ENHANCING EFFORTS TO UNTIE AID: NEXT STEPS

DAC Senior Level Meeting

IEA, Paris, 7 December, 2005

This note is submitted to the December 2005 DAC Senior Level Meeting under item 3 of the agenda DCD/DAC/A(2005)17/REV2. Participants are requested to:

• approve the elimination of the coverage thresholds of the 2001 Recommendation;
• agree to undertake efforts to promote and strengthen local and regional procurement of aid funded activities;
• study the possibilities for untying procurement related technical co-operation;
• continue to discuss options to expand the country coverage of the 2001 Recommendation on Untying ODA to the LDCs.

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1. The Paris Declaration on Aid Effectiveness acknowledges that untying aid generally increases aid effectiveness by reducing transaction costs for partner countries, strengthening country ownership and improving donor alignment. The Declaration invites DAC Members to continue making progress on untying as encouraged by the 2001 DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries. Consecutive DAC High Level Meetings have concluded that the implementation of the Recommendation is progressing well, although its impact is limited due its restricted coverage.

2. In response to the Paris Declaration and calls from major international conferences to increase the share of aid that is untied, the DAC has, on several occasions, discussed approaches to extend the benefits of untied aid, especially in terms of improved aid effectiveness and greater value for money. Two criteria were selected to identify promising ways forward: (i) the magnitude of the potential benefits, and (ii) the likelihood of arriving at a consensus.

3. In line with the conclusions of the 15 November 2005 DAC discussion of these issues, participants to the 2005 Senior Level Meeting are invited to approve the following proposals:

   i. Elimination of the coverage thresholds of the 2001 Recommendation, as an ‘early harvest’.

   ii. Undertake efforts to promote and strengthen local and regional procurement of aid funded activities.

   iii. Study the possibilities for untying procurement related technical co-operation, once the Working Party on Statistics has deconstructed technical co-operation into its component elements.

   iv. Continue discussions of options to expand the country coverage of the 2001 Recommendation.

4. These proposals are further elaborated in the remainder of this note.

I. Eliminate the coverage thresholds of the 2001 Recommendation on Untying

5. Members consider that eliminating the coverage thresholds of the 2001 Recommendation on Untying (i.e. SDR 700 000 and SDR 130 000 for investment related technical co-operation) offers some early gains with a reasonable scale of benefits, in particular, for local and regional companies in partner countries. This is congruent with the objectives of the Recommendation. Eliminating the coverage thresholds should add an additional USD 300 million to the coverage of the present Recommendation (based on 2003 data).

6. This step, in addition, would also address the fact that some donors are de facto not affected by the Recommendation, because their aid programmes consist of activities with transaction values below these thresholds. Eliminating the thresholds would thus contribute to improved effort-sharing among donors, which is another objective of the Recommendation.
7. In order to balance the need for transparency with the administrative burden of reporting, it is proposed to maintain the thresholds for ex ante notifications and instead only report annual aggregated overviews of contract awards pertaining to activities below the ex ante notification threshold.

8. On the basis of the above presented arguments, SLM participants are requested to approve the following:

- Abolish the thresholds for coverage under the Recommendation (i.e. all transactions are untied).
- Maintain the thresholds for ex ante notification (i.e. no ex ante reporting for small transactions).
- Introduce annual ex post aggregate reporting of contract awards pertaining to small transactions.
- Recall, in line with the DAC’s Good Procurement Practices, that international competitive bidding might not be appropriate or cost effective for small transactions.
- Enter the provisions into force as of 1 June 2006.

II. Undertake efforts to promote greater local and regional procurement

9. Members are supportive of initiatives that broaden procurement eligibility for local and regional suppliers, which will increase the benefits to partner countries. Although they do improve aid effectiveness, these initiatives are not necessarily fully compatible with the DAC definition of untied aid. Consequently, Members would like to see more public recognition of the fact that their aid is increasingly being used to procure goods and services in developing countries.

10. On that basis, SLM participants are requested to approve the following:

- Reaffirm that promoting local and regional procurement for aid funded activities is a shared objective.
- Develop proposals for promoting and reporting on local and regional procurement to provide recognition of Members’ efforts in this area and present these to the DAC at an appropriate time.

III Study the possibilities for untying procurement related technical co-operation at a later date

11. Free-standing technical co-operation, which amounted to USD 4.4 billion, or one-quarter of total ODA to the LDCs in 2003, is excluded from the coverage of the 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 task of the Working Party on Statistics on technical co-operation, including deconstructing it into its component elements. Completion of this work is foreseen by mid 2006.

12. Consequently, SLM participants are requested to invite the DAC to:

- Study the possibilities for untying procurement related technical co-operation, once the Working Party on Statistics has completed work on technical co-operation, including deconstruction it into its component elements.
IV Broaden the country coverage of the 2001 Recommendation

13. The 2001 Recommendation is targeted at the Least Developed Countries because these countries face the greatest challenges in achieving the Millennium Development Goals and can thus ill afford to bear the additional costs and inefficiencies that are associated with tied aid.

14. The explicit poverty focus of the Recommendation pertains equally to Other Low Income Countries (OLICs), with a GNI per capita below USD 825 in 2004. Consequently, an important number of Members have also untied their aid beyond the LDCs to OLICs and already notify these offers ex ante to the Untied Aid Bulletin Board.

15. Most Members consider that extending the country coverage of the Recommendation to the other Low Income Countries is the logical way forward. This would yield significant benefits in terms of volume (over USD 800 million) and credibility. A few Members, however, flagged that they are unable to support these proposals at this time.

16. Against this background, Members considered possible alternatives for extending the country coverage of the Recommendation, such as aid dependent countries (e.g. those with a high ODA/GNI ratio). Aid dependent recipients could be considered as “aid” takers, while other aid recipients can be more selective. As a result, the more aid dependent a recipient is, the higher the risk that tied aid is inefficient and the greater will be the benefits to aid effectiveness from untying aid to those countries.

17. Untying ODA to Heavily Indebted Poor Countries is another alternative that would satisfy the poverty focus of the Recommendation. This alternative would add the following eight countries to the coverage of the Recommendation: Bolivia, Cameroon, Congo (Rep.), Côte d’Ivoire, Ghana, Guyana, Honduras and Nicaragua.

18. Given the present state of the discussion, SLM participants are requested to invite the DAC to:

- Continue discussions on different approaches to expand the country coverage of the 2001 Recommendation, such as other Low Income Countries, aid dependant countries, Heavily Indebted Poor Countries, or other relevant country groupings and to bring proposal to the DAC at an appropriate time.
NOTES

1. DCD/DAC/EFF(2005)1/FINAL.

2. DCD/DAC(2001)12/FINAL.


4. See for instance the Gleneagles Summit Statement.


6. In addition, the DAC also discussed Members’ adherence to the transparency provisions of the Recommendation and judged these satisfactorily, although strengthened compliance will further enhance transparency [DCD/DAC(2005)45].

7. The discussions were supported by the following secretariat notes: DCD/DAC(2005)30, DCD/DAC(2005)34, DCD/DAC(2005)44.

8. At the 2001 DAC HLM, the Austrian representative Ambassador Lennkh already declared that Austrian aid fell outside the coverage of the Recommendation. Later other Members, in particular, Austria, Greece, Ireland, Luxembourg and Portugal officially informed the Secretariat that their ODA to the LDCs also fell outside its coverage.


10. The draft terms of reference for an assessment of food aid sourcing proposes to address issues related to promoting local procurement of food stuff [DCD/DAC(2005)31]. After the 6th WTO Ministerial Conference, a further DAC discussion of the ToR is foreseen on 17 January 2006.

11. The 1987 DAC Guiding Principles for Associated Financing and Tied, Untied and Partially Untied ODA provide the following definitions:

   - **Tied aid** is defined as official or officially supported loans, credits or associated financing packages where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all developing countries.

   - **Untied aid** is defined as official development assistance for which the associated goods and services may be fully and freely procured in substantially all countries.

   - **Partially untied aid** is official development assistance for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all developing countries.

12. As of 1 January 2006, the following countries are classified as Other Low Income Countries: Cameroon, Congo, Rep, Côte d’Ivoire, Ghana, India, Kenya, Democratic People’s Republic of Korea, Kyrgyzstan, Moldova, Mongolia, Nicaragua, Nigeria, Pakistan, Papua New Guinea, Tajikistan, Uzbekistan, Viet Nam, and Zimbabwe, [DCD/DAC(2005)51].