UNTying ODA TO THE LEAST DEVELOPED COUNTRIES: EFFORT-SHARING

REPORT BY THE CHAIRMAN OF THE WORKING PARTY ON FINANCIAL ASPECTS OF DEVELOPMENT ASSISTANCE TO THE DAC SENIOR LEVEL MEETING

This document is submitted for CONSIDERATION at the DAC Senior Level Meeting, 12-13 December 2000.
I. Introduction

1. At the DAC meeting on 12 September 2000, the Working Party on Financial Aspects of Development Assistance was mandated to address the issue of effort-sharing, with a view to arriving at agreed approaches which will permit the finalisation of the Recommendation on Untying ODA to the Least Developed Countries (LLDCs).

2. The Working Party has so far met twice (in October and November) to discuss this issue, which was also raised at the DAC meeting on 7 November. Those discussions have permitted us to exchange views on the objectives of an effort-sharing mechanism, the broad principles that should help guide our search for and analysis of a mechanism, and the pros and cons of different suggestions for actual mechanisms.

3. All in all, these discussions have been helpful, but there is presently no clear preference for a generic approach that could then be the basis for addressing the specific interests and concerns of those Members not presently favouring that particular direction. The main thrust of the remainder of this report is to outline some ideas on the adjustments that are likely to be required for the one or the other of the basic approaches to meet this objective. On that basis, SLM Participants are invited to task the Working Party to explore such adjustments in order to see if it can identify an approach to effort-sharing that satisfactorily meets the needs of Members.

II. The broader context on effort-sharing discussions

4. Before setting out the essential details of where we presently stand, and the guidance sought from SLM Participants, it is useful to recall a number of points that frame the discussion on effort-sharing mechanisms:

- The mandate from this year’s OECD Ministerial Meeting and the resolve of G8 Leaders, at the Okinawa Summit, to untie their ODA to the LLDCs, have given rise to clear expectations that the text of the draft Recommendation should not be reopened and that agreement on an effort-sharing mechanism will permit the adoption and implementation of the Recommendation.

2 See DCD/DAC/FA(2000)9 and Room Document No. 1 for the WP/FA meeting on 17 November.
• We should keep firmly in mind the essential objective of the Recommendation -- to untie ODA to the LLDCs to the greatest extent possible. While the draft Recommendation stipulates the areas where we all agreed that ODA should be untied, its broader provisions encourage Members to untie beyond that, wherever possible.

• The Recommendation also states that Members agree to the objective of untying as a means to achieve balanced efforts among DAC Members. In this connection, it should be noted that full implementation of the coverage clause of the Recommendation will, in itself, and independent of a supplementary mechanism, result in a better distribution of LLDC untying efforts between Members. For example, Japan presently accounts for 22 per cent of total LLDC untied ODA, and the United States for less than 1 per cent. After the implementation of the coverage clause of the Recommendation, the corresponding shares would be 17 per cent and 8 per cent respectively. While the general improvement in effort-sharing may still not be sufficient to meet the objectives of some Members, it is important to be aware of this effect, inter alia, in setting expectations for a supplementary mechanism.

• Linking the above two points, the objective is to reach a consensus that will provide a platform (together with transparency, monitoring and assessment provisions) from which Members can undertake supplementary untying efforts, beyond those needed to meet the coverage clause requirements of the Recommendation, in line with its broader untying provisions. Such supplementary efforts are also likely to promote effort-sharing on a voluntary basis and to improve the overall impact of the Recommendation on the effectiveness of ODA to the LLDCs.

• Members have commented on the connection between our work to untie ODA to the LLDCs and the forthcoming (May 2001) Third UN Conference on the Least Developed Countries. Preparations for that conference indicate the desire to have a number of “deliverables” ready in advance to present to the conference in order to show an “early harvest”. An agreement on the Recommendation would be one of these, and a major contribution in at least one of the areas where partner countries are looking to donors for tangible commitments and results.

• Reporting problems create difficulties in establishing the implications of different approaches for Member countries as well as their impact on partner countries. Members have agreed to an initiative that should permit us to better assess the implications of different approaches, but a more concerted effort is needed, particularly in respect of future monitoring requirements.

III. The key issues and possible ways forward

a) Different objectives for and approaches to effort-sharing

5. The various suggestions for mechanisms so far examined in the Working Party address different objectives for and approaches to effort-sharing.

6. First of all, there are two different perspectives on effort-sharing:

• Most of the proposals (from Denmark; Japan and the Secretariat) presently being investigated seek to promote a better distribution among Members of their untying efforts within the LLDCs (viz. the “levels of undertakings”, the “70 per cent target for LLDC untying”, the “70/80/80 approach” and the “0.15 per cent of ODA/GNP approach”);
Two proposals address a broader perspective on effort-sharing, namely *to promote improved* 
*ODA performance in the LLDCs and a better distribution among Members of these efforts* 
(viz. the "composite indicator" mechanism proposed by France and the suggestions presented 
by the Secretariat in respect of LLDC ODA volume commitments).

7. Secondly, effort-sharing mechanisms seeking to promote a better balance of *untying* efforts fall 
into two broad categories:

- Approaches whereby all Members fully implement the coverage clause of the 
  Recommendation, supplemented by a mechanism to further improve effort-sharing ("full 
  implementation, plus” approaches).

- Approaches whereby not all Members would initially be required to fully implement the 
  coverage clause of the Recommendation ("differentiated implementation” approaches).

8. Finally, effort-sharing mechanisms with the broader perspective of promoting *improved ODA performance in the LLDCs and a better distribution among Members of these efforts* could, in principle, be 
applied via either “full implementation, plus” or “differentiated implementation” approaches.

9. Discussions have shown that the different perspectives on the objectives of an effort-sharing 
mechanism and the various mechanisms examined all have their pros and cons. They also impact on 
individual Members as well as on partner countries in different ways (see table 1).

10. The remainder of this section briefly summarises the pros and cons of the different approaches to 
effort-sharing which have emerged from the Working Party discussions. It also signals the adjustments that 
may be required to the one or the other broad approach if it is to provide a stronger base around which 
Members could rally.

**b) “Full implementation, plus” approaches:**

11. These types of mechanisms may lend themselves better to meeting, *in an integrated manner*, both 
of the different perspectives held among Members in respect of the objectives of an effort-sharing 
mechanism. The supplementary efforts thereby called for (over and above those to implement the 
coverage clause of the Recommendation) can address the desire for a better sharing of untied efforts 
among Members and/or for a better balance of efforts among Members in respect of LLDC ODA 
performance. To the extent that the “composite indicator” proposal fits in this category, it also offers a 
wider choice to Members (by also bringing in multilateral ODA) in making the supplementary efforts 
called for. In that sense, it may limit the extent to which the coverage debate is reopened.

12. Other things being equal (including feasibility/acceptability), mechanisms in this category are 
likely to have a greater impact on the volume and share of LLDC untied ODA. This is because they bring 
together the impact of full implementation of the coverage clause by all Members plus supplementary 
efforts by some Members to promote effort-sharing.

13. The main difficulty with approaches of this type is that they may very well, in a *de facto* sense, 
reopen the debate on coverage, which Members agree should remain closed. In cases, the supplementary 
actions called for by the mechanism may be significantly greater than the additional untied that will result 
from the implementation of the coverage clause of the Recommendation. Some Members have indicated
that the magnitude of the supplementary efforts required may be at levels that are unrealistic and not deliverable.

14. The extent of this difficulty is partly related to the level or “target” at which some performance objective would be set (the higher the “target”, the greater the difficulty). The additional efforts required by some Members to promote effort-sharing could then also raise issues concerning the “level playing field”, to the extent that the mechanism will require some Members to untie sometimes sizeable amounts of ODA in certain categories of ODA that others do not.

15. Also, the indicator used will have a bearing. For example, an ODA/GNP based measure will be challenging because the medium-term economic growth prospects for OECD countries mean that we will have to advance (on volume levels) just to stand still (on ODA/GNP ratios), before further efforts actually improve ODA/GNP performance. The results of monitoring performance on an ODA/GNP indicator might give a negative signal, even while ODA volume and/or untying ratios were increasing.

Possible adjustments

16. Set out below are a number of ideas that could be explored (individually, or in combinations) whereby this type of approach could be adjusted with a view to building broader support for a mechanism along these lines:

i) Setting performance objectives at reasonable levels:

17. The higher and the more explicit the “target” level of performance, the more difficult will it be to get agreement. There are obviously trade-offs here. We would need to identify “target” performance objectives that provide a reasonable balance between the extent to which we can make important inroads towards better effort-sharing and the extent to which the additional actions required are within the “best efforts” reach of Members.

ii) The nature of the “target”:

18. The performance objectives so far proposed for mechanisms of this type (e.g. the percentage of LLDC ODA to be untied, as suggested by Japan, or the “target” level to be met on the basis of the composite indicator suggested by France) all imply that those Members furthest away from the target will have most to do to meet it. One example might be that all Members would agree to the objective of increasing their efforts towards the objective (untying, LLDC performance, etc.) by say 10 per cent or 20 per cent? Such an approach could be set out as an initial commitment within a given timeframe.

iii) The choice of the performance objective:

19. As indicated above, targets based on ODA/GNP ratios are “by definition” more difficult to meet than those based on other variables (e.g. ODA volume or the share of ODA that is untied). Would setting a performance objective that implies more realistic levels of additional efforts by Members help build broader support for this type of mechanism?

iv) Indicators rather than “targets”:

20. Rather than seen in terms of “targets”, could we use the suggestions being discussed more as “indicators” against which performance in promoting effort-sharing would be assessed? The idea here would be to take some measure (share of ODA untied, LLDC ODA volume, or a France’s composite indicator) and use it as a benchmark to promote actions to improve effort-sharing and assess progress.
This approach would also be consistent with the provisions in the draft Recommendation encouraging Members to undertake supplementary efforts on a voluntary basis in areas not stipulated by the Recommendation.

21. In this context, the nature of the indicator becomes less of an issue, but composite indicators (rather than single ones) may offer Members greater flexibility or degrees of freedom to undertake supplementary actions to promote effort-sharing, other things being equal. This approach would be pursued, inter alia, through peer pressure mechanisms (e.g. annual reviews of the implementation of the Recommendation and the peer reviews of individual Member’s development co-operation policies). Such an approach could also be framed within a statement of shared and agreed objectives in relation to Members’ ODA performance in the LLDCs.

c) “Differentiated implementation” approaches:

22. Mechanisms of this type better address the concerns of those Members who feel that “full implementation, plus” approaches would result in requirements that are beyond their reach, particularly when related to promoting a broader perspective on effort-sharing that they do not share in the context of this Recommendation. For these Members, many of whom do not see the need for an effort-sharing mechanism at all, it is likely that this type of approach is politically more realistic/feasible. For them, accepting that a few Members may have a temporary and partial dispensation from full implementation of the coverage clause may, in the end, be preferable/less problematical than the alternative of often sizeable supplementary efforts beyond those required to meet the coverage provisions of the Recommendation.

23. Members favouring this type of approach have also pointed out, as indicated above, that the draft Recommendation already embodies a “full implementation, plus” approach and will in itself result in a better distribution of untying efforts among DAC Members, independent of a supplementary effort-sharing mechanism. Some Members have indicated that, while not their preferred option, they could rally around this approach if that is what is required to achieve a consensus outcome.

24. The main difficulty associated with approaches of this type is that, by themselves (i.e. without some additional provisions or mechanism), they do not meet the objectives of those Members that take a broader perspective on the objectives of an effort-sharing mechanism. In other words, they do offer one approach to improving the distribution of untying efforts among Members, but they do not (and are not intended to) promote a better distribution of LLDC ODA efforts among Members.

Possible adjustments

25. The main “adjustment” required for a mechanism of this type to gain broader support is the need to include additional provisions or mechanisms to address the broader perspective on effort-sharing held by some Members. Under this scenario, it implies associating two mechanisms with the Recommendation, each with different objectives -- one to better distribute untying efforts among Members, and the other to improve the level and distribution of Members’ efforts in support of the LLDCs. Two broad possibilities are offered in this connection:

- One complement to a “differentiated implementation” approach could be along the lines suggested by France at the last meeting of the Working Party. However, in respect of a mechanism to address this broader objective, it will be important to avoid recreating the problems we are trying to avoid or minimise within a “full implementation, plus” approach. This may imply that we need to look at some of the ideas suggested above to see if they can lead to an approach that Members can rally around.
Another possibility relates to the Secretariat proposals (set out in DCD/DAC/FA(2000)9, section IIib) to address both the concern that LLDC ODA might decline as a result of the Recommendation and the objective to promote improved ODA efforts towards the LLDCs. Do these ideas still offer a base that could be developed and strengthened within this type of approach to better address the broader perspective on the objectives for an effort-sharing mechanism held by some Members?

While it may be worthwhile exploring these two possibilities as separate tracks, it might also emerge that “scaling down” the one approach or “scaling up” the other, in an attempt to build broader support, takes us to the same result.

IV. Guidance requested from SLM Participants

26. The objective of an effort-sharing mechanism is to improve the distribution of efforts between Members while maintaining the gains to partner countries from the additional untying that will result from the Recommendation. Discussions in the Working Party have shown that the more proposals try to maximise improvements in effort-sharing (regardless of the perspective), the greater is the risk of no agreement on a mechanism and, thus, of no agreement on the Recommendation. This would be a “lose-lose” situation, whereby we lose not only what might have been achieved to promote effort-sharing, but also the total gain to partner countries from the additional untied aid that would follow from the Recommendation.

27. As Chairman of the Working Party, I suggest that we should avoid the “perfect becoming the enemy of the good”. We should, therefore, look to approaches that take effort sharing as far as we can without jeopardising the gains to partner countries. This also suggests setting objectives for an effort-sharing mechanism with a degree of modesty in mind.

28. The Working Party has had a good round of discussions on various mechanisms. We now require a sense of the direction we need to move along in order to arrive at an approach (or combination of approaches) that will permit a consensus outcome. In this connection, and with a view to narrowing down the range of options and identifying areas of concentration, those Members that have brought forward suggestions for mechanisms are invited to assess the degree of support they have received and, in this light, the likelihood of it offering a good basis for moving towards consensus.

29. The Working Party discussions suggest two broad avenues to be explored:

- Address the two different perspectives on effort-sharing through a single mechanism. This may suggest a “full implementation, plus” approach, but one where the resultant supplementary actions required from some Members are regarded as deliverable; or

- Adopt a two-track approach, with linked but separate mechanisms devoted to each of the two objectives. One possible approach in this respect might combine the following mechanisms:
  - A “differentiated implementation” mechanism, to promote a better sharing of untying efforts. This type of mechanism minimises the main difficulties, noted above, associated with “full implementation, plus” approaches; and
  - A mechanism that promotes improved ODA performance and distribution among Members. This mechanism will still, nevertheless, have to address the extent of the supplementary actions required from some Members to meet its objectives, for example, along some of the lines set out in section IIib above.
30. In my view, as Chairman of the Working Party, the direction to pursue and the design of the mechanism requires guidance from SLM Participants on the following two key issues:

- Whether a consensus outcome is more likely to be found on the basis of a “full implementation, plus” approach or in a “differentiated implementation” approach, including a mechanism to address LLDC ODA performance?

- Within this, whether an approach based on “targets” or one based on “indicators” provides the better rallying point?

Guidance from the SLM in these respects will help us identify what we should be aiming at. On that basis, the Working Party could then develop and refine approaches, or combinations of the elements of different approaches, that appear to offer the best prospects for a consensus outcome.
Table 1. Overview of effort-sharing mechanisms: Implications for Members and Partner Countries

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Partial implementation</th>
<th>Full implementation</th>
<th>Full implementation plus additional undertaking</th>
<th>Country notes</th>
<th>Impact on LLDCs (1)</th>
<th>Sm</th>
<th>Share Untied (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Levels of undertakings&quot;</td>
<td></td>
<td></td>
<td>Denmark, Italy, Japan</td>
<td>Data not available to establish positions for Greece, Ireland, Luxembourg, New Zealand and EC</td>
<td>1229</td>
<td>68</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Norway, Portugal, Sweden</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>Switzerland, United Kingdom</td>
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<tr>
<td>&quot;70% untied target&quot;</td>
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<td></td>
<td>Denmark, Italy, Japan</td>
<td>Data not available to establish positions for Greece, Ireland, Luxembourg, New Zealand and EC</td>
<td>1837</td>
<td>76</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Norway, Portugal, Sweden</td>
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<td></td>
<td>Switzerland, United Kingdom</td>
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<tr>
<td>&quot;70/80/80&quot; (3)</td>
<td>(Untie minimum 70%-80%)</td>
<td></td>
<td>Denmark, Italy, Japan</td>
<td>Ireland, Luxembourg, New Zealand are above the DAC average but no data available to identify their resultant classification.</td>
<td>973</td>
<td>65</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>Norway, Portugal, Sweden</td>
<td>Italy, Norway and Sweden are not &quot;caught&quot; by this mechanism.</td>
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<td></td>
<td></td>
<td></td>
<td>Switzerland, United Kingdom</td>
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<tr>
<td>&quot;0.15% GNP&quot;</td>
<td></td>
<td></td>
<td>Denmark, Netherlands</td>
<td>Luxembourg is above the 0.15% level, but no data available to identify its resultant classification.</td>
<td>1163</td>
<td>67</td>
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1. Comprises additional effort to implement the coverage of the Recommendation plus the supplementary impact from the effort-sharing mechanism.
2. Resultant share of total LLDC ODA untied.
3. Excluding the "return flow" criterion.

Note: This summary table does not set out implications of the "composite indicator" mechanism for Members or for partner countries. To do so first requires a target value to be set for the composite indicator.