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

SECOND PROGRESS REPORT

This document is submitted to the DAC for CONSIDERATION at its meeting on 28 March 2003 following which it will be submitted to the DAC High Level Meeting on 22-23 April, for INFORMATION.

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SECOND PROGRESS REPORT

I. Introduction and main findings

1. The Recommendation entered into force on 1 January 2002. Implementation is proceeding well, as shown by the following indicators, although some areas require additional efforts and/or work to be completed:

   - Implementation of coverage provisions: More or less all Members have now untied agreed categories of ODA, but further co-ordination among implementing agencies in a few remaining Members is still needed (section II).

   - Ex ante notifications of untied aid offers: Progress has been made from a slow start, but a very considerable effort is still required on the part of the majority of donors to fully comply with these provisions (section III).

   - Effort-sharing: Definitional and reporting issues relevant to compiling the Reference Indicators Matrix (RIM) have been resolved. Members’ “initial starting positions” in the RIM have been established. The next phase of work will use the RIM to further the effort-sharing provisions of the Recommendation (section IV).

   - Members’ policies concerning investment related technical assistance (IRTC) and food aid: Members’ policies in both areas have been set out, as required by the monitoring and evaluation provisions of the Recommendation. On IRTC, agreement by the Participants to the Export Credit Arrangement on consultancy services linked to follow-on capital investments may offer guidance to DAC Members in respect of an operational definition of IRTC. On food aid, the WP-FA will consider terms of reference for a factual study of the development quality of food aid and the effects of its tying status (section V).

   - Procurement: Efforts to reinforce partner country responsibility and capacity for procurement have been launched through the DAC – World Bank Procurement Roundtable process in January 2003. That meeting agreed on the key issues to be addressed and on a business plan to move this agenda forward. Reports on work in progress will be prepared for the next meeting of the Roundtable (section VI).

II. Implementation of the coverage provisions of the Recommendation

2. One of the key provisions of the Recommendation is that Members untie agreed categories of LDC ODA [as set out in its paragraph 7i)]. Members’ implementation of this provision has, in general, been rapid and comprehensive:
• Almost all Members have by now untied all categories of ODA covered by paragraph 7i) of the Recommendation. In the few remaining cases, full implementation of the coverage provisions is awaiting the conclusion of the co-ordination process among the various implementing agencies (e.g. Belgium, Denmark, Luxembourg, New Zealand and Portugal). The European Commission’s approach to implementation has been set out in the context of a broader proposal submitted to the European Council and European Parliament in November 2002 on untying Community ODA.

• In addition, both prior to and since the Recommendation, numerous Members (e.g. Finland, France, Germany, Ireland, Japan, the Netherlands, Norway, Portugal, Sweden, Switzerland, and the United Kingdom) have also untied ODA beyond the requirements of the Recommendation – e.g. commitments below the thresholds, free-standing and investment related technical co-operation, food aid and/or ODA beyond the LDC group of countries.

III. Ex ante notification of untied aid offers

3. The Recommendation sets out strong procedures for transparency and monitoring compliance. Ex ante notification of untied aid offers on a Bulletin Board1 is a central element of these provisions. Initial progress by Members in submitting ex ante notifications was slow, due to technical difficulties associated with the untying web-site, the time required for Members to organise the submission of notifications, and interpretation issues concerning what and when to notify. The Bulletin Board is now fully operational and the guidance provided on interpretation issues has, along with Members’ actions to meet the notification requirements, resulted in progress with notifications. Since the entry into force of the Recommendation, 165 notifications totalling USD 1.4 billion have been posted on the bulletin board. Nevertheless, as seen from Chart 1, the majority of Members still have much to do in order to fully comply with notification provisions.

4. It is also recalled that members will provide information on contract awards pertaining to ex ante notifications. That information will be provided on an annual basis and reviewed in the context of the overall review procedures.

IV. Effort-sharing

5. Promoting effort-sharing is an important and integral part of the Recommendation. Initial actions have focussed on resolving statistical issues in setting out Members’ starting positions (1999-2001 baselines) in the Reference Indicators Matrix (RIM). These actions included resolving the issue of how to deal with the tying status of multilateral aid in compiling the RIM and, with the assistance of WP-STAT, in an agreement on how to improve reporting on the tying status of technical co-operation. Table 1 sets out Members’ starting positions in the RIM.

6. The next stage of work, to be conducted both in the WP-FA (or its successor body) and through the peer review process, will use this information to identify supplementary actions by Members to promote effort sharing in accordance the provisions of the Recommendation.

1. See http://webdomino1.oecd.org/dcd/UntiedCWS.nsf/
V. Members’ policies concerning Investment-Related Technical Co-operation (IRTC) and Food Aid

a) IRTC

7. As required under the Recommendation’s monitoring and evaluation provisions, Members’ policies in respect of IRTC have been set out. Some Members (e.g. Canada, Germany, Switzerland, UK, US) can and do make a distinction between IRTC and free standing technical co-operation while others (e.g. Austria, Japan, Portugal) have conceptual, operational and/or statistical difficulties with this distinction. Some Members untie part or all of their IRTC activities (e.g. Finland, Germany, Norway, Switzerland and UK). In light of the difficulties in distinguishing between IRTC and FTC, the WP-FA concluded that further efforts to arrive at an operational definition of IRTC would not be productive at this juncture.

8. DAC Members noted the agreement reached in the Consultation Group of the Participants to the Arrangement on Officially Supported Export Credits on the treatment of consultancy services and follow-on capital investment, in the context of the project definition for cash flow analyses. They considered that the agreement might offer guidance to the DAC in operationalising the definition of IRTC.

b) Food aid

9. As required under the Recommendation’s monitoring and evaluation provisions, Members’ policies in respect food aid have been set out. Australia, Canada and the United States mostly tie their purchases of food to their domestic suppliers. The EU, Japan and Switzerland procure their foodstuffs predominantly on third or local markets. All food aid from Belgium, Portugal and the United Kingdom is untied. Beyond the definition of food aid in the Statistical Reporting Directives, the WP-FA concluded that it would not be appropriate at this juncture to pursue the matter of a more operational definition of food aid for the purposes of implementing the Recommendation.

10. The WP-FA requested the Secretariat to prepare draft terms of reference for a possible study on the developmental quality of food aid and the effects of its tying status, to be discussed at its next meeting.

VI. Strengthening Partner Country Procurement Capacities

11. Strengthening partner country responsibility for conducting aid-related procurement and promoting local and regional procurement in partner countries are important objectives of the Recommendation. The joint DAC-World Bank Procurement Roundtable process was launched in January 2003 with the objectives of addressing key capacity building needs and building procurement systems in developing countries around which donors can harmonise their procedures.

12. The January 2003 Roundtable, which brought together a network of procurement experts, agreed on the essential areas of activity and the key products to produce over the Roundtable process in 2003-2004. Its business plan sets out the main issues and desired outputs as follows:
Mainstreaming procurement as a strategic aid management function – a “benefits study” on the savings from good procurement and a communication strategy for mainstreaming procurement reform into national development strategies, as a core component of public financial management.

Standards and benchmarks to assess and monitor progress towards good local procurement systems – a benchmarking framework and ways to implement and use it.

Procurement capacity building – a strategy for capacity building efforts, including targeted efforts in specific areas.

Monitoring and evaluation – a monitoring and evaluation framework and its associated indicators.

13. Progress reports on each of these areas of work are to be prepared for the next Roundtable (provisionally in October 2003).
## TABLE 1

**DAC MEMBERS’ INITIAL STARTING POSITIONS (1999-2001 AVERAGE) IN RESPECT OF THE REFERENCE INDICATOR MATRIX**

<table>
<thead>
<tr>
<th></th>
<th>Bilateral LDC ODA Untying Ratio (1)</th>
<th>Effort-sharing Composite Indicator (2)</th>
</tr>
</thead>
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<tr>
<td></td>
<td>(Reference point : 0.60)</td>
<td>(Reference point : 0.04)</td>
</tr>
<tr>
<td>Australia</td>
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<td>0.04</td>
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<td>Austria (3) (4)</td>
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<td>Canada</td>
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<td>0.03</td>
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</tr>
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<td>United States (4) (9)</td>
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<td>0.01</td>
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<tr>
<td><strong>Total DAC</strong></td>
<td><strong>0.54</strong></td>
<td><strong>0.04</strong></td>
</tr>
</tbody>
</table>

*Source: OECD (DAC and CRS reporting systems)*
FOOTNOTES AND GENERAL NOTES ON THE DATA IN TABLE 1

Footnotes:

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: \( \frac{\text{bilateral LDC ODA/GNI}}{} \times \text{bilateral LDC ODA untying ratio} \) + multilateral LDC ODA/GNI. Following the DAC convention, multilateral ODA is treated as untied.

3. Austria does not report the tying status of its grant programme. By convention, this has been treated as tied.

4. Do not report the tying status of free standing technical co-operation (FTC). By convention, FTC amounts have been treated as tied.

5. Belgium extended CRS reporting of tying status to include their grant programme from 2000. The figures shown are thus based on a two-year average (2000-2001).

6. Do not report to the CRS.

7. Ireland commenced reporting to the CRS in 2000. The figures shown are thus based on a two-year average (2000-2001).

8. Netherlands extended CRS reporting of tying status to include FTC from 2000. The figures shown are thus based on a two-year average (2000-2001).

9. The US does not report tying status to the CRS. By convention, debt relief is treated as untied, the remainder as tied.

General notes:

This table has been compiled using the data presently available. It may be revised to include any consequent amendments provided by Member countries.

In 2001, Senegal became an LDC. In accordance with normal statistical practice the data for this country have also been included for the preceding years.
CHART 1
UNTIED AID NOTIFICATIONS: MEMBERS’ POSITIONS
(actual and benchmark)

Source: OECD
2. Benchmark figures, based on the coverage requirements of the Recommendation, taken from 2001
   reporting to the Creditor Reporting System (CRS).
3. Greece, Luxembourg and New Zealand do not report to the CRS.