25	23	38	41
United States (1)	40	..	2 197	4 986	3 496	1	..	18	64	97
Total	968	1 681	5 066	9 609	8 469	102	190	217	322	346
<i>For memo:</i>										
Total LDCs	676	1 218	4 351	5 657	3 384	95	161	175	232	205
Other recipients	292	463	715	3 952	5 085	7	29	42	90	141

Source : OECD-DAC Untied ex ante database.

1. In order to encourage market competitiveness, Australia, the Netherlands, New Zealand, Sweden and the United States have submitted notifications for which the project amount has not been made available.
2. Austria, Greece, Ireland and Luxembourg do not notify to the Bulletin Board. Austria and Greece do not provide aid covered by the Recommendation. The aid programmes of Ireland and Luxembourg are fully untied.
3. Finland submitted partial information on untied ODA projects covered by the Recommendation for years 2003, 2004 and 2005 which are presented here for information.

Figure 1. *Ex ante* notifications: volume and number of transactions (2002-06)

Source : OECD-DAC Untied *ex ante* database

b) *Contracts awarded in 2005*

14. *Ex post* reporting on contract awards is required under the provisions for transparency and monitoring of the Recommendation. The value of contracts reported in 2005 amounted to USD 840 million (see Table 4), a significant surge compared to the USD 323 million in 2004. However, and this is of potential concern, of that amount, 60 per cent (number and value) of contracts were procured in the donor country. This was particularly noticeable for Australia, Japan, Spain, UK and US. A further 18 per cent of contracts were procured in other OECD countries. Only 22 per cent (in value terms; 29 per cent in volume terms) were procured in developing countries. In fact, the trend since 2003 has been towards more contracts awarded in the donor country and correspondingly less in developing countries, including the LDCs. While not incompatible with the provisions of the Recommendation, this contract award distribution pattern should be kept under review and should be discussed in the DAC.

Table 4. Information on contract awards, 2005

	Contracts awarded in 2005		of which:							
			within donor country		Other OECD and non-DAC donors		Developing countries (excl. LDCs)		LDCs	
	No. of contracts	USD mn.	No. of contracts	USD mn.	No. of contracts	USD mn.	No. of contracts	USD mn.	No. of contracts	USD mn.
Australia (1)	15	14.0	15	14.0	0	0.0	0	0.0	0	0.0
Austria (2)	..	..	..	..	..	..	..	..	..	..
Belgium	10	4.1	1	0.4	1	0.2	2	1.8	6	1.7
Canada	4	18.1	2	0.4	2	17.7	0	0.0	0	0.0
Denmark (3)	..	..	..	..	..	..	..	..	..	..
Finland (3)	..	..	..	..	..	..	..	..	..	..
France	16	73.6	8	23.4	1	2.6	4	40.5	3	7.2
Germany	130	394.7	52	146.8	18	122.7	7	4.6	53	120.5
Greece (2)	..	..	..	..	..	..	..	..	..	..
Ireland (2)	..	..	..	..	..	..	..	..	..	..
Italy (3)	..	..	..	..	..	..	..	..	..	..
Japan (1)	28	n.a.	22	n.a.	3	n.a.	2	n.a.	1	n.a.
Luxembourg (2)	..	..	..	..	..	..	..	..	..	..
Netherlands (4)	0	..	0	..	0	..	0	..	0	..
New Zealand (3)	..	..	..	..	..	..	..	..	..	..
Norway (4)	0	..	0	..	0	..	0	..	0	..
Portugal (4)	0	..	0	..	0	..	0	..	0	..
Spain	5	26.9	4	23.7	1	3.2	0	0.0	0	0.0
Sweden (4)	0	..	0	..	0	..	0	..	0	..
Switzerland (3)	..	..	..	..	..	..	..	..	..	..
United Kingdom	19	32.3	16	31.9	3	0.3	0	0.0	0	0.0
United States	70	276.1	59	269.2	3	1.8	4	3.4	4	1.7
Total DAC	297	839.6	179	509.6	32	148.5	19	50.3	67	131.1
<i>For ref:</i>										
2005 % of total	100	100	60.3	60.7	10.8	17.7	6.4	6.0	22.6	15.6
2004 % of total	100	100	38.7	46.7	20.4	11.4	16.2	15.6	25.4	26.4
2003 % of total	100	100	27.1	10.0	34.6	36.3	10.3	21.4	28.0	32.3

Source: OECD-DAC Contract award reporting system

- Supplementary information on contract values are not available for 11 Australian contracts. No contract values are available for Japan.
- Austria, Greece, Ireland and Luxembourg do not notify to the Bulletin Board and consequently have no information on contract awards.
- 2005 reporting was not received from Denmark, Finland, Italy, New Zealand and Switzerland
- Netherlands, Norway, Portugal and Sweden reported that no contracts were awarded in 2005 with regard to notifications posted to the Bulletin Board.

c) *Adherence to transparency provisions*

15. Adherence to the transparency provisions of the Recommendation should be judged as overall satisfactory. *Ex ante* reporting improved again in 2006 compared to earlier years, but there is still room for further improvement. *Ex post* reporting on contract awards, while moving in the right direction, still requires important further efforts, including in terms of its country coverage, to bring it closer into line with the number of *ex ante* notifications reported and to contribute to enhanced transparency [see Tables 3, 4 and 5].⁷

Table 5. Members' adherence to the transparency requirements of the 2001 Recommendation on Untying (2002-06)

	Submission of ex ante Notifications (1)					Reporting on ex post contract awards (2)		
	2002	2003	2004	2005	2006	2003	2004	2005
Australia			✓	✓	✓		✓	✓
Belgium		✓	✓	✓	✓		✓	✓
Canada		✓		✓	✓	✓	✓	✓
Denmark	✓	✓			✓			
Finland	✓						✓	
France	✓	✓	✓	✓	✓	✓	✓	✓
Germany	✓	✓	✓	✓	✓	✓	✓	✓
Italy	✓		✓					
Japan	✓	✓	✓	✓	✓	✓		✓
Netherlands	✓	✓	✓	✓		✓	✓	✓
New Zealand	✓		✓				✓	
Norway	✓	✓		✓	✓			✓
Portugal				✓		✓	✓	✓
Spain	✓		✓	✓	✓		✓	✓
Sweden		✓	✓			✓	✓	✓
Switzerland	✓	✓	✓	✓			✓	
United Kingdom	✓	✓	✓	✓	✓	✓	✓	✓
United States	✓		✓	✓	✓		✓	✓

Source: OECD-DAC Untied ex ante data base and contract award reporting.

3. Untying: next steps

16. In response to the Paris Declaration and calls from major international conferences to increase the share of aid that is untied, the DAC has discussed approaches to extend the benefits of untied aid, especially in terms of improved aid effectiveness and greater value for money.⁸ It is felt that as we approach the 3rd High Level Forum (HLF3) on Aid Effectiveness in Accra, Ghana in September 2008, developing country partners will be looking to see important and tangible progress in aid untying as part of the implementation of the Paris Declaration.

17. Two criteria have been selected to identify promising ways forward: *i)* the magnitude of the potential benefits, and *ii)* the likelihood of arriving at a consensus.⁹

18. On that basis, the 2005 Senior Level Meeting approved the proposal¹⁰ to eliminate the coverage thresholds of the 2001 Recommendation *i.e.* SDR 700 000 (SDR 130 000 for investment related technical co-operation) as it was felt this offers some early gains with a reasonable scale of benefits (in the area of an additional USD 300 million in untied aid), in particular, for local and regional companies in partner countries. This step, in addition, will improve effort-sharing among donors. This provision entered into force on 1 July 2006 and reporting on related contract awards will commence in 2008.¹¹

3.1 *Proposal to extend the Recommendation's coverage to include non-LDC HIPC*s

19. The DAC has considered a modest proposal to extend the coverage of the Recommendation to include those eight HIPC countries not presently covered by the Recommendation (LDC HIPCs are already covered). A note [DCD/DAC(2007)12/REV2] on this proposal is also submitted to the HLM. Most Members agree to this proposal. Some require further consultation in capitals. One substantive issue still under consideration is whether there should be a "graduation" clause in the proposal, such that if countries exit the HIPC group, they might no longer benefit from the provisions of the untying Recommendation.

3.2 *OLICs, food aid and free standing technical co-operation*

20. Members have previously discussed proposals in these three areas. Proposals concerning extending the Recommendation to cover OLICs and to cover food aid continue not to meet the criteria that have guided the discussion.

21. SLM participants in 2005 requested the DAC to study the possibilities for untying procurement related technical co-operation. Free-standing technical co-operation to the LDCs, which amounted to USD 6.5 billion in real terms in 2005 (about one-third of total bilateral ODA to the LDCs), is excluded from the coverage of the 2001 Recommendation. Identifying possible categories where untying could fulfil the two selection criteria for promising approaches (*i.e.* likelihood of consensus and magnitude of potential benefits) will be facilitated by the present work of the WP-STAT to disaggregate technical cooperation into its component parts. Proposals looking at where there is a market for the goods and services procured, will be considered once the WP-STAT has completed that work, which is expected towards mid-2007. One aspect of this work will be to see if and where there are possibilities of shifting from donor to partner country procurement of technical co-operation (see also section 3.3. below).

3.3 *Promote greater local/regional procurement*

22. Members support the idea of promoting more local and regional procurement in ways that increase aid effectiveness and impact. At the December 2006 DAC SLM, Members recognised that partner countries will have high expectations on untying at HLF3. Some felt that partner countries were really looking for greater use of partner country procurement systems by donor agencies. Promoting greater local/regional procurement should bring greater benefits to partner countries, but that requires it to be value for money procurement based on sound and competitive procurement systems. These two strands need to be connected.

23. There are two dimensions to this matter.

- The first is to promote greater use of developing country procurement systems (*i.e.* who undertakes the procurement). This objective is part of the Paris Declaration on Aid Effectiveness. The thrust of the work being undertaken via the WP-EFF's Joint Venture on Procurement is to strengthen developing country procurement systems to a point where donors will use partner country systems for aid related procurement. This should, a priori, lead to more local/regional procurement.
- 24. The second concerns donors procuring more goods and services locally or regionally (when donors are still undertaking the procurement). This will require looking at ways and means to encourage donors to do so, looking at where donors may have restrictions limiting their ability to undertake local/regional procurement and identifying constraints to the ability of local/regional enterprises winning procurement competitions and taking steps to address this. The DAC has asked the Secretariat to undertake work on this issue with a view to developing proposals for the DAC's consideration. That work will cover, for example, seeing if there are donor rules that hinder local

or regional procurement and/or the use of partner country procurement systems and whether there are unnecessary impediments to a more rational distribution of local vs. foreign procurement.

ENDNOTES

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1. CD/DAC(2001)12/FINAL
 2. CD/DAC(2003)7/REV1, DCD/DAC(2004)15, DCD/DAC(2005)5/REV1
 3. DCD/DAC(2006)25
 4. The following categories of ODA are covered by the Recommendation: balance of payments and structural adjustment support; debt forgiveness; sector and multi-sector programme assistance; investment project aid; import and commodity support; commercial services contracts, and ODA to Non-Governmental Organisations for procurement related activities.
 5. The bilateral LDC ODA untying ratio represents: untied bilateral ODA to the LDCs divided by total bilateral ODA to the LDCs (on a commitments basis). The reference point for this ratio was set at 0.60 for all Members.
 6. The effort-sharing composite indicator represents: [Bilateral LDC ODA/GNI times the bilateral LDC ODA untying ratio] plus multilateral LDC ODA/GNI⁶. The reference point for this ratio was set at 0.04 for all Members. [Multilateral ODA is treated as untied, following the DAC convention, see DCD/DAC/FA/M(2002)2/PROV.
 7. DCD/DAC(2005)44 and Corrigendum 1, DCD/DAC/M(2005)10/FINAL
 8. DAC/CHAIR(2005)11, DCD/DAC/M(2005)8/PROV
 9. DCD/DAC(2005)30, DCD/DAC(2005)34, DCD/DAC(2005)44. Although a large number of Members considered food aid a good candidate for further untying, it did not satisfy the criteria of likelihood of consensus and was not retained as a proposal for the 2005 SLM.
 10. DCD/DAC(2005)49/REV1 and DCD/DAC/M(2005)13/FINAL
 11. DCD/DAC(2006)25